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Labour market developments in Germany: tales of decency and stability

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LABOUR MARKET DEVELOPMENTS IN GERMANY: TALES OF DECENCY AND STABILITY

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ABSTRACT

Labour market developments in Germany can be separated into two major shocks: German reunification in the early 1990s, and the Hartz reforms in the early 2000s. In this paper it is argued that these two shocks divide the German wage bargaining system into the old labour market system, which is characterised by a high degree of coordination through pattern bargaining, and the new dual labour market system, where pattern bargaining exists to some extent but is characterized by a marked increase in precarious work. The consequences of these developments for the alleged "stable" and "decent" German labour market are outlined and policy proposals by the German Confederation of Trade Unions (DGB) to combat unnoticed (or condoned) dualism and its repercussions are discussed. It is argued that the DGB's claims are valid, but the list of proposals needs to be extended to include important features such as sufficient minimum wages, strengthened co-determination, and a stakeholder corporate governance system.

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1. INTRODUCTION

German labour markets within the European Union are commonly perceived as highly regulated, competitive, stable, and decent (Möller 2005). With the "neoliberal revolution" (Harvey 2005: 29) beginning in the 1970s however, these patterns began to change such that workers, unions, and those relying on a welfare state were put in a much more precarious position. Such changes put into question whether German labour market developments serve as a role model for other countries and if this model should be "exported".

Labour markets were affected by two major shocks: German reunification in the early 1990s and the Hartz reforms in the late 1990s and early 2000s. These shocks divide the German wage bargaining system into an old one, which is characterised by a high degree of coordination through pattern bargaining and a new dual labour market system, where pattern bargaining exists to some extent but precarious work exploded. In this paper it is argued that due to these shocks, and, more specifically, labour market liberalisation and decentralisation, German labour market developments should not be regarded as a role model for other countries because it leads to instability instead of stability, inept work instead of decent work and inequality instead of equality.

In the sections 2 through 4 brief empirical overviews of labour market developments will be given, illustrating the historical evolution and formation of a dual labour market. In section 5, proposals put forth by the German Confederation of Trade Unions (DGB) to turn back dualism and fight its repercussions, such as increasing inequality, will be mentioned. Further reform options (including EMU-wide actions) from a trade union's perspective will be discussed in section 6. The German economy recovered very quickly from the 2009 Great Recession. In the labour market this is mostly the case because working hours have been reduced through part-time work and working time flexibility rather than a reduction of the quantity of employees (Rinne and Zimmermann 2011). Whether this recovery is a result of labour market deregulations or the underlying principles of the old wage bargaining system is still subject to further research and will be commented only briefly in this paper.

2. THE GERMAN LABOUR MARKET IN THE 1980s

In the 1980s the West German labour market could still be assigned to the "old system". Pattern bargaining characterised wage determination and the resulting high level of coordination held wage dispersion on a low level.

In Germany, workers can be organised in a dual system: trade unions and works councils. Works councils („Betriebsräte") represent employees of one company and can by law be elected if a firm has five or more employees. The works councils have the right of information by management and the right of consultation in terms of e.g. planning of human resources (Gerlach and Meyer

2010). The second main pillar of organisation is trade unions. Almost all medium and large manufacturing companies are organised. The German Trade Union Federation ("DGB") represents industry unions. Employer's associations are highly organised and very strong as well and are represented by the Confederation of German Employers ("BDA").

Before the neoliberal revolution in Germany, the old system of wage coordination was typified by yearly wage negotiations, usually guided by the wage determination of a contract bargained by a regional metal organisation (commonly Baden-Württemberg showed the direction for wage determination). There was no nationally structured bargaining between trade unions, employer's associations and the state. Rather, an informal system of economy-wide coordination existed. Implicitly, other industries accepted the bargained agreements of the metal union ("IG Metall"). Wage increases in the metal industry – due to their signalling power for other industries – may have raised the level of inflation. On the sectoral level, there was less flexibility in wage bargaining for unions because setting wages much higher than the agreement in the beginning of the wage round would put pressure on the next wage round by raising wages even more (Soskice 1990: 44). Additions to the agreements made at the regional or sectoral level were possible within individual companies with somewhat more flexibility. The main concerns of the wage round were first to maintain or raise employment, and second to assure that the settlements would be implemented. Thus a high degree of coordination was indispensable. The signalling effect to other industries of this first settlement worked and led to wage compression. For this reason, statutory minimum wages were unnecessary in the 1980s. Overall, employer's associations kept a check on firms, and unions could hold back works councils in their individual negotiations (Soskice 1990: 46, Dribbusch and Birke 2012).[1] However, rising unemployment in the beginning of the 1980s persisted through the middle of the decade, putting pressure on trade unions and eroding the "social partnership" of post-war West Germany (Streeck and Hassel 2003). A transformation of bargaining institutions from corporatist to pluralist pressure groups due to social policy reforms, cuts to social benefits, and globalisation of business actions and interests weakened the political power of trade unions and employer associations (Streeck 2009: part 1, chap. 4). With the German reunification the landscape changed drastically.

[1] Tacitly, the German Bundesbank was the third partner in wage negotiations. Too high wage increases, which could possibly lead to rising inflation were feared to cause the German Bundesbank to react with restrictive monetary policy leading to an appreciation of the Deutsche Mark (which could worsen international competitiveness of the engineering sector) (Soskice 1990).

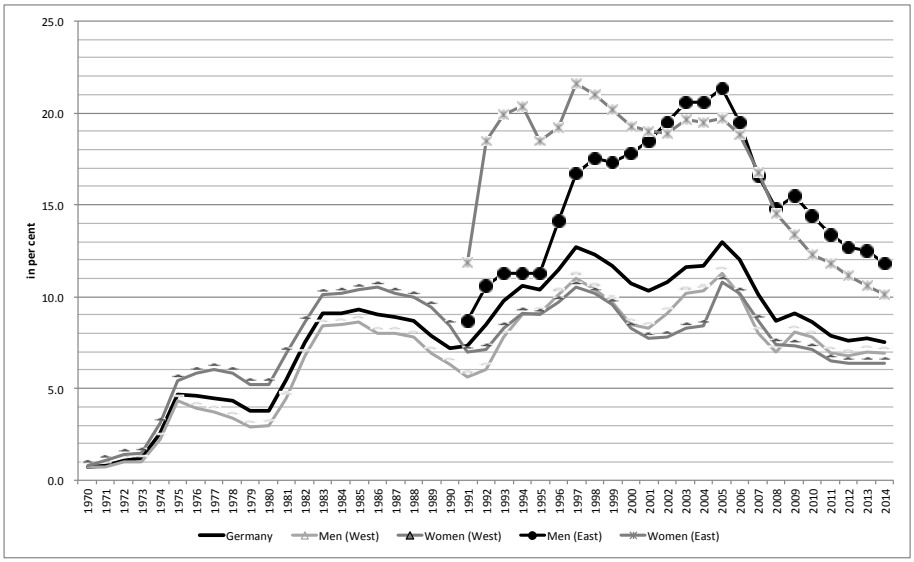
3. THE GERMAN REUNIFICATION IN THE EARLY 1990s

After forty-one years of separation East and West Germany finally got reunified on October 3rd 1990. The transformation from a command economy to a market economy was an extraordinary challenge for East Germany.

