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**The Increase of Low-Wage Work in  
Germany –  
An Erosion of Internal Labour Markets?**

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## **The Increase of Low-Wage Work in Germany – An Erosion of Internal Labour Markets?**

### ***Abstract***

In international comparisons, Germany is often classified as a country with a low wage dispersion. However, this picture has changed since the mid 1990s. Low-wage employment has grown considerably in recent years. In international comparison Germany has now one of the highest low-wage shares across the continental European countries.

By statistical analysis and case studies we found incidence for a growing segmentation of the German labour market. While in the core areas of the industrial production and public services with high rates of coverage by collective agreements and strong unions and works councils the share of low-wage work remained rather low or has even declined in recent years, the picture in peripheral areas such as private service occupations and small companies is completely different: The incidence of low pay and poor working conditions is increasing. As a result of outsourcing and sub-contracting a growing number of jobs are shifted from core areas to peripheral areas – going along with a declining upward mobility into better paid jobs.<sup>1</sup>

In the paper we will address the following questions:

- How is low-wage work and upward mobility developing over time (by sectors, industries and employee groups)?
- Which are the driving forces and obstacles behind that development?
- What are the consequences and policy implications (e.g. as regards the need for a statutory minimum wage)?

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<sup>1</sup> This paper is mainly based on results of research undertaken in the course of the international research network “Future of Work in Europe and the USA – Opportunity in the Workplace” funded by the Russell Sage Foundation (RSF), New York, between 2004 and 2007. We gratefully acknowledge the generous financial support from RSF. Monographies presenting the German results will be published in German in October 2007 (Bosch/Weinkopf 2007) and in the USA in March 2008 (Bosch/Weinkopf 2008).

## 1. Introduction

The focus of this paper is the increase of low-wage work in Germany since the mid-1990s. We will illustrate that low-wage employment has grown considerably in recent years and Germany has now reached one of the highest low-wage shares across the continental European countries. Our findings are based on both analysis of quantitative datasets and qualitative case-studies in several industries and low-paid occupations undertaken in the course of a European network research project funded by the Russell Sage Foundation. For this paper, new data could be used in order to update our recent results on the incidence of low pay in Germany. In 2005, more than 18% of the German full-time employees were low-paid. Among all employees the incidence is even higher –reaching 22% in 2005 which is 7 percentage points higher than in 1995. In other words: Within the last decade, low pay incidence in Germany increased by almost + 47%.

The paper is organised as follows: In section 2, we start with some empirical results of our data analysis on the development of low-wage employment and a breakdown by company and employee characteristics<sup>2</sup> – accompanied by brief comments on the main driving forces of the increase of low-wage jobs (cf. for more details Bosch/Kalina 2007 and 2008). It will be illustrated that low-wage work has been shifted to the margins of the labour market whereas at the same time it has reached even the core employees to a considerable extent. Unlike in other countries, the large majority of German low-wage employees are not low-skilled and not very young. However, what remains more or less stable is the very high proportion of women among those being low-paid. In section 3, we shed some light on the workplace reality in selected low-skill occupations and what has happened to those jobs on the establishment level. In section 4 the focus is on the need of political action and in section 5 we draw some conclusions whether the developments behind the increase of low-wage work in Germany can be regarded as an erosion of internal labour markets.

## 2. The increase of low-wage in Germany

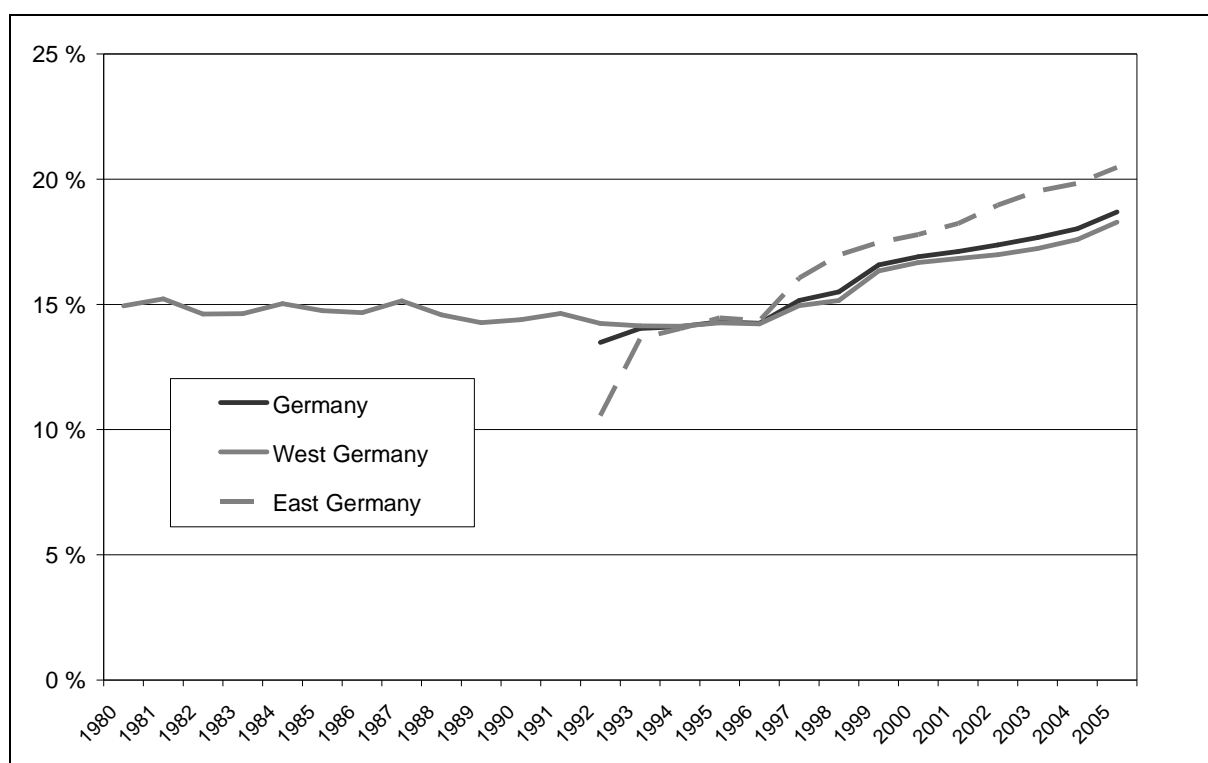
In international comparisons, Germany is often classified as a country with low wage dispersion and good chances to move up the income ladder. According to studies from the OECD (1996; 1997) income inequality in Germany has even decreased up to the mid 1990s, bucking the global trend. Only in the Scandinavian countries income inequality was even lower than in Germany. In the literature on the German employment system, the low income dispersion was often attributed to particular characteristics of the German institutional system: high levels of dismissal and unemployment protection as well as the skills profile of the

