The debate in Germany over executive compensation and the minimum wage

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"Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole." (Karl Marx, Capital, Volume 1)

The issues of a minimum wage and exorbitant executive salaries have dominated public debate in Germany for weeks.

The chairman of the Social Democratic Party (SPD), Kurt Beck, has declared his desire to emphasise "the justice debate" in the coming year. SPD party fraction leader Peter Struck called it "indecent" when an executive earns as much in a half day as an employee in a whole year. The German Trade Union Federation (DGB) has warned that social cooperation in the factories is being endangered by outrageous executive salaries. Both the SPD and the DGB are calling for the introduction of a legal minimum wage of €7.50.

German Chancellor Angela Merkel (Christian Democratic Union—CDU) and Federal President Horst Köhler have both publicly criticised the millions paid out in compensation and severance payments to executives responsible for major failures in their companies. Merkel warned that one should not dismiss the growing popular discontent over exorbitant salaries as a mere "envy debate." However, she then went on to reject such legal measures as a minimum wage. Köhler declared that social peace was an "important competitive component."

What is the source of this sudden concern for social justice after years of intensified labour flexibility and welfare and wage cuts?

Evidently, the ruling elite is fearful of a social explosion. According to a poll conducted by the Bertelsmann Institute, only 15 percent of the population believes that economic relations in Germany are fair. One year previously, this figure stood at 28 percent. The day-to-day experience of millions of people over years is now confirmed by official statistics: the gulf between rich and poor has widened dramatically in the recent period.

Under these circumstances, the debate over executive salaries and a minimum wage has a preventive character. It is aimed at diverting blame and responsibility away from the established parties and preventing millions from turning away from these organisations in the course of a revolt against the prevailing social conditions.

The measures suggested therefore have largely the character of a placebo. A legal minimum wage and a limit on executives' salaries would do little to reverse the impoverishment of broad social layers. At the same time, such measures are bound to encounter resistance from business and economic interests that would prevent them from coming into force. Without exception, the official parties in Germany are at the beck and call of such business interests.

If one really wants to take action against poverty and social inequality, then one has to deal with its source. Growing social inequality has not fallen out of the sky, but rather is the result of policies systematically implemented by all of those parties, which now hypocritically complain about the consequences.

All social statistics show a sharp break in the curve of development in 2000. The reason is clear: in the second year of the former SPD-Green coalition government, its "reforms" began to take effect. Drastically reduced rates of business tax, the reform of pensions and health care, the anti-welfare Hartz laws and a higher rate of value-added tax have collectively transformed German society. Enormous sums are being accumulated at the top, the middle class is disintegrating, and the lowest income layers of society are being plunged into destitution.

A diagram drawn up by the German Institute for Economic Research, which depicts the income development of the richest and poorest 10 percent of the population, resembles a pair of scissors. Up until 2000, there is little difference between the two curves. Between 1992 and 2000, the richest 10 percent increased their income by 12 percent while the poorest 10 percent increased their income by 6 percent. Then the scissors open up. By 2006, the top tenth had increased its wealth by 31 percent, while the lowest tenth suffered a 13 percent drop in income compared with 1992.

There was also a corresponding transfer of wealth. The richest 10 percent now concentrate in their hands 60 percent of German real estate, shares and financial resources. Those at the bottom end of the scale have only debts.

Under the SPD-Green government, the relatively high-wage Germany has been transformed into a low-wage haven.

In 2006, 2 million people—that is, nearly one tenth of the German workforce—earned less than €7.50 per hour before taxes. This represents a 10 percent increase in the number of such cheap-wage workers compared to two years earlier. If one includes workers with part-time employment, then this figure rises to 5.5 million. Of this number, approximately 1.9 million earned less than €5 per hour before taxes, an increase of more than 20 percent compared to 2004.