In East Germany, unemployment was on the fringes. Labour was seen as an obligation of honour and unemployment did not even officially exist. In fact, high emigration to West Germany led to a lack of labour supply. In 1989 labour market participation by women was 90.9 per cent (52.4 per cent in 1950) and 93.3 per cent for men (Pierenkemper 2006). The fall of the Berlin Wall and the beginning of reconstruction of East Germany resulted in a cyclical upturn with decreasing unemployment rates in West Germany. In East Germany, on the other hand, unemployment exploded due to massive deindustrialisation. From 1989 until 1991 2.5 million workers lost their jobs. In November 1991 East Germany had 6.7 million employed, in November 1989 there were 9.3 million employed (Bielenski et al. 1992). Unemployment rates differed highly between East and West Germany, the latter showing substantially lower rates, but there are similarities as well: low-skilled workers, older employees, and women are more at risk to become unemployed (see figure 1). Long-term unemployment persists as a problem in both parts of Germany. Since 2008 unemployment of women is below the rate of men in both East and West Germany.

After a peak in 2005, unemployment rates of wage earners paying social security contributions decreased in both East and West Germany. This development reversed with the outbreak of the current economic crisis in 2008, yet began declining again since 2009. Unemployment rates since 1991, shown in Figure 1, demonstrate a cyclical development.

Figure 1: Unemployment rates in East and West Germany from 1970 to 2014



Note: Figures include wage earners paying social security contributions (percentage of civilian labour force, "Abhängige zivile Erwerbspersonen"). Soldiers are excluded. Data until 1990 only show unemployment rates in West Germany.

Source: Bundesagentur für Arbeit (2015a), tables 1.1 and 2.2.1.

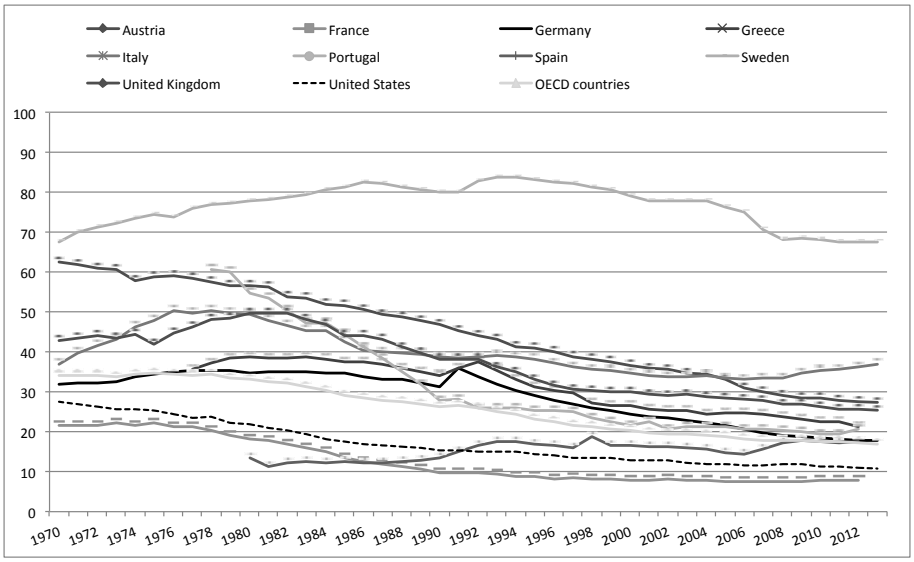
West German trade unions saw the chance to reach many more members from the new federal states but lost many members during the following years, especially in eastern Germany (Fichter 1997)[2]. In 1991 DGB unions reached more than 4.1 million new members, making up 35 per cent of overall DGB membership. The share of women rose from 24.4 per cent in 1990 in West Germany to nearly 33 per cent in unified Germany. [3]

In 1992 the membership downswing began. In 1995 the DGB had lost 40 per cent of the new East German members. Membership in western Germany began to fall as well. The gender composition differs notably. In 1993 only 31.1 per cent of women participated in the labour market in West Germany. In East Germany it was 45.3 per cent. By 2000 union density for women was below the level for men in East and West Germany (Schnabel and Wagner 2003).

Union density - the proportion of wage and salary earners (adjusted for self-employed) organised in trade unions to overall wage and salary earners - declined steadily since 1980. With the German reunification in 1990 union density peaked at 35.9 per cent in 1991 but decreased drastically since then. Through 2013 union density converged more and more with the low OECD weighted average density.

[2] The extensive member losses mostly are linked to the sharp losses of jobs due to reunification and the prevailing deindustrialisation and rise of the service sector in East Germany (Fichter 1997).
[3] DGB is the only institution, which documented separated data for western and eastern Germany.

Figure 2: Union density in selected OECD member countries



Source: OECD Earnings Database (2015).

Fitzenberger et al. (2011) point out that the erosion of union membership differs notably in West and East Germany. The decline in East Germany since 1993 is stronger than in West Germany.

Union density is only one indicator used to illustrate trade union presence. Collective wage bargaining coverage is another indicator showing the extent to which employees are covered by collective bargaining outcomes. Two central features of collective bargaining coverage will be scrutinized in this paper: the level at which bargaining takes place and how coordinated the bargaining process is. Vamvakidis (2008) shows that high coordination is mostly linked to low wage differentials and thus high wage equality.

Table 1 shows the collective wage bargaining settings in selected European countries and the USA. Collective wage bargaining coverage is an indicator commonly used to illustrate trade union presence.[4] Coverage used to be high in Germany (80 %) during the 1980s and 90s but had drastically decreased to 68 % in 2000 and even more so by 2007, to 63 %. In the selection only three countries had increasing bargaining coverage (Denmark, Spain, Sweden) while the United Kingdom, for example, halved coverage from 70 % in 1980 to 35 % in 2007.

Countries are ranked between 1 and 5 for their level of centralisation and coordination. A rank of 1 for centralisation means firm level negotiations are predominant, a rank of 5 indicates that national agreements are most important.[5] For the degree of coordination a score of 1 indicates little or no coordination,

[4] If possible OECD (2004: 172) adjusted collective bargaining coverage for employees in the public sector.

[5] Not in all cases rankings can easily be made. In many countries different bargaining levels exist. For a more detailed analysis see Traxler et al. (2001).

while a 5 includes, for example, pattern bargaining. A high level of centralisation does not automatically lead to a high degree of coordination.

On the centralisation rank no country moved towards more centralisation but Denmark, Italy, Japan, Spain, Sweden, and the United Kingdom rather decentralised with 1, 2 or even 3 ranks. Most of the countries decentralising since the 1970s used opening or opt-out clauses.[6] Germany is one country that heavily used opt-out clauses, mostly to circumvent regulations on working hours and wages. Germany, with a rank of 3 for centralisation and 4 for coordination showed no movements in the ranking. However, "an erosion of the German model is already underway" (OECD 2004: 154), meaning that political pressure to shift bargaining to a more decentralized process is arising. Using establishment survey data of the Institute for Employment Research (IAB) Kohaut and Schnabel (2003) find that agreements on the firm level increased significantly. In 2001 7.6 per cent of employees in West Germany and 11.8 per cent of employees in East Germany were covered by firm level negotiations. 63.1 per cent of West German employees and 44.1 per cent of East German employees were covered by sectoral level negotiations. The German Statistical Federal Office (2013) finds that in 2010 the number of employees covered by sectoral wage bargaining decreased to 50 per cent. Additionally, there is a high variation of importance of collective agreements among industries. While in the insurance, construction, and energy sector, collective agreements are usual, in the service sector and agriculture coverage is commonly very low. From 1996 to 2001 sectoral level wage bargaining declined from 69.2 per cent to 63.1 per cent of covered employees in West Germany, and from 56.3 per cent to 44.4 per cent in East Germany (Kohaut and Schnabel 2003). Until 2013 coverage declined even more to almost 52% of employees in western Germany and 35% in eastern Germany (Ellguth and Kohaut 2014).

Brandt and Schulten (2008) point out that liberalisation and privatisation of public services also added to the erosion of pattern bargaining in Germany.

[6] Opt-out clauses allow companies to aberrate from sectoral agreements (but not if the deviation is of disadvantage for workers).