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<sup>2</sup> Our analysis is based on calculations with two datasets. For the exploration of the development of low-wage employment over time (figure 1) and the mobility analysis we used the data from the Federal Employment Services that is by far the most extensive dataset available and can be used even for highly differentiated analyses (e.g. of individual occupational groups). However, any analyses based on it are necessarily restricted to full-time workers, since the dataset contains no precise figures on part-timers' working times. The structural analysis (section 2.1 and 2.2) are based on data from the German Socio-economic panel (GSOEP), which allows for the inclusion of part-timers and mini-jobs.

workforce provide incentives for long term relationships of employers and employees. They also build the grounding for a coordinated market economy with strong networks among companies and between companies and housebanks. Cooperation was the mode of coordination with the orientation in long term success, contrary to a dominant role of market coordination in the Anglo-Saxon countries where the value of companies was first of all determined on the stock market and the orientation on short-term profits gave strong incentives for flexible labour markets (Hall/Soskice 2001). With its focus on the production of high quality goods the Germany employment system provided good rates of pay even in simple manual tasks (cf. Streeck 1991; Finegold/Soskice 1988). However, times have been changing over recent years. Figure 1 shows that the share of low pay among full-time employees has been increasing since the mid 1990s.

**Figure 1: Share of low-wage workers among full-time employees covered by the social security system (separate low-wage thresholds for East and West) – 1980 - 2005**



Source: Own calculation with the IAB regional sample (up to 1998) and the BA employee panel<sup>3</sup> (from 1999)

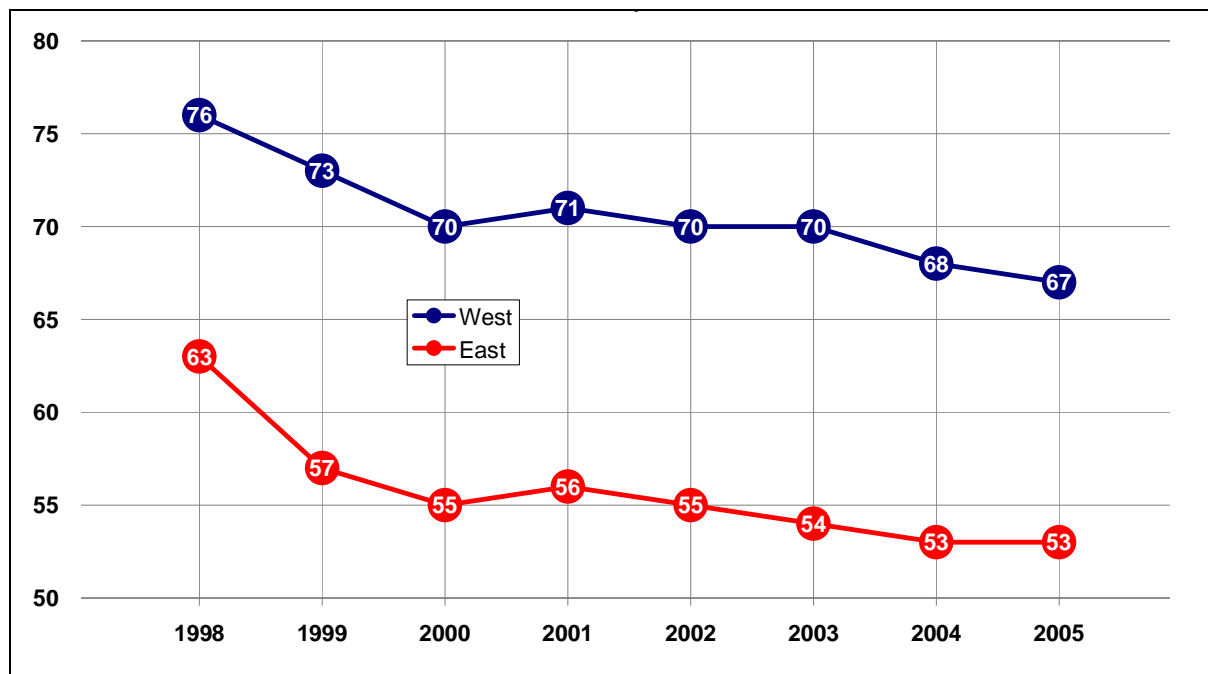
We defined the low-wage threshold according to the OECD standard (cf. OECD 1996) as earnings below two thirds of the median income. The income information refers to gross monthly earnings.<sup>4</sup> The share of employees with earnings below this threshold has declined until the mid-1990s, which confirms with OECD findings characterising Germany as a country with a low and even declining income dispersion in that period. Since then the trend has reversed with a strong growth of low pay from 14.1% in 1994 to 18.3% in 2005 (West

<sup>3</sup> The BA employee panel (BA-Beschäftigtenpanel) is drawn from anonymized quartile statistics from the employee statistics of the Federal Employment Services. This dataset is provided by the 'Zentralarchiv für Empirische Sozialforschung' in Cologne. The Federal Employment Services have no responsibility for the use of this data in the following analysis.