Nearly 7 million workers, therefore, are currently employed on the basis of such so-called "mini jobs," in which they do not earn more than €400 per month. More than 2 million of them carry out their mini job alongside their main profession. One job is no longer enough to guarantee an income sufficient to live on.

The recent decrease in unemployment levels so lauded by the government has also largely taken place through the expansion of low-wage jobs. Most new jobs are either temporary agency or part-time jobs. The number of the part-time jobs rose from 6.5 million to 11.2 million between 1994 and 2005. According to the trade union IG Metall, the number of temporary agency workers now exceeds 1 million. Nine tenths of all such workers earn wages of less than €7 per hour.

In 2005, nearly half of all employed persons in Germany were in part-time jobs, short-term contract work, temporary work or were self-employed. Ten years ago, this figure stood at 33 percent.

Even full-time jobs—including those tied to an official contract—today no longer guarantee a living wage. The lowest contract wage agreed by the service trade union Verdi for hairdressers in the region of Berlin and Brandenburg amounts to €2.75 per hour before taxes for a 39-hour week. This amounts to the sum of €464 per month for a full-time job. In the state of Saxony, the lowest contractual wage for florists is €4.39 per hour for a

41-hour week—agreed to by the union IB Bau (Industrial Union-Construction). Under conditions where it is impossible to live on such earnings, 1.3 million workers are forced to supplement their incomes with paltry Hartz IV unemployment payments.

At the top end of society, incomes are going through the roof. According to a study by the Institute for Management at the Humboldt University in Berlin, 20 years ago a board member of a Dax-30 company earned 14 times as much as an employee on average. Today, he or she earns 44 times as much on average.

A study by the Hans Böckler Institute reveals that the five best-paid executives in Germany—Josef Ackermann (Deutsche Bank), Harry Roels (RWE), Jochen Zeitz (Puma), Henning Kagermann (SAP) and Wolfgang Reitzle (Linde)—accumulated a combined income of nearly €55 million in 2006.

In fact, the head of Porsche motorcars, Wendelin Wiedeking, took home more than the combined salaries of the five listed above. Wiedeking pocketed at least €56 million, possibly even €60 million last year. The *Frankfurter Rundschau* made a number of comparisons: if one assumed Wiedeking worked a 16-hour day for 365 days, then his hourly salary rate amounted to about €9,589. The same sum is paid out in one year to 13,447 recipients of Hartz IV payments at the maximum rate. Wiedeking earns as much as 1,166 Porsche workers, 2,500 teachers or 647 professors. The entire development aid donated by Germany to Rwanda in 2007 and 2008 is less than half the annual salary of the Porsche chairman.

Executives who leave their posts can expect enormous sums in the form of severance payments and compensation. The former executive chairman of the Siemens group, Klaus Kleinfeld, for example, left the company in the summer of 2007 following the so-called “bribery affair” and enormous cuts in jobs and wages for company employees. In addition to his annual salary of €5.33 million, Kleinfeld received an additional €5.75 million to ensure that he did not take a job immediately with a competing company. Following his transfer to the supervisory board of the US company Alcoa, he received a €6.5 million bonus and €1 million in share options, as well as a €1.2 million “moving allowance.”

This obscene process of enrichment would not be possible without the energetic support of the trade unions. They share the seats in 50-50 proportion with management on company supervisory boards—the very same bodies that decide the executive salaries.

The new IG-Metall union chairman, Berthold Huber, has publicly defended the incomes of the Siemens executive committee. Kleinfeld’s successor, Peter Löscher, has also been awarded an extravagant salary and perks. Siemens has guaranteed him pension payments to the sum of €8 million. “Mr. Löscher earns less at Siemens than he would have earned in America,” was Huber’s comment to justify his support for the salary deal at Siemens.

Several works council chairmen have also rushed to defend the fantastic salaries of their executives. Robert Oswald (BASF) expressed his opposition to an “envy debate” over executive committee salaries. He considers the salaries paid to board members of the world’s largest chemical concern to be entirely justified, he told the *Sächsischen Zeitung*. Levels of remuneration must take into account not only the responsibility involved, but also the risk of losing the post. BASF boss Jürgen Hambrecht took home around €3.3 million last year.