Table 1: Collective bargaining settings in selected European countries and the USA

	Collective bargaining coverage %				Centralisation rank*							Coordination rank**						
	1980	1990	2000	2007	1970 -74	1975 -79	1980 -84	1985 -89	1990 -94	1995 -00	2006[1]	1970 -74	1975 -79	1980 -84	1985 -89	1990 -94	1995 -00	2006[2]
Denmark	70	70	80	80	5	5	3	3	3	2	4	5	5	3	4	3	4	4
Finland	90	90	90	90	5	5	4	5	5	5	5	5	5	4	5	5	5	5
France	80	90	90	90	2	2	2	2	2	2	2	2	2	2	2	2	2	5
Germany	80	80	68	63	3	3	3	3	3	3	3	4	4	4	4	4	4	4
Italy	80	80	80	80	2	2	3.5	2	2	2	3	2	2	3.5	2	3	4	4
Japan	25	20	15	16	1	1	1	1	1	1	3	4	4	4	4	4	4	4
Spain	60	70	80	85	5	4	4	3.5	3	3	5	5	4	4	3.5	3	3	3
Sweden	80	80	90	91	5	5	4.5	3	3	3	3	4	4	3.5	3	3	3	3
United Kingdom	70	40	30	35	2	2	1	1	1	1	1	3	4	1	1	1	1	1/5
United States	26	18	14	13	-	1	1	1	1	1	1	1	1	1	1	1	1	1/5

Note: * Centralisation: 1 = Company and plant level predominant. 2 = Combination of industry and company/plant level, with an important share of employees covered by company bargains. 3 = Industry-level predominant. 4 = Predominantly industrial bargaining, but also recurrent central-level agreements. 5 = Central-level agreements of overriding importance.
** Coordination: 1 = Fragmented company/plant bargaining, little or no co-ordination by upper-level associations. 2 = Fragmented industry and company-level bargaining, with little or no pattern-setting. 3 = Industry-level bargaining with irregular pattern-setting and moderate co-ordination among major bargaining actors. 4 = a) informal co-ordination of industry and firm-level bargaining by (multiple) peak associations; b) co-ordinated bargaining by peak confederations, including government-sponsored negotiations (tripartite agreements, social pacts), or government imposition of wage schedules; c) regular pattern-setting coupled with high union concentration and/or bargaining co-ordination by large firms; d) government wage arbitration. 5 = a) informal co-ordination of industry-level bargaining by an encompassing union confederation; b) co-ordinated bargaining by peak confederations or government imposition of a wage schedule/freeze, with a peace obligation.
[1] The ranking of Caju et al. (2008) differs from the ranking used by OECD (2004 and 2012). The authors differentiate between centralisation on a company, occupational, sectoral, intersectoral, regional and national level and whether these levels apply or a dominant within a country. In the table above only the dominant levels have been used.
[2] The ranking of Caju et al. (2008) differs from the ranking used by OECD (2004 and 2012). The authors differentiate between pattern bargaining, intra-associational, inter-associational centralisation, statutory minimum wages and wage indexation. In the table above the dominant levels have been used. In the case of UK and the USA both ranks 1 and 5 apply, however none of them is dominant.
Source: Data for collective bargaining coverage are taken from OECD (2004), chapter 3, table 3.3, for 2007 they are taken from OECD (2012), table 2.A1.4. Data for centralisation

and coordination are taken from OECD 2004, chapter 3, table 3.5. Data for 2006 has been taken from Caju et al. 2008, pp. 17 f.

By the 1990s it had already became clear that the West German wage bargaining model could not be transferred to East Germany.[7] One reason for this development certainly was the different political structure in East Germany with no employer's associations and weak unions.[8] The signalling effect eroded in eastern Germany and fed back to West Germany where it partly collapsed as well. Fichter (1997: 84) stresses that "{e}vents in the one segment of the country could very likely have repercussions on developments in the other, especially within the unified structures of national organizations such as the trade unions."

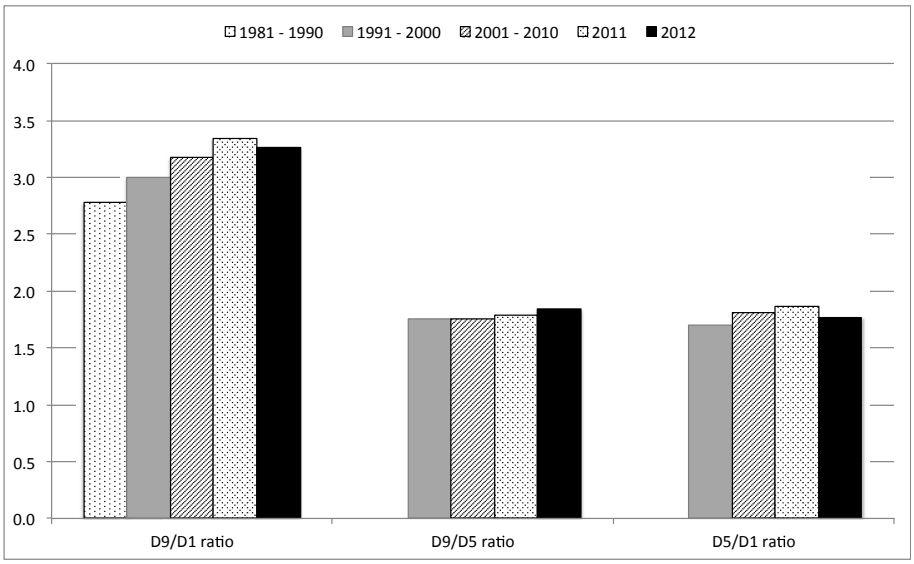
Frick and Goebel (2008) analyse income stratification in unified Germany and find no coalescence of West and East Germany in terms of the wage structure. In the beginning of the 1990s the level of wages increased in East Germany and inequality increased continuously since the mid-1990s. On average the East German wage level still lags behind the West German level.[9]

Such developments have been typically explained by as such: The high increase of unemployment of low skilled workers since the 1990s was a result of an overly compressed wage structure, i.e. wages of the bottom ten per cent are too equal and that high wage increases lead to unemployment. However, wage dispersion has widely been neglected because a moderate level of wage dispersion can be detected in Germany until the fall of the Berlin Wall (Schettkat 2006).[10]

During the 1990s unemployment increased disproportionately. According to the wage compression hypothesis, such a development would go hand in hand with a more compressed wage structure from below. Nevertheless, wage dispersion in Germany increased and did not compress since the 1990s. The development is shown in Figure 2. The first group of columns shows the D9/D1 ratio depicting how many times gross earnings (of full-time workers) of the top ten per cent of earnings distribution were higher in comparison to the bottom 10 per cent. This ratio increased substantially since the 1980s and decreased a little from 2011 to 2012. D9/D5 shows the top 10 per cent of wage earners to the median of the earnings distribution. As can be seen in the middle group of columns, the middle of the wage earners hardly gained relative to the top 10 per cent. D5/D1 however increased until 2011 and decreased slightly thereafter. This ratio of the median earnings to those of the 10 per cent least paid indicates the sharp increase of sectors with very low wages, implying a "collapsing floor" (Herr and Ruoff 2014).

[7] For reasons that are still debated. Most argue that West German unions underrated the socioeconomic and historical differences in eastern Germany (see e.g. Fichter 1997, Schnabel and Wagner 2003, Fitzenberger et al. 2011).
[8] Employees were forced to participate in the union movement, thus there naturally was high union density (Fichter 1997).
[9] See for example Gernandt and Pfeiffer 2006; Kohn 2006 revealing the same results and conclusions.
[10] Schettkat (2006) notes that many analyses of the German wage structure until the 1990s omit women and part-time jobs.