<sup>4</sup> For the structural analysis based on the GSOEP we used gross hourly earnings.

Germany). For East Germany the share of low pay is at 20.5% even higher. The increase of low pay strongly coincides with a decrease in the coverage of employees by collective agreements from 76% in 1998 to 67% in 2005 (West Germany) and the lower level of coverage in East Germany (Figure 2).

Figure 2: Coverage of employees by collective agreements in West- and East Germany (in per cent)



Source: DGB 2004; Ellguth/Kohaut 2005; Ellguth 2007.

### 2.1. Development of low pay by company characteristics

The analysis of the development of low pay over time with data from the GSOEP confirms the trend shown in Figure 1. The share of low-wage workers has grown from 15% in 1995 to 22% in 2005 (Table 1) – i.e. by almost 47% within one decade. The higher values than in the analysis based on data from the federal employment agency are due to the inclusion of part-timers and marginal part-timers.

Over the period from 1995 to 2005 agriculture shows the highest share of low pay but it is slightly declining. In all other industry clusters, the share of low wages has been increasing in the recent decade. The absolute change in employment behind these developments is quite different. In manufacturing and construction as well as in agriculture the absolute number of employees has (sometimes substantially) decreased, while in business services (+49.4%), in household and personal services (+25.6%) and in economic transaction services (+7.2%) total employment increased. Especially in business services and household and personal services this coincides with a very low rate of coverage by collective agreements and an already very high share of low pay.

**Table 1: Share of low-wage employment by industry clusters<sup>5</sup> over time (Germany, all employees) – in %**

	1995	2000	2005	Absolute employment change 1995/2005	Coverage of employees by collective agreement (West 2005) <sup>6</sup>
<b>Agriculture</b>	43.5	42.0	42.5	-47.7%	61
<b>Manufacturing</b>	11.0	11.7	12.9	-18.4%	67-91
<b>Construction</b>	9.8	11.8	19.8	-53.0%	77
<b>Infrastructure and transport services</b>	9.9	15.6	19.0	-8.2%	67
<b>Business services</b>	20.4	24.7	32.3	<b>+49.4%</b>	42
<b>Economic transaction services</b>	20.4	25.5	27.6	<b>+7.2%</b>	60-89
<b>Political transaction services</b>	4.6	5.4	10.2	-8.1%	63-98
<b>Household and personal services</b>	21.4	22.6	25.4	<b>+25.6%</b>	64
<b>Total (Germany)</b>	15.0	17.5	22.0	-3.7%	67 (West)

Source: German Socio-economic panel, own calculation

The analysis by company size shows high and markedly growing shares of low pay in small and lower shares in large companies (Table 2). While employment grew most pronounced in small companies (+2.0%), it decreased strongly in large companies (-13.2%).

**Table 2: Evolution of low-wage employment over time by company size (Germany, all employees), in %**

Number of employees	1995	2000	2005	Absolute employment change 1995/2005
<b>1 to 19</b>	33,0	34,5	42,8	+2.0%
<b>20 to 199</b>	15,5	17,9	23,8	+0.1%
<b>200 to 1999</b>	6,9	9,7	10,7	-3.5%
<b>2000 and over</b>	4,6	6,4	6,4	-13.2%
<b>All</b>	15,0	17,5	22,0	-3.7%

Source: German Socio-economic panel, own calculation

The share of low pay by company size corresponds strongly with the diverging coverage of workers by collective agreements by company size. While the share of employees covered by collective agreements is at 38% in small companies (1-9 employees) it is at 93% in large companies (500 and more employees). The same relation can be found between company size and the coverage by works councils which is at 12% in companies with between 5 and 50 employees and at 92% in companies with 501 and more employees (Ellguth 2007; Ellguth/Kohaut 2005). The absolute number of low paid employees showed the highest

<sup>5</sup> We aggregated single industries in the following way: **Infrastructure and transport services**: Electricity, gas and water supply, sewage and refuse disposal, sanitation and similar activities; Transport and logistics, Post and telecommunications; **Business services**: Research and development, architectural and engineering activities and related technical consultancy, technical testing and analysis, computer and related activities, investigation and security activities, industrial cleaning, services related to management, other business activities; **Economic transaction services**: Commerce, Banking and insurance, Real estate; **Political transaction services**: Activities of trade unions, business, employers' and professional organisations, activities of other membership organisations, public administration and defence, compulsory social security; **Household and personal services**: Health and social work, Education, Hotels and restaurants, tourism, recreational, cultural and sporting activities, other services related to households and persons.

<sup>6</sup> The information is taken from Ellguth 2007. The industries do not overlap exactly with our aggregated groups. Coverage by collective agreements includes agreements on industry and firm level.

increase in medium sized enterprises (20 to 199 employees) (+ 41.9% from 1995 to 2005). The lowest growth in low pay was found in large companies (2,000 and more employees).

## 2.2. Development of low pay by job and employee characteristics

Before we turn to low-paid employees' characteristics we have a brief look at the incidence of low pay by job type respectively working time. The low pay incidence is lowest in full-time jobs (15% in 2005) whereas in marginal part-time (the so-called "mini-jobs" with monthly gross earnings of up to 400 €) 86% of all workers are below the low-wage threshold. Other part-time jobs (23% are on low pay) are affected by low pay to a larger extent than full-time jobs, but far less than mini-jobs. The low pay rates have been more or less stable (except full-time) over time.

