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Low Pay and the Bumpy Road to Minimum Wages in Germany

Abstract

While Germany was for many years regarded as a country with a low wage spread by international standards, the low pay sector has been sharply increasing since the mid of the 1990es and is now one of the largest in Europe. More than one of five employees is low paid and even very low wages (< 50% of the median) are particularly widespread.

The main reason is the vulnerability of the German system of collective agreements to outside competition. Since there are no binding minimum wage thresholds (as a result of a statutory minimum wage or generally binding collective agreements), it is also possible to pay wages below the industry rates. Prior to the reunification of Germany, this played only a secondary role. But since the mid-1990es starting in eastern Germany, and subsequently in western Germany also, many companies left employers' associations or did not join them, in order to be able to pay lower wages. Growing as from the mid-1990s onwards, the low-wage sector gave rise to knock-on effects even for highly unionised companies. Coverage by collective agreements declined especially but not only in eastern Germany. A further political impetus was given by the labour market reforms, implemented in 2003.

While there is still no statutory minimum wage, minimum standards have been implemented in several industries in recent years. However, there are still large areas without any pay standards and average wages of the low paid have been declining in recent years. The number of people claiming top-up benefits (means-tested in-work benefits for low wage earners) is about 1.4 million in 2009 and the state spent no less than 11 billion € per year to subsidize their income in order to cover their household-related minimum need.

The paper starts with a brief overview on recent trends in low pay and then turn to describe the bumpy way of the implementation of minimum wages and analyze the obstacles of industry-specific standards.