Figure 3: Average decile ratios showing dispersion of gross earnings in Germany



Note: Data for West and East Germany.

Source: OECD Earnings Database (2015).

Helmut Kohl, chancellor during the transformation process, promised flourishing landscapes, de-centralising collective wage bargaining further and promoting privatisation. However, the German labour market did not recover in the promised manner. In the late 1990s the new chancellor, Gerhard Schröder, promoted an enormous restructuring of the labour market – the so-called Hartz reforms.

4. THE HARTZ REFORMS UNDER THE RED-GREEN-COALITION IN THE LATE 1990S / EARLY 2000s

Since the 1990s, compared to other countries, e.g. the United Kingdom and the Netherlands, Germany performed "poorly" in terms of GDP growth and employment rates. The German reunification in 1990 augmented the workforce by nearly one third of workers who could not easily be integrated to the labour market (Jacobi and Kluve 2007).

Labour market problems have commonly been explained as coming from an overly generous welfare state in terms of labour market regulations, especially protection of employment (Rinne and Zimmermann 2011: 3). This line of argument is highly controversial however, since – as it is argued later in this paper - a generous welfare state reduces inequality.

To solve the problem of rising unemployment the Red-Green coalition under chancellor Gerhard Schröder introduced an ambitious labour market reform package between 2003 and 2005 – the so-called Hartz reforms.[11] The Hartz reforms were introduced gradually. Hartz I and II were introduced on January 1, 2003, with Hartz III coming one year later, on January 1 2004. Hartz IV was introduced on January 1 2005 (Caliendo and Steiner 2005).[12] The Hartz reforms were a three-pillar strategy of active labour market policies and reforms of the benefit system. The first pillar contained the enhancement of efficiency and effectiveness of labour market services and policy measures. The second pillar was built on the activation of unemployed by challenging and promoting them. Thirdly, deregulation of the labour market was meant to increase the demand for labour (Jacobi and Kluve 2007: 50 ff.). With the Hartz reforms the concept of "challenge and promote" found its way into active labour market policies in Germany (Caliendo and Steiner 2005: 1).

4.1 Key elements of the reform

4.1.1 Hartz I

The key element of the first reform was the improvement of placement services. The modernisation of the organisational structure of employment offices to Personal Service Agencies (PSA, "Agentur für Arbeit") as well as the introduction of "market forces" to the service system should lead to more efficient and effective labour market services (Caliendo and Steiner 2005: 11 f.). The local offices became less hierarchical, more flexible and oriented towards "customers" (Jacobi and Kluve 2007: 51).

The supply of temporary workers was also deregulated. An upper limit of duration of temporary work was eliminated, but equal treatment for temporary workers with permanent staff was promised (Jacobi and Kluve 2007). Restrictions on fixed-term contracts and their reclassification were eliminated with the Hartz I reform as well. Fixed-term contracts and regulations of dismissals were simplified and extended in such a way that it is easier to renew fixed-term contracts. Exceptions from dismissal protection are possible for small businesses with up to ten employees. Before the reform, businesses with up to five employees could use dismissal protection exceptions (Jacobi and Kluve 2007: 53).

Special regulations for job seekers older than 50 were introduced. If, for example, they accept a lower paid job, part of the difference would be paid by the PSA. Job seekers looking to further their education could now get training vouchers and choose private agencies, they are no longer obliged to use public offers for training. Active labour market policy measures are to be decided individually by every caseworker in order to better targeting clients. Off-time regulations for unemployed without families are tightened to four months, i.e. after four months of unemployment they have to be mobile nationwide. Drastic cuts in

[11] The reform package was called after the commissions' head Peter Hartz.
[12] Hartz I contained the introduction of Personal Service Agencies.

unemployment benefits were enacted and the income of spouses or partners, as well as personal savings, are consulted much more in benefits considerations. Additionally, sanctions were introduced like the reduction of benefits if workers do not report their dismissal to the PSA immediately. Furthermore, the efficiency and effectiveness of the reforms is subject to a scientific evaluation curriculum.

4.1.2 Hartz II and III

Central to the reforms is the concept of "rights and duties" of every job seeker. One example for the activation strategy is the so-called "Me, Inc." ("Ich AG") as a programme to support the start of a new firm. After approval of the business plan, benefits are paid for three years.[13] Additionally, wage subsidies can be paid, e.g. to employers if they hire workers who are difficult to place (Jacobi and Kluve 2007: 52). Mini-jobs as well as midi-jobs[14] were extended.

With Hartz III, organisational restructuring of the Federal Labour Office ("Bundesanstalt für Arbeit" into a Job-Centre where case workers handle their clients (especially long-term unemployed) was enacted. In addition, more sanctions were introduced if, e.g. the job seeker does not accept any offered job, and are based on the availability of the job seeker (Jacobi and Kluve 2007: 53).[15] Another example is a reduction of benefits if the job seeking does not show enough effort. How much "enough" is depends on the individual caseworker.

4.1.3 Hartz IV

Hartz IV was the largest reform concerning the new regulation of unemployment benefits (Arbeitslosengeld II). Benefits used to be dependent on the social security contributions paid. Since the Hartz IV reform the ability to work (three hours per workday) is the basis for access to active labour market policy schemes (Jacobi and Kluve 2007: 53). Unemployment benefits are divided into unemployment benefit I (ALG I) and unemployment benefit II (ALG II). ALG I is paid to the unemployed for a maximum of one year, but only if the now unemployed have paid social security contributions. The amount of ALG I depends on earned wages. ALG II on the other hand, is not based on earnings but on the inquiry of needs of the individual and is paid if there were no social security contributions within the last year before becoming unemployed (Jacobi and Kluve 2007: 53). ALG II replaces the former welfare benefits ("Sozialhilfe"). In 2015 ALG II for a single household amounted to 399 € per month plus financial aid for health care and housing. ALG II for children until the age of six get paid 234 € per month (Bundesagentur für Arbeit 2015b).

[13] In the first year benefits are 600 € per month, 360 € and 240 € in the second and third year (Caliendo and Steiner 2005: 14).
[14] Workers pay a lower amount of social security contributions if they have a midi-job, i.e. have an income between 450.10 € and 850 € (Berthold and Coban 2013).
[15] "A person`s availability can additionally be tested by training or by workfare measures in the public sector (the so-called 1-EUROJobs) or assignment to {Personal Service Agencies}" (Jacobi and Kluve 2007: 53).

4.2 Evaluation of the Hartz reforms

There is no consensus whether the Hartz reforms really improved the German labour market situation. In the following, some studies evaluating the Hartz reforms shall briefly be discussed to give an overview of the implementation process.

Rinne and Zimmermann (2011) summarise that the reforms were successful until the subprime-crisis broke out and are a major reason why Germany fared relatively well through times of crisis (even though the small negative response of the labour market to the crisis can only be seen in the short run, highly flexible labour markets come at the expense of structural changes and are visible in the medium and long runs).[16]

Krebs and Scheffel (2013) investigate welfare and unemployment effects as well as economic growth due to Hartz IV reforms in the period from 2005 until 2008. The authors certify that the Hartz IV reforms attained its main target: reducing the long-term unemployment rate through increasing job search assistance. Unemployment rates since 2005 indicate that the Hartz IV reforms were the main contributor to the falling rate, but GDP growth was much higher than average in the following years. Krebs and Scheffel (2013: 7) further argue that increases in the job-placement rate were especially crucial for the reduction of long-term unemployed. This finding indicates that Hartz III also reduced unemployment due to the increased „matching efficiency". They furthermore find positive economic growth but negative welfare effects for short-term and long-term unemployed because of the severe reduction of unemployment benefits.