But if we consider the extremely diverging employment dynamics it becomes clear that particularly mini-jobs (and less pronounced also part-time jobs) are one the main drivers for the expansion of low-wage work over recent years. The absolute number of mini-jobs grew by nearly 150% between 1995 and 2005, while part-time employment only grew by about 16% and full-time employment decreased by about 13%.

Which employee groups are affected by the increase of low-wage work? The share of low-wage workers (2005) is especially high for unskilled (43.1%), women (30.8%), younger workers (57.9%) and non-nationals (34.7%). The share of low-wage workers has grown in all employee categories so that for example skilled workers are with a share of low pay of 22.7% above average in 2005 while they were below in 1995.

**Table 3: Share of low-wage workers in employee categories (Germany, all employees), in %**

	Category	1995	2000	2005	Change 1995/2005 (in percentage points)
<b>Educational level<sup>7</sup></b>	Unskilled	31.0	35.2	43.1	+12.1
	Skilled	13.6	17.8	22.7	+9.1
	College/university	6.3	6.1	9.4	+3.1
<b>Sex</b>	Men	7.4	9.9	13.5	+6.1
	Women	25.0	26.6	30.8	+5.8
<b>Age</b>	Under 25	28.8	42.3	57.9	+29.1
	25 – 34	13.9	17.8	26.5	+12.6
	35 – 44	12.3	14.7	18.4	+6.1
	45 – 54	13.5	14.9	16.5	+3
	55+	17.7	16.5	22.2	+4.5
<b>Nationality</b>	German	14.5	16.6	21.0	+6.5
	non-national	20.1	27.4	34.7	+14.6
<b>Total (Germany)</b>		15.0	17.5	22.0	+7

Source: German Socio-economic panel, own calculation

<sup>7</sup> In 11.6% of all cases, no data on vocational training are available. In the analysis that follows, we have assumed that the cases where this information is missing are equally distributed across all training levels (see Reinberg/Hummel 2002; Riede/Emmerling 1994; Reinberg/Schreyer 2003).

In the analysis of the distribution of low pay by employee categories (Table 4) it becomes obvious that, even if the share of low pay is above average in certain groups, not only these groups are affected by low pay. The share of skilled workers and workers with an academic degree in the total of low pay has increased strongly from 66.5% in 1995 to 75.6% in 2005 so that three of four low-wage workers are skilled employees.

**Table 4: Share in the total of low pay by employee categories (Germany, all employees), in %**

	Category	1995	2000	2005
<b>Educational level</b>	Unskilled	33.5	26.1	24.4
	Skilled	58.6	66.4	65.7
	College/university	7.9	7.5	9.9
<b>Sex</b>	Men	27.5	30.6	30.9
	Women	72.5	69.4	69.1
<b>Age</b>	Under 25	13.8	15.2	12.8
	25 – 34	26.2	24.3	24.5
	35 – 44	22.3	25.8	26.2
	45 – 54	20.8	21.0	20.2
	55+	16.9	13.7	16.3
<b>Nationality</b>	German	88.5	87.8	88.6
	Non-national	11.5	12.2	11.4
<b>Total (Germany)</b>		100.0	100.0	100.0

*Source: German Socio-economic panel, own calculation*

The share of men in the total of low pay increased slightly to about 31% in 2005. However, the proportion of women among the low paid remains extremely high at almost 70%. The share of younger workers (under 25 and from 25 to 34) in the total of low pay decreased slightly, which is due to the fact that their share in total employment (all wage levels) decreased strongly from 7.2% in 1995 (under 25) to 4.9% in 2005 and from 28.2% in 1995 (25-34) to 20.4% in 2005. Simultaneously with this strong decrease in their share in total employment the share of low pay in each of these groups has almost doubled between 1995 and 2005 so that their share in the total of low pay only decreased slightly.

### **2.3. Development and structure of upward mobility**

The question of the opportunities for moving up from the low-wage sector is of considerable importance for social and labour market policy. One of the arguments frequently adduced in Germany in favor of encouraging low-wage jobs is that they offer a low-threshold entry point into better paid jobs. From a social policy perspective, short periods in low-wage employment are less problematic than if low-wage jobs are concentrated among certain groups and those concerned have no prospects of moving up into higher paid employment.

#### **Mobility analysis – the methodology**

In order to estimate the change in the prospects for upward mobility over time, we took a sample of full-time employees who had been low-wage earners on one reference day and then recorded their status on the same reference day the following year. For individuals who were in full-time employment with valid pay data on both reference days, a distinction was made between those who had moved up from the low-wage sector and those who had remained in

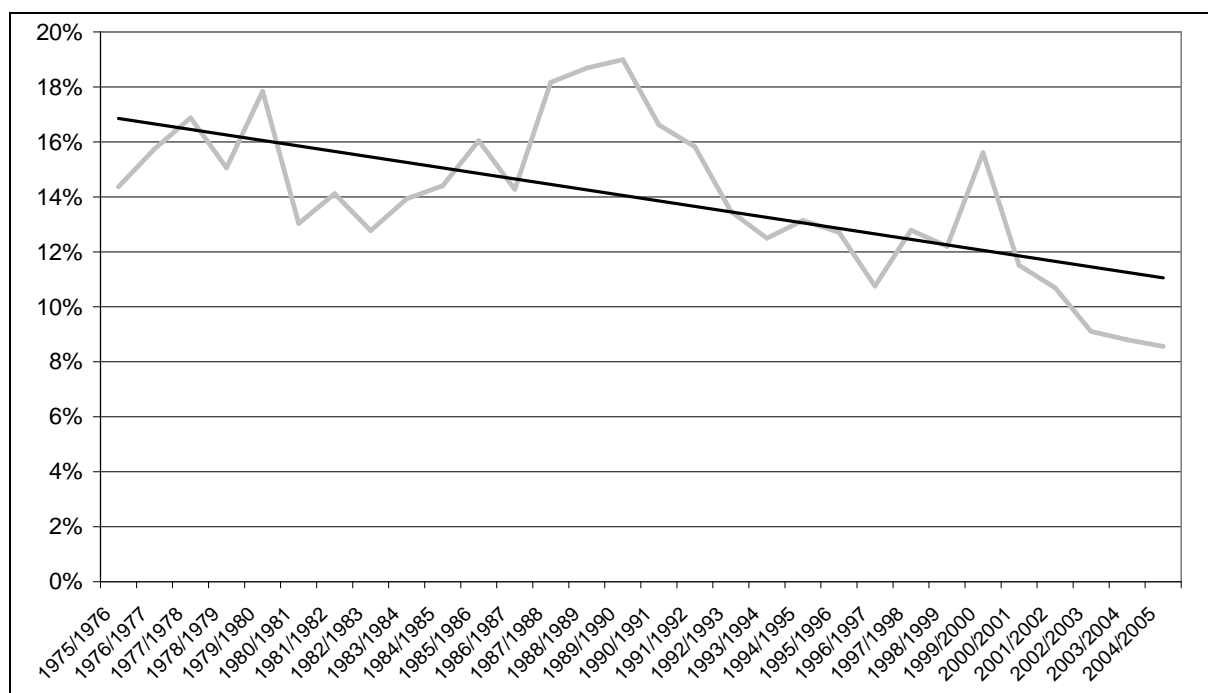


the low-wage sector. Besides this other transitions into part-time employment or out of the labour force were possible.

As far as the income mobility of low-paid workers is concerned, previous studies have found that income mobility in Germany is greater than in the USA and the UK, for example (OECD 1997: 31; Keese et al. 1998: 249). On the other hand, a study by the European Commission (2004) concluded that between 1995 and 2001 the upward mobility rate for low-paid workers in Germany was lower than in any other European country. The findings of other studies (Kaltenborn/Klös 2002; Fertig et al. 2004; Rhein et al. 2005) are contradictory in the results concerning the question whether mobility has increased or decreased over time.

The result of our own analysis is depicted in Figure 3. Over the long term there has been a decline in upward mobility, although there are also significant fluctuations. The chance to move up the income ladder has nearly halved from about 14.4% in the late 1970s until 2005 (8.6%) in West Germany. For Germany as a whole, the respective figure was 8.4% in 2005. From low wage employees in 2004 this 8.4% moved up the income ladder and had an income above the low-wage threshold in 2005. About 69% stayed in low pay, over 3% changed into part-time and another 3% into marginal part-time work. About 14% were no longer employed, most of them unemployed or out of the labour force. The rest had no income information or started an apprenticeship. From this we can conclude that the chances to escape from low pay are extremely bad for the total population of low-wage workers and have worsened over time.

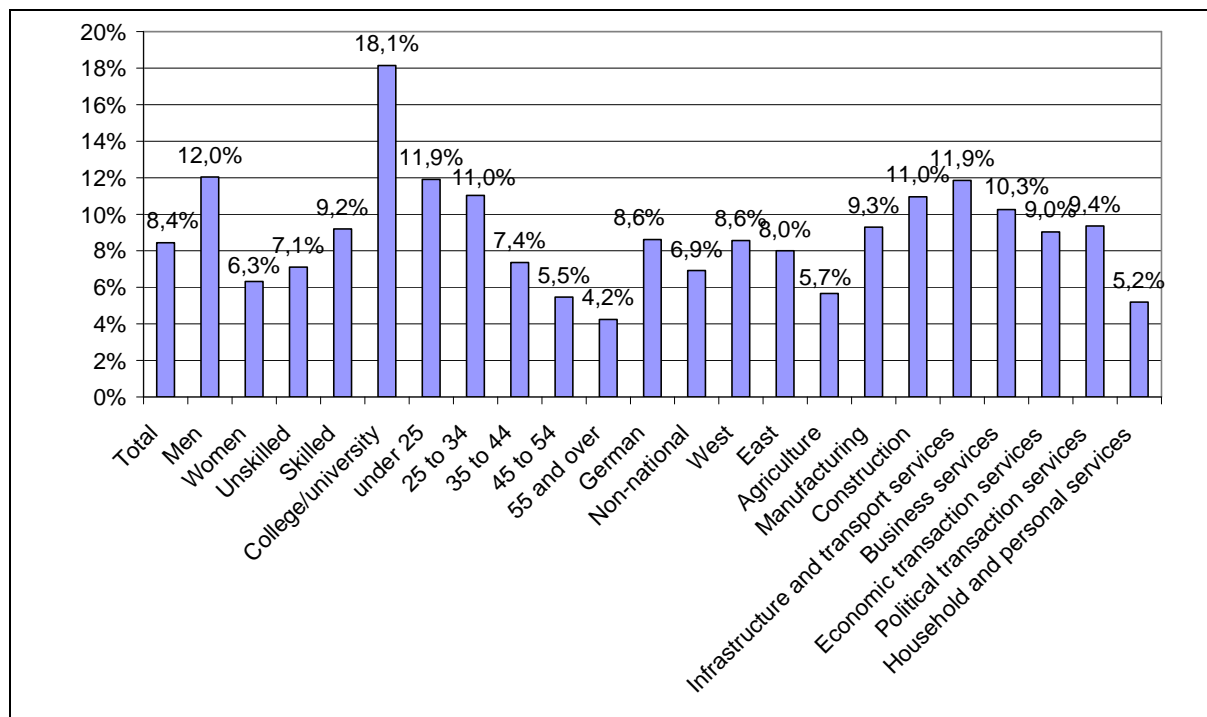
**Figure 3: Share of the upward mobility in all one-year transitions (West Germany, full-time employees)**



Source: Own calculation with the IAB regional sample (until 2000/2001) and BA employee panel (from 2001/2002)

Compared with the average chance of 8.4% to escape from low pay for the total population of low-wage employees, the probability of upward mobility between 2004 and 2005 was considerably higher for men (12.0%), university graduates (18.1%) and younger people (11.9% in the under-25 age group and 11.0% in the 25-34 age group).