Krause and Uhlig (2011) find positive employment effects due to the reduction of former wage-base benefits. Additionally, the authors state that the unemployed taking low-wage jobs may be one explanation for the reduction of unemployment duration.[17] Fahr and Sunde (2009) find that the Hartz I, II, and III reforms improved the matching process with sectoral variations, while eastern Germany benefitted most from the reforms. Their findings however only apply to frictional, not to structural unemployment and – as most authors concerned with the evaluation of the Hartz reforms – note, that data limitations make it difficult to get clear policy recommendations.[18] Jacobi and Kluve (2007) attest overall positive labour market effects of the Hartz reforms in terms of the effectiveness and efficiency, though disregarding the potential precarious effects. The authors however hint at the poor inital pre-Hartz labour market situation. Evaluations on behalf of the Federal Ministry for Labour and Social Affairs ("Bundesministerium für Arbeit und Soziales") in which face-to-face interviews, questionnaires with companies as well as analyses of the Personal Service Agencies and Job-Centre were used and attest overall positive effects for the German labour market.

[16] See as well Hüfner and Klein (2012).
[17] Short-time work subsidies to keep jobs during the crisis may be an explanation for relatively stable unemployment rates (Krause and Uhlig 2011).
[18] See as well Jacobi and Kluve (2007).

What is not considered in most studies is that there have been several changes in the calculation of the unemployment rate. Since 2014 for example, federal volunteer services ("Bundesfreiwilligendienst") are treated as jobs subject to social security contributions (Frank and Grimm 2014: 12). This means that there has not been any additional job, but the rate of unemployment decreased even more. Most evaluations go hand in hand with other studies named above: the new active labour market policies seem to have increased efficiency and effectiveness of the macroeconomic outcomes but the results still have to be interpreted with caution. It is difficult to assign all reductions in unemployment to the Hartz reforms.[19] Positive employment effects cannot be achieved by a reduction of wages, which rather would decrease the price level and instigate deflationary processes. Increasing aggregate demand due to, for example, rising exports leads to increasing volume of production and employment (Keynes 1936, Herr 2002). The Hartz reforms did not explicitly foster wage reductions, but the fortification of low wage sectors clearly were on the agenda. Accelerating low wage sectors feed back to the overall wage structure, resulting in a declining wage level (Herr 2002)[20].

Low wage jobs, which are not covered by the social security system,[21] increased from around 0.4 million employees in Eastern Germany in 2000 to more than 0.6 million in 2005, and around 3.5 million employees in Western Germany in 2000 to about 4.2 million, while employment covered by the social security system decreased drastically. In Western Germany almost 22 million and in Eastern Germany nearly 5.7 million employees were covered by the social security system in 2000. Coverage decreased to nearly 21 million and 5 million, respectively, in 2005 (Jacobi and Kluve 2007: 46 ff.)

In this paper the low-wage sector is defined as the labour earning less than two thirds of the median wage. Kalina and Weinkopf (2012) find that in 2010 23.1 per cent of all employees work for less than 9.15 Euro per hour. The authors calculated a low wages barrier of 9.15 Euro for 2010 including retired persons, pupils, and students. They furthermore differentiated between the low wages barrier in East and West Germany, the former being 7.04 Euro per hour, the latter being 9.54 Euro per hour. Additionally, the increase in low wages employment can almost entirely be assigned to West Germany. 6.57 million (23 per cent of all employees) worked in the low wages sector in West Germany in 2010. In East Germany it was 1.28 million (22.6 per cent). 4.1 million workers, which account for 12 per cent of all employees, work for less than 7 Euro per hour. The participation of women (64.8 per cent) and workers having a mini-job in low-wage work is disproportionally high. The trend of increasing low-wage work continued during

[19] See for example RWI et al. (2006), ZEW et al. (2005), and WZB and infas (2005).
[20] For an empirical investigation of declining real wages and increasing wage dispersion due to the Hartz reforms see for example Giannelli et al. (2013).
[21] Low wage jobs not covered by the social security system yielded 325 € before April 2003, afterwards the so-called "mini-job" income was 400 € per month. Since January 2013 this income was raised to 450 € per month and workers are obliged to enter the social securities in terms of pension fund payments (Berthold and Coban 2013).

the last decades. Astonishingly, the largest share of low-wage work is done by high-skilled labour – 70.3 per cent with professional education, 9.3 per cent with academic education, and 20.3 per cent without professional education. Furthermore, it is not the young generation that makes up the largest part of low-wage work (12.1 per cent younger than 25), but the middle age range (35-44 years old with 22.3 per cent and 45-54 years old with 25.3 per cent) (Kalina and Weinkopf 2012).

Bezzina (2012), using Eurostat data, finds that in 2006 20.3 per cent of employees work in the low wage sector in Germany. In 2010 they increased to 22.2 per cent. Countries with the smallest low wage sectors of around 10 per cent were Sweden, Finland, Belgium, Denmark, France and Norway. In Germany in 2010 the low-wage sector particularly included "accommodation and food services" and "administrative and support services activities" which showed the lowest and second lowest median earnings (8.72 and 8.86€) but the highest amount of low-wage earners (68.62% and 65.16%) (see Table 2). Rhein (2013) investigated that low-wage earners in Germany particularly were part-time working women.

Table 2: Proportion of low wage earners by economic activity in Germany, 2010

Economic activity	Median hourly wage*	Proportion of low wage earners*
Accommodation and food service activities	8.72	68.62
Administrative and support service activities	8.86	65.16
Transportation and storage	12.89	29.35
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.13	26.81
Arts, entertainment and recreation	13.66	32.87
Other service activities	14.31	27.69
Construction	14.34	15.36
Water supply; sewerage, waste management and remediation activities	14.99	16.26
Human health and social work activities	14.99	18.39
Industry, construction and services (except public administration, defense, compulsory social security)	15.39	22.24
Real estate activities	16.4	18.48
Mining and quarrying	17.45	5.91
Manufacturing	17.81	13.6
Professional, scientific and technical activities	18.46	14.5
Education	20.74	8.63
Information and communication	21.41	12.48
Financial and insurance activities	21.47	2.62
Electricity, gas, steam and air conditioning supply	23.41	2.45

Note: * All employees, excluding apprentices.

Source: Eurostat (2015a), [earn_ses_pub1n] and [earn_ses_pub2n]

Oschmiansky (2007) finds negative effects of the Hartz reforms looking at the development of precarious work. Low-wage work, freelance employment, temporary employment, and temporary part-time labour increased. Part-time labour covered by social securities tended to be substituted by social security free labour, especially mini-jobs. She finds that the positive employment effects of the Hartz reforms foster atypical and precarious work, which furthermore puts pressure on regular employment.[22]

Summing up, we can surely find that the more effective and efficient labour market service system of the post Hartz reform era came at the expense of equality. The massive deregulation of the labour market added to inequality, which is not only high if one compares West Germany with East Germany. OECD (2011: 100 f.) for example, shows that precarious work, such as temporary work, increased substantially over the last decades and policies to protect employment declined dramatically in 11 out of 23 OECD member countries. In Germany, employment protection legislation for temporary workers was deregulated substantially between 1985 and 2008 (Herr and Ruoff 2014). The ‚unified theory' (Blank 1997: 3) of an efficiency-equality trade-off is not universally just and it is difficult to support this idea empirically. Chusseau et al. (2009) analysing 13 OECD member countries conclude for the period of 1981-2003 that the trade-off is highly country-specific. Denmark, Finland, and Sweden show high equality and low unemployment levels, Italy and Spain on the other hand show low equality and high unemployment. The argument put forth that higher levels of employment naturally go hand in hand with higher inequality does not automatically hold true. Due to the massive deregulation of the labour market, it is not this unwelcome trade-off that can be observed in Germany, but unemployment as a result of rising inequality.