**Figure 4: Upward mobility in one-year transitions<sup>8</sup> by structural characteristics (2004/2005, Germany, full-time employees)**



Source: Own calculation with the BA employee panel

The overall figure for workers with vocational qualifications was slightly above average, at 9.2%. The chances of being upwardly mobile were greater in West Germany (8.6%) than in East Germany (8.0%). Women (6.3%), low-skilled workers (7.1%) and older workers were the groups with the lowest probability of upward mobility. As far as older workers are concerned, even those in the relatively young 35-44 age group, with an upward mobility rate of just 7.4%, had a significantly below-average likelihood of moving up out of the low-wage sector, while the older age groups, with an upward mobility rate of 5.5 and 4.2%, had very little chance of improving their income situation. The findings on mobility confirm with our analysis on the incidence of low pay by employee groups. The groups with the highest shares of low pay (unskilled, women and non-nationals, cf. Tab 3) have the lowest chances to escape from low pay. An exception are younger workers with a high share of low pay and above average chances to move up the income ladder.

What is astonishing on the first view are the findings on mobility by industries. In services the chances to escape from low pay are above average. This might be caused by the fact that our

<sup>8</sup> An analysis with a five-year transition period comes to the same findings in the ranking of mobility by employee characteristics (cf. Bosch/Kalina 2007 and 2008).

analysis on mobility refers to full-time employees only or by the generally above average labour turnover rates in services (cf. Hieming et al. 2005). Here we would need a further differentiation by working time categories, for which no data source is available.

In some services the higher mobility can possibly be a form of compensation for the higher share of low-wage work. Compared with a share of low pay in manufacturing of 12.9% the share of low pay in infrastructure and transport services is slightly higher (19.0%). The difference in mobility between 9.3% in manufacturing and 11.9% in infrastructure and transport services can possibly be a compensation in respect to the working conditions. In business services and economic transaction services the high share of low pay is combined with an upward mobility only slightly above average (10.3% and 9.0%). In services to households and persons the share of low pay is very high and the upward mobility is the lowest from all industries (5.2%).

#### **2.4. Interim summary**

Our data analysis has shown that the incidence of low-wage work in Germany has been growing considerably over the last decade (1995-2005). Compared to the other countries involved in the RSF-study, Germany shows the highest low-wage share across the continental European countries (Denmark, France, Netherlands) and is now quite close to the UK. Even compared to the USA where the low wage share is estimated at about one quarter, 22% low paid among all employees in Germany is not far below. Additionally, it is worth mentioning that the wage dispersion in Germany extends a long way downwards. A significant proportion of workers (around 5%) earn less than €5 per hour, i.e. less than one third of the median wage – far below the minimum standards fixed by the statutory minimum wages in France, the Netherlands and the UK (and even below the relative value of the US minimum wage – as compared to the national median wage). Whereas low-wage work used to be distributed more evenly over the economy as a whole; in recent years, however, it has migrated to the margins of the labor market. Low-wage work is increasingly being shifted into marginal part-time jobs and temporary agency work and, as a result of outsourcing, into areas with low levels of coverage by collective agreement, weak trade unions and few works councils. In the following, we add some selected findings from our industry and company case studies in order to illustrate what stands behind the overall development.

### **3. Findings from our qualitative research**

What may appear occasionally in a general analysis of the German employment system as a marginal phenomenon is brought into the limelight in the industry studies, as if viewed through a magnifying glass. Precisely because low-paid work has increased markedly in certain industries and occupations, relatively small percentage changes in the economy as a whole conceal considerable changes in certain segments of the labour market. This applies to all industries and occupations we studied in more detail – namely call centers, food industry, hospitals, hotels and retail trade. Whereas in 2003, the share of low-wage work among full-

time employees was 17.7% in the economy as a whole; in the selected industries and particularly in the target occupations under study, the shares were considerably higher. If we focus on Germany as a whole, they range from 24.5% for nursing assistants in hospitals up to even 90.8% for cleaning staff in hotels. The relatively moderate rise of 1.1 percentage points in low-wage work in the economy as a whole between 1999 and 2003 contrasts with the considerable increases in most of the target occupations, where levels were frequently already high before. The increases were particularly marked among nursing assistants (+ 7 percentage points), hospital cleaning staff (+ 6.9), hotel housekeepers (+ 4.6) and meat producers (+ 3.8).

It should also be noted that an analysis based solely on industries and occupations within a specific industry gives only a partial view of reality, because in most industries under study outsourcing is becoming increasingly important. This applies particularly to cleaning jobs in hotels and hospitals, as well as to call centers and (at least partially) to the food processing industry. In some cases, wage differentials between the original industries and those to which the jobs have been outsourced, are an important driving force for outsourcing, but they are not the prime motive in every case. Differences in non-wage labor costs or employment conditions also play a role, as do employers' efforts to make costs more variable and to shift capacity utilization risks on to sub-contractors. The example of hotel cleaning services providers shows that some sub-contractors are even able to shift the risks on to employees, who in some cases no longer receive a fixed wage but are paid according to actual workloads and performance.