4.3 Development towards a dual labour market

Rather than any increase of an informal sector, the truly alarming statistics can be seen in the rise of a formal precarious sector. Duality of the German labour market can be detected in two ways: 1) pattern bargaining does not function any longer in most sectors, but where it functions 2) there is also an explosion of precarious jobs. It seems that there are three propositions making it more likely that the old German model of pattern bargaining can no longer be found but a dual labour market: 1) the smaller the company, 2) the larger the service sector, and 3) the farther East the more likely is dualisation (Ochel 2003).

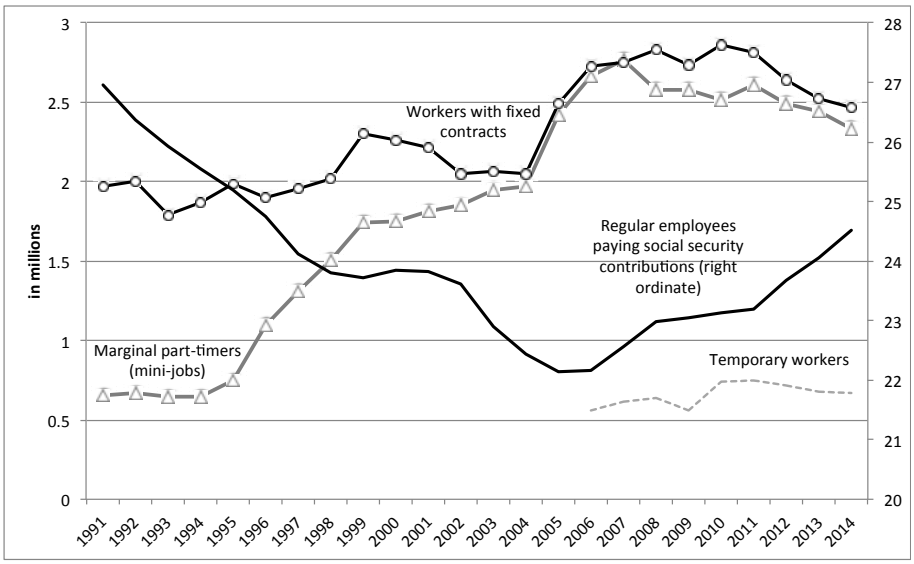
Since 1994 temporary work ("Leiharbeit") increased from around 138.000 employees to nearly 807.000 in 2010 (DGB 2012: 10). Temporary work exists with all levels of qualification, the gap between wages of permanent staff and temporary workers ranges from 30 per cent in technical jobs, 33 per cent for workers with university degree, to 46 per cent for workers without training

[22] These negative effects have already been forecasted by the Confederation of German Trade Unions (DGB) in a comment on the draft law of the "third law of modern services in the labour market (Hartz III)" in September 2009 (DGB 2003).

qualification (DGB 2012: 11). DGB (2012: 11) calculated that 12.6 per cent of all temporary employees depend on additional Hartz IV social transfers even though 94 per cent of them work full-time.[23] Furthermore, only about a half of these jobs lasted longer than 3 months. This makes it very difficult for unions to reach temporary workers.

Figure 4 illustrates the development of a low-wage sector in Germany since the end of the 1990s in millions. The ordinate on the right side of the graph shows that the number of employees paying social security contributions and are working more than 20 hours per week decreased steadily until 2006. The evolution of atypical employment, such as mini-jobs, fixed-term contracts, and temporary work, is shown on the left ordinate. Contrarily to typical (or regular) employment, these types of work increased continuously since the 1990s showing that increasing employment rates cannot be taken as a generally positive trend, because of the explosion of precarious work.

Figure 4: Typical and atypical employment developments in Germany



Note: Atypical employment of workers between the age of 15 and 64, pupils, students, apprentices, and soldiers are excluded. Regular employees are defined as working more than 20 hours per week and paying social security contributions (right ordinate). All other data refers to the left ordinate.

Source: German Statistical Federal Office (2015a).

Collective wage bargaining coverage declined from 70 per cent in 2005 to 62.8 per cent in 2007 (OECD 2012). The old model of pattern bargaining and coordination exists in parts of the economy (metal industry, chemical industry,

[23] The so-called „Aufstocker" (raising income with additional social transfers) phenomenon is not only due to the Hartz reforms. There have been „Aufstocker" prior to the reforms as well. However, since the introduction the number of workers depending on additional social transfers increased tremendously (Rudolph 2014).

public sector) – however, these parts are shrinking in terms of union density – and not in the whole economy.

Hüfner and Klein (2012) point out that the share of fixed-term contracts - 57 per cent in the mid-2000s - increased substantially since the mid-1990s, which can fully be assigned to workers aged 15 to 24 years. Many of them have apprenticeships, however in comparison to other OECD member states the increase of the share of fixed-term contracts in Germany was extremely high (more than 20 percentage points from the mid-90s until the mid-2000s). In order to slow down dualisation of the labour market it is important to reduce fixed-term contracts because they increase income inequality (Fournier and Koske 2012). Furthermore, investing in workers with fixed-term contracts is less attractive for firms, having unfavourable effects on the level of skills of workers (OECD 2004). In OECD (2011 and 2012) it is argued, that employment protection legislation (EPL) for permanent work contracts should be lowered, for example, by easing dismissals via a shortening of notification periods. A widening gap of regulation of regular[24] and temporary/fixed-term work is problematic because it leads to a further segmentation of the labour market and increases inequality. Additionally, regulation arbitrage benefits precarious and less regulated jobs at the expense of the more regulated sectors of the economy. However, arguing for a deregulation of EPL for permanent/regular workers is inadequate because stricter EPL decreases inequality. Rather, deregulation of EPL for temporary workers and fixed-term workers should be reversed.

5. TRADE UNIONS' REFORM PROPOSALS[25]

In order to reduce inequality and decrease the level of precarious labour DGB (2012) published a reform proposal for further discussion amongst trade unions. The following seven fields are supposed to be the most important and effective.

1. *Hinder trend to dual and precarious labour market*

DGB claims a change of the law regulating the supply of temporary contract workers, the so-called "Arbeitnehmerüberlassungsgesetz", in such a way that contract workers ("Leiharbeiter") are treated equally to permanent staff. This includes the prohibition of temporary contracts with contract workers as well as the ban of numerous extensions of temporary contracts ("Kettenarbeitsverträge"), the limitation of the period of lease „Höchstüberlassungsdauer" and the re-introduction of the "Synchronisationsverbot" which prohibited contracting firms from restricting the period of employment of labour. Additionally, contract work should not make up for strikes (DGB 2013: 17) and employees should have more access to part-time work through legislation (ibidem: 31).

[24] Temporary work includes "*i)* persons with a seasonal job; *ii)* persons engaged by an employment agency or business and hired out to a third party for the carrying out of a "work mission"; *iii)* persons with specific training contracts." (OECD 2014: 11) All work that is not subject to a termination is regular.
[25] A brief overview is given in this paper, omissions possible.

Social security for the solo-self-employed is an especially delicate topic. The self-employed should be integrated into the social security system. In terms of health insurance, unions claim that citizen health insurance covering all people, independently of their status, would be most effective. To immediately improve working conditions of the self-employed, the determination of insurance payments should not include one's spouse's income; payment delays should not automatically lead to a denial of transfers. Additionally employers should be responsible for social insurance payments by involvement (DGB 2012: 18 ff.).

Mini-jobs should be treated equally to other jobs with social security contributions. Every job, whether high paid or low paid, should be subject to social security contributions. (DGB 2013: 27).[26] Furthermore, labour activation mechanisms such as civil labour ("Bürgerarbeit") should be subject to social security contributions as well (DGB 2012: 52 ff.).

Internships are serving more and more as an opportunity to enter the labour market, even though workers already are qualified. In many cases, postgraduate internships substitute regular work (DGB 2012: 41). Legislation should define internships as apprenticeships, written contracts should be obligatory, a minimum of 300 € per month should be paid for interns. Postgraduate internships should be avoided.

Contracts for service and work ("Werkverträge") should be reduced in order to avoid "dumping". The main claim is equal pay for equal work (DGB 2013: 21).

German trade unions already started good campaigns in order to reduce precarious working conditions. Ver.di campaigns with "100-%-me" ("einhundert-prozent-ich")[27] aiming to organise contract workers, IG-Metall with "same work – same money" ("Gleiche Arbeit – gleiches Geld")[28] aiming to inform a broad public with the precarious work of contract workers and to increase their awareness. From 2008 until 2010 the IG-Metall truck toured through Germany visiting cities, schools and firms, organised panel discussions, demonstrations and music shows.

2. Strengthening pattern bargaining

DGB (2013: 5) claims strengthening of pattern bargaining and autonomy in wage bargaining ("Tarifautonomie") through easier legislative introduction of generally binding agreements ("Allgemeinverbindlichkeitserklärungen"). Such extension mechanisms are a key element of coordinated wage bargaining. Additionally, the unions' right to sue ("Verbandsklagerecht") should be introduced. This would mean that in case employers do not obey legislation on labour rights, employer associations and trade unions are allowed to take legal action against them (ibidem: 25).

[26] DGB (2012: 39) claims that not mini-jobs but rather their special character should be abolished.
[27] See Ver.di campaign URL: http://www.hundertprozentich.de
[28] See IGM campaign URL: http://www.gleichearbeit-gleichesgeld.de

3. Security of flextime wage records ("Arbeitszeitkonten")

DGB (2013: 7) claims a proper security of flextime wage records through legislation in case of solvency or change to another employer. Flextime wage records support more flexible working time, particularly helping women to participate in the labour market. Not obeying the law, i.e. not securing flextime wage records in case of insolvency should go hand in hand with penalties.

4. Improvement of dismissal legislation

Security on the job must be improved. Dismissal without reason ("Sachgrund") should be abolished; dismissal protection should apply to all employees and should not be linked to the size of a company (DGB 2013: 9)[29].

5. Statutory minimum wages

DGB (2013: 15) proposes egalitarian statutory minimum wages of at least 8.50 €. Further minimum wage negotiations should take place on a sectoral level. In January 2015 this minimum wage was introduced in Germany.

6. Strengthen trade unions' and workers' councils' power

Another important proposal is to strengthen the influence of worker's representation through trade unions and workers' councils ("Betriebsräte") within companies receiving temporary staff and companies sending temporary staff (DGB 2012: 15).

7. Reduction of working time

The wish to reduce working time has already been attested by a DGB study (DGB 2014). In a survey of 5,823 employees, they have found that 62 % of the interviewees work 40 hours per week or more, but only 42 % of them should do so according to their contracts. 65% prefer a reduction of weekly working hours. In 2013 compared to other EU member states Germany ranges in the middle of average collectively agreed weekly working hours with 37.7 hours. France has the lowest level of 35.6, Romania the highest with 40 hours (Cabrita 2013).

6. WHAT COULD/SHOULD BE DONE FROM A TRADE UNION PERSPECTIVE

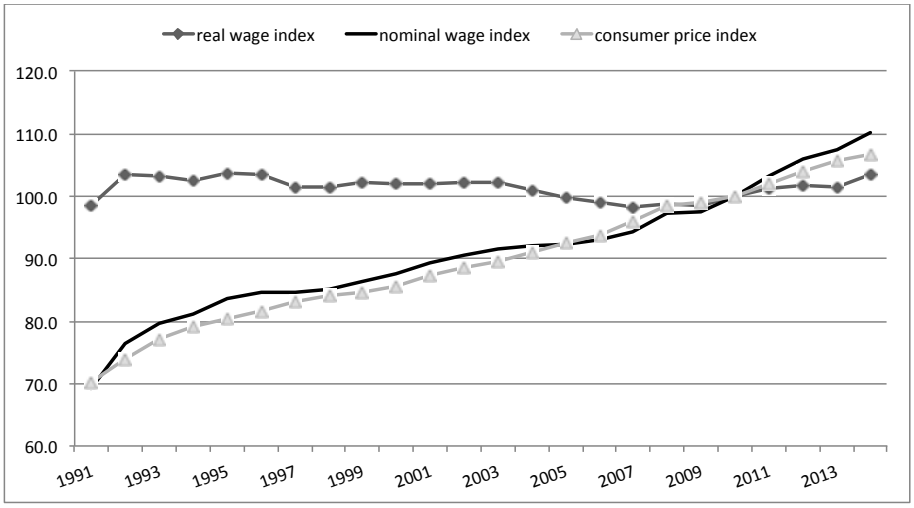
Additionally to the very important claims named above, reform proposals could be even more demanding, especially in order to reduce wage and income inequality. What should be done additionally to the trade union's reform proposal? In terms of a macroeconomic focus of trade union dedication, proposals should incorporate other important features. Macroeconomic shocks can be enervated with several policies. Nominal wages, for example, did not increase in any meaningful way. On average, nominal wages increased by 16.7 per cent between 2007 and 2014. During this period, nominal wages of women

[29] According to the German dismissal legislation (Kündigungsschutzgesetz § 23) firms employing up to five employees are excluded from dismissal legislation.

and men increased by 18 per cent and 16.1 per cent, respectively. Part-time workers (plus 19.1) and workers with mini-jobs (plus 19.3) gained in comparison to full-time workers (plus 16.3). Nominal wages of unskilled workers increased by 14.3 per cent, those of high-skilled workers in management positions increased by 22.8 per cent (German Statistical Federal Office 2015a).

Figure 5 illustrates this tendency. A positive percentage change of the real wage index shows that increases of earnings were higher than increases of consumer prices. Rising consumer prices offset rising nominal wages. Since 1991 the real wage index hardly changed, implying that increasing consumer prices offset nominal wage increases. Increases in nominal wages exceeded increases in consumer prices since 2007.

Figure 5: Consumer price, real and nominal gross wage index, 1991-2014 (2010=100)



Source: German Statistical Federal Office (2015b).

Wage negotiations should be indexed to inflation targets and macroeconomic productivity developments. If this wage norm is enforced, i.e. nominal wages change according to the central banks' target inflation rate plus trend productivity developments of the economy (not firm or industry), inflationary developments, which are a result of the wage bargaining process, can be reduced. Furthermore, wage developments would reflect overall productivity, leading to a more equal distribution among workers (Herr and Ruoff 2014). To give two examples, for the years 2007 and 2013 wages should have developed as follows:

> Preferred nominal wage change = ECB target inflation rate + trend productivity growth
>
> Preferred nominal wage change in 2007 = 2 per cent + 1.14 per cent[30].

[30] An average of the years 1997 to 2006 has been used to calculate trend productivity growth (Eurostat 2015b).

Preferred nominal wage change in 2013 = 2 per cent + .65 per cent[31].

Thus the nominal wages in Germany should have changed by + 3.14 per cent in 2007 and by + 3.65 per cent in 2013. In fact they changed by + .05 per cent in 2007 and + 1.5 per cent in 2013 (compared to the same period in the previous year), deviating enormously from the wage norm (Eurostat 2015b and c).

Stability and a more egalitarian society can also be achieved with a new stakeholder oriented corporate governance system. Co-determination in management decisions to avoid regulation arbitrage, for example in the case of offshoring and outsourcing, can be a first step to include different stakeholders of a company in the decision making process. Additionally, redistribution and taxation is an important tool to tackle inequality. Unitary Taxation (Picciotto 2012)[32], a more progressive and redistributive tax system including higher taxation of the rich, fighting tax avoidance and tax evasion (Godar et al. 2015), as well as reforms of social transfers (see the discussion of the Hartz reforms above) are a few possibilities to increase equality. For redistribution purposes, the size of the tax base is important. Informal labour is a source but also a challenge for redistribution, taxation, and unions; nonetheless, it is highly relevant to the level of equality within a country and furthermore it perfectly fits the scope of influence of trade unions.