Both factors are obviously playing an important role in the rapidly increasing use of temporary agency workers in Germany. On the one hand, temporary work agencies take on the risk of fluctuating workload distributions; on the other hand, they have a particularly high share of low-wage workers (71.5% of all employees in the category "labor recruitment and provision of personnel").<sup>9</sup> However, in the industries and occupations under study, temp agency work tends to play a somewhat subordinate role. Outsourcing to small and medium-sized subcontractors without works councils and collective agreements as well as substantially lower non-wage-benefits and increased use of mini-jobs are the dominant strategies for flexibilisation and cost reduction, even though those strategies may vary in form.

Besides these general trends, our case studies reveal very divergent developments in individual areas, which have to do with the differing degrees to which firms are rooted in the traditional employment system as well as with differences in corporate strategy:

- By far the widest wage range and variation in other employment conditions was observed in *call centers*, which is mainly due to the diversity of tasks carried out by the employees and the fact that call centers are found in many different industries. Compared to other countries, the proportion of external service providers is higher and increasing – probably due to their lower wage levels.

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<sup>9</sup> The share of low-wage workers among temps may actually be even higher, because no distinction can be made in this category between the companies' core workforce (placement and administrative staff) and the temps who are sent to work in other companies.

- In the *hospital* sector, shares of low-paid workers have increased only recently, as a result of new budgetary regulations and the introduction of low pay grades, one of the products of concession bargaining. Although the overall increase in low-wage work in the sector between 1999 and 2003 was relatively modest at +2.3 percentage points (from 20.3 to 22.6%), the target occupations were affected to a considerably greater extent. This particularly applies to the cleaning staff where pay rates have been reduced considerably in the new collective agreements, in order to avoid outsourcing. The share of low pay among cleaning staff increased from 34.5 to 41.4%.
- The ‘front runner’ by far in the low-pay stakes is *hotel room cleaning*, where the share of low-paid workers now ranges at between 86.2 and 90.8%. Although these jobs have always been very low paid, the share of low-wage workers has increased even further. This is very likely attributable to increasing competition from sub-contractors, who often pay even lower rates, and also to the increasing difficulty of ensuring adherence to existing collective agreements.
- In the *retail trade*, the shares of low-paid workers among the occupations investigated are also relatively high, at over 40% for sales clerks; however, they seem to be lower in the case studies, because these focused mainly on larger companies bound by collective agreements. In these companies, the main strategy for reducing wage costs is to cut the volume of labor deployed through the increasing use of regular and marginal part-time workers, i.e. work intensification. Mini-jobbers are also frequently paid lower rates than other employees.
- In the *food processing* industry, the only manufacturing industry in our study, the share of low-wage workers is about the same as in retail, but much lower than in hotels and restaurants. However, it is significantly above the average in the economy as a whole and it has risen over time from 33.1 to 36.6%.

In all the industries investigated, we observed increased cost cutting strategies and an intensification of competition, both of which put wages under considerable pressure. Some of the causes are common to the various industries, while others are specific to one industry. In the hospital sector, it is primarily changes in the financial regulations and the precarious position of the social insurance funds that are putting wage levels under pressure, while in the other industries changed market conditions are playing a greater role. The extent to which these changed conditions are actually reflected in pay levels also depends on the strength of the trade unions and workplace representative bodies in the industry and in the companies. In several industries, new agreements with lower pay grades have been concluded – sometimes along with the introduction of new low-wage groups. Elsewhere, it is becoming increasingly difficult to conclude any collective agreements at all, as in the meat-processing industry. In addition, there are industries in which collective agreements certainly exist but where their actual binding power is declining, as in the hotel industry in East Germany. In virtually all industries, additional benefits, such as bonuses and the Christmas allowance, as well as working and employment conditions, such as the collectively agreed weekly working time, are also under considerable pressure.

Differences in job quality between the companies investigated depend in part on whether or not the companies are bound by collective agreements and have bodies representing workforce interests. However, even in those sectors and firms in which trade unions and works councils are able to influence wages and employment conditions, they often find themselves, under pressure from employers, in a Catch-22 situation: Either they succeed in maintaining wages and employment conditions at relatively high levels for their own members and run the risk that companies will look for loopholes and outsource certain services to providers not bound by collective agreements at all or at a lower level. Or they have to accept concessions for their own industry or company in order to secure jobs or, in the best case, even win some back. Similar situations exist in internal bargaining process for certain categories of employees. For example, many works councils agree to pay cuts for marginal part-timers if they are able, in exchange, to obtain improvements (or at least the maintenance of existing standards) for the core workforce.

#### **4. Policy implications**

It has become clear that wages in Germany (in general but particularly in the lower wage groups) have been exposed to increasing fragmentation and strong downward pressures because collectively agreed standards in this area have been persistently eroded and the state has not yet laid down any legal minimum wage standards. Instead, by extensively deregulating temporary agency work and changing the regulations governing mini-jobs in such a way as to encourage employers to make increasing use of them, the German government has removed more of the restraints on low pay, thereby encouraging its expansion and putting wage levels as a whole under pressure.

In the past, minimum wage standards could be enforced at industry level because of the high level of coverage by collective agreements in Germany. Moreover, the favourable employment situation meant that many firms not bound by collective agreements used the collectively agreed pay rates as reference points. As a result, wages in Germany were largely taken out of competition. State 'interference' in the form of statutory minimum wages was rejected by both unions and employers as an encroachment on their right to engage in free collective bargaining.

However, the developments and upheavals that have taken place since the 1990s have resulted in a considerable increase in low-wage work since the middle of that decade. One of the reasons for this is that coverage by collective agreement is declining and that a change in attitude in the employers' associations has made it difficult to have collectively agreed standards declared generally binding on all companies in a particular industry. Thus it is particularly easy for employers to exploit pay differentials between industries and categories of workers in Germany, both because coverage by collective agreements has declined (unlike in Denmark) and, in contrast to France, the UK, the Netherlands and even the USA, there is no legal minimum wage to set a generally binding lower limit on wages.