All measures named above are achievable in the long run. European integration is not only a long-term task but can be improved in the medium-term as well.

Rising inequality increased household savings and put pressure on consumption demand (Fichtner et al. 2012). This has had not only national effects in terms of intensifying inequality, but negatively affected other European countries as well. In a macroeconomic simulation Herzog-Stein et al. (2013) show that more demand oriented economic policies as well as better wage policies (e.g. in a scenario they model with yearly nominal wage increases of 3 per cent) would have helped the German growth development in the years prior to 2012. Germany is commonly said to be the economic superstar of the EMU because of its quick recovery since the 2007-crisis (Storm and Nastepaad 2014). But how much of a success is this recovery really, if one takes into account that Germany also participates in the EMU?

Since the creation of the European Monetary Union (EMU) Germany exports unemployment to other EMU member states and adds to imbalances (Herr and Kazandziska 2011). Additionally, Germany followed so-called beggard-thy-neighbour policies by wage repression (Flassbeck and Lapavitsas 2013). Storm and Nastepaad (2014) argue that the deregulation of labour markets has not been the reason for Germanys quick recovery since the 2007-crisis. Rather, its economic turnaround occurred despite the neoliberal revolution underway, as

[31] An average of the years 2003 to 2012 has been used to calculate trend productivity growth (Eurostat 2015b).
[32] The worldwide consolidated accounts would have to be presented by multinational corporations to local tax authorities (Picciotto 2012).

some beneficial features of the old corporatist economic model still exist – especially non-price competitiveness of the still relatively coordinated manufacturing sector. Thus, rather a radical restructuring of industrial policy among EMU-member states including „social coordination and regulation of economic decision-making and active guidance by an entrepreneurial state" (Storm and Nastepaad 2014: 23) should be on the reform agenda.

Before the Great Recession in 2009 and the sovereign debt crisis in the EMU, current account balances diverged, which, amongst other causes, was the result of a lack of institutional integration (Dodig and Herr 2015).

A higher degree of wage centralisation and coordination with European macroeconomic governance is an important element to tackle wage inequality amongst members of the EMU (Herr and Kazandziska 2011; Watt 2011) and is also important to fight deflationary developments. In the medium run, unit labour costs are an important determinant of the rate of inflation (Keynes 1930). After the Great Recession in 2009 nominal unit labour costs decreased sharply. This overall trend reversed in 2010 with annual growth rates of the pre-crisis level, however remaining very low compared to the years before 2007. The resulting low rates of inflation (below 1 per cent) in the EMU since 2008/2009 thus did not come by surprise (Dodig and Herr 2015).

Wage bargaining has to be strengthened, aiming at a horizontally and vertically coordinated wage bargaining system. Wage developments should be discussed sector-wide among different industries and among firms of the same industry. The more central the wage bargaining, the more supportive it is for vertical and horizontal wage coordination. Generally, firm level wage bargaining is not preferential, but can positively affect wage dispersion when negotiation outcomes of important industries have signalling effects to the whole wage round, as it used to be in Germany. However, a more centralised and coordinated system is preferable. An important policy to centralise the basis of the wage round is the introduction of EMU-wide minimum wages. Stabilisation of union density is of key importance to achieve these institutional changes. Trade unions and employers' associations need to be fortified. The Austrian model, where every employer is forced to organise in an association, is a promising possibility (Wirtschaftskammer Österreich 2015).

An EMU-wide unemployment insurance for everyone for example would mean a regime shift to a more coordinated welfare state system. Further institutional changes are needed to feed to this, not only on a national but also on an EU-wide level (see for example Hofmann 2014).

Minimum wages have been introduced in Germany in January 2015. This is a huge achievement – the question whether a minimum wage of € 8.50 is sufficiently high still persists. Schulten (2013) shows that € 8.50 used to be 52% of the median wage in 2011. By 2013 this percentage had already shrunk to nearly 50%. Exclusions and special agreements furthermore belittle the accomplishment

of minimum wages in Germany.[33] With this minimum wage level, Germany ranks in the middle compared to other European countries. There are also significant differences in the level of minimum wages (9.02 € in Luxembourg, 1.85 € in Rumania in 2013) (Schulten 2013). There is some room for manoeuvre here. The medium-term macroeconomic productivity developments plus the inflation target should be taken into account in wage negotiations as well as the wage development of other European countries (Schulten 2014). Eldring and Alsos (2012) add significant differences in the determination of statutory minimum wages. In France for instance, the minimum wage is automatically adjusted for inflation. After discussions with the national bargaining committee minimum wage increases can, however, be higher than the rate of inflation. National level bargaining between employers' associations and trade unions for example can be found in Belgium, Estonia, and Greece. In Bulgaria, Poland and Slovakia governments' representatives additionally join the bargaining process.

EMU-wide minimum wages are also a measure to strengthen wage bargaining. An additional short-term institutional change would be an EMU-wide dialogue that is organised by trade unions for trade unions. The committee should also include think tanks dealing with the representation of workers. On the agenda should be the annual wage round and annual increases of minimum wages. This could also increase the public perception of the wage struggle. Coordination of interests of employees of multinational corporations (MNCs) is another way to strengthen collective wage bargaining. Obligations to collectively co-determine negotiations of workers in branches of MNCs within the European Union should be imposed to MNCs. Regulation arbitrage due to a lack of coordination/legislation should be abandoned. This also implies setting EMU-wide minimum standards of labour market regulations (dismissal legislation, terminal bonus etc.).

7. CONCLUSIONS

It has been shown that labour market developments in Germany are far from looking bright. Yes, unemployment rates declined since 2005, but it is not clear if this can be assigned to the Hartz reforms or just different ways of measuring the rate of unemployment, demographic changes or GDP growth. All other measures usually used to describe labour market developments worsened: the low-wage sector increased massively, union density and collective wage bargaining coverage (in terms of coordination and centralisation) declined steadily, showing huge differences between East and West Germany; income stratification and a lack of convergence of the wage structure of East and West Germany can be detected. Earnings dispersion increased in the whole wage structure when comparing the top 10 per cent to the bottom 90 per cent, the top 10 per cent to

[33] Newspaper carrier for example only receive 75 per cent of the minimum wage, in 2016 it will be 85 per cent. In 2016 they get 100 per cent, i.e. € 8.50. During the transition period – until December 2017 – it is allowed to bargain for lower agreed wages than the statutory minimum wage (MiLoGEG).

the median of the wage structure, and the middle to the bottom 10 per cent (however decreasing slightly from 2011 to 2012).

In this paper it has been argued that labour market developments in Germany can be divided into two shocks: German reunification in the early 1990s, and the Hartz reforms in the early 2000s. They separate the German wage bargaining system into the old labour market system which is characterised by a high degree of coordination and the new dual labour market system, where precarious work expanded greatly.

Important short-term oriented policy adjustments and institutional changes are already on the trade union's agenda in Germany. However, medium-term and long-term oriented policies able to combat the causes (and not just the effects) of inequality are not explicitly mentioned in the analysed proposal. A European Dialogue within the European Monetary Union is a first step to reduce the negative consequences of German labour market developments for the EMU because a more centralised and coordinated wage bargaining system leads to more egalitarian wage developments. European integration should be pushed to temper negative effects. Sufficient minimum wages, strengthened co-determination and the stakeholder corporate governance system and overall macroeconomic stability are important measures that should not be neglected to foster integration, decency, and equality.

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