Contradictory to former times, now the need for a minimum wage is increasingly debated in Germany. The arguments advanced in favor of a minimum wage include the need, firstly, to prevent poverty even among those in full-time employment and, secondly, to eliminate wage dumping. Without a binding lower limit on wages, employers can rely on the state, with its basic jobseekers' allowance ("*Grundsicherung*" or "*Hartz IV*"), to underwrite the deficit if they continue to pay low wages or even cut wages further.

One major factor in changing attitudes towards the idea of a minimum wage has been a shift of opinion in the German trade union movement. In the past, they were very reluctant to abandon their opposition to legal minimum wages because to do so would have represented a break with the tradition of negotiating wages themselves. The relatively powerful trade unions in the manufacturing sector, in particular, also feared that their frequently above-average wage levels would come under pressure if a lower legal minimum wage was introduced. For this reason, they argued instead for the generalization of industry-level minimum standards. On the other hand, the trade unions in the service sector, in which wage levels have traditionally in some cases been considerably lower, were finding it increasingly difficult to agree acceptable minimum standards in collective bargaining. Against this background, they were the first to start campaigning for a statutory minimum wage. For many years, this lack of consensus within the trade union movement provided successive governments with a ready-made excuse to kick the issue into the long grass, particularly since the expansion of low-wage work was widely regarded as necessary in order to reduce unemployment. It was not until 2006 that the unions affiliated to the German Trade Union Confederation (DGB) brought themselves to make a joint demand for a statutory minimum wage. They are now demanding a national minimum wage of €7.50 gross per hour (about 50% of the German FT median wage).

In the political sphere, opinions are still divided. The new federal government agreed in its coalition agreement of November 2005 to investigate the necessity of introducing minimum wages; on the conservative CDU/CSU side in particular, however, majority opinion is against such a move. Opponents of a minimum wage are broadly supported by most academic economists in Germany, who point to negative employment effects without taking into account the diversity of findings produced by empirical studies carried out abroad (cf. Bosch/Weinkopf 2006). The clearly divergent views held by economists in many other countries are also simply ignored or even deliberately concealed. The campaign launched in 2006 by hundreds of economists in the USA with the slogan "Raise the minimum wage – hard work deserves fair pay" (EPI 2006), would still have been completely unthinkable in Germany at the time.

In the employers' camp, where opinion has, with the exception of the construction industry, traditionally been against a minimum wage, attitudes have also changed, at least in the employers' associations in some of the industries most affected (e.g. contract cleaning and temporary agency work). Employers in these industries are increasingly discovering the advantages of minimum wages as a means of eliminating wage dumping and are now calling for generally binding minimum wages at industry level, modeled on the arrangement that already pertains in the construction industry.

Overall, it can be concluded that political attitudes towards a minimum wage are currently shifting. According to recent polls, a large majority of Germans (more than 70%) are in favour of a statutory general minimum wage. These poll results persuaded the SPD, which in 2006 had pronounced itself in favor of a combination of combi-wages and generally binding collective agreements, to come out in support of a statutory minimum wage. As in the conservative CDU/CSU side in particular, however, majority opinion is against such a move, the compromise agreed upon in June 2007, was to open up the so-called *Arbeitnehmerentsendegesetz* to additional industries – i.e. to declare collectively agreed wages as generally binding. However, the basic requirements for that (such as a nation-wide collective wage agreement and the willingness of employers in doing so) are not existent in most of the industries with a high proportion of low wages. Therefore, it is more than questionable that these decisions will lead to an implementation of effective minimum standards in Germany.

## 5. Conclusions

As our quantitative analysis and qualitative research has illustrated, the increase in low-paid work in Germany takes a number of very diverse forms. They range from the outsourcing of certain activities to firms not bound by collective agreements and the substitution of regular employment by precarious employment forms, particularly mini-jobs and temporary agency work, to a reduction in collective agreed standards for categories of employees facing competitors not bound by collective agreements. Through the deliberate deregulation of certain employment forms, particularly temporary agency work and mini-jobs, the abolition of income-related unemployment assistance for the long-term unemployed and a tightening of the reasonableness criteria, the state has increased the options available to employers seeking to reduce wage levels.

We found a growing segmentation of the German labour market with growing shares of low-wage work especially in small companies and in services, combined with an increase of marginal part-time work. In the core areas of the employment system (large companies and production), where unions are still strong and internal labour markets are pronounced, the share of low-pay remained still relatively low. Besides the growing employment of women in services and in the form of mini-jobs one driving force for an increase in the margins of the labour market is the outsourcing of activities into sectors with lower collectively agreed wage standards (or without any standards at all). The number (and share) of employees affected by those wage cuts has been increasing – and one can state that not only particular groups (such as low-skilled or younger people) have been the victims of those trends: Contradictory, in the meantime the core employees have been reached to a considerable extent: The large majority of low-paid employees have completed a vocational training or obtain even an academic degree and most of them are from the intermediate age groups. Only women remain as a not unexpected group being largely affected by low wages.



Does that indicate that internal labour markets are eroding in Germany? The answer is – as we see it – twofold: There are indeed certain areas with the typical characteristics of internal labour markets (such as long-term relations between employers and employees, internal career paths, stable pay hierarchies etc. – cf. Doeringer and Piore 1971). However, employment in the core areas of the German labour market has been decreasing whereas it has been growing in the margins going along with a considerable growth of low paid jobs. Thus, our findings suggest that an increasing number of employees have been “dropped out” e.g. by sub-contracting of certain occupations and an increasing usage of temp agency work and mini-jobs. These employees are now faced by severe wage competition without protection by corporate strategies, collective agreements and work councils and by fewer opportunities for internal mobility (if at all).

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