Works council head Uwe Hück (Porsche) justified the record salaries of his executive committee with the words: “We formerly had reasonably priced executive committees. They were so reasonable that we nearly went broke.” The six members of the Porsche executive committee took home a total of €112.7 million in the last financial year—twice as much as the previous year.

The chair of the works council at Daimler, Erich Klemm, also rejected any criticism of excessive executive committee salaries with the argument that the Daimler executive members must receive “earnings which are appropriate to international levels.”

The utterly dishonest character of the campaign against excessive executive salaries is clear from the fact that such levels of remuneration are particularly high in the case of publicly owned companies where politicians and trade unionists usually have a majority on the supervisory boards. Last year, Deutsche Post paid a member of the board a salary amounting to 87 times that of an average employee. This number stands at 50 times for the energy company RWE, whose shares are largely owned by the municipalities of the state of North Rhine-Westphalia, and 63 at Deutsche Bahn (German Railways). That is, the most blatant cases of wealth accumulation have taken place at the hands of the very same politicians who are now publicly complaining about high executive salaries.

Against this background, the debate over a minimum wage is aimed at diverting responsibility away from the role played by the SPD and trade unions. With forthcoming elections in the states of Hesse, Hamburg and Lower Saxony and a miserable showing in the opinion polls, the SPD in particular has decided that it must urgently polish up its social image. In fact, its current demand for a minimum wage of €7.50 is considerably less than the already existing levels in other European countries—€8.44 in France, €8.20 in Britain and €9.08 in Luxembourg.

There is broad public support for the demand. According to polls, three quarters of the population are in favour of a universal minimum wage. In light of the bitter resistance to the demand by business circles and the CDU, it is likely that the SPD will simply drop the issue at the end of January after the round of state elections, or water it down to an unrecognisable degree.

Business lobbies have already reacted to the introduction of a minimum wage for postal workers agreed by the German parliament a week ago with tactics of open extortion. The Springer publishing house has responded by suspending all payments to the postal service group Pin. Springer is the majority shareholder in the company. The threatened bankruptcy of the company puts 9,000 jobs at risk. The private post service companies TNT and Hermes have also said they no longer wish to expand into the letter delivery business.

The minimum wage for postal workers, which comes into force on January 1, 2008, amounts to €8 for sorters in eastern Germany and €8.40 in west Germany. Postal delivery workers will earn a minimum wage of €9 in the east and €9.80 in the west.

Private postal companies pay much less. They want to offer a minimum wage of €6.50 in the east and €7.50 in the west. The television programme “Hard but Fair” recently reported on the case of Lothar Daniel, a former postman, now unemployed, who worked at Pin for an average of between 50 and 54 hours per week for €750 (net) per month.

A driving force behind this shift to rock-bottom wages is Florian Gerster, a member of the SPD for the past 40 years. Gerster climbed the ladder in the Rhineland-Palatine state government led by the current SPD chairman, Kurt Beck. Between 2002 and 2004, Gerster headed the Federal Labour Agency under the government led by Gerhard Schröder (SPD). Since then, he has taken over as the president of the newly formed Employers’ Association New Letter and Delivery Services.

The Springer publishing house justified its dumping of Pin on the grounds of the minimum wage decided by the Bundestag, although it admits that it had been contemplating withdrawal from Pin for some time. In *Der Spiegel*, Springer boss Mathias Döpfner explained that the minimum wage was “poison for the economic situation.” “Nationally obligatory wages” meant the “end of autonomy in bargaining and a restriction of the free-market economy,” he said.

Döpfner has received the backing of the Monopoly Commission, an independent consulting committee for the government. Its chairman, Jürgen Basedow, explained that the minimum wage should not be introduced to protect the interests of employees, but to hinder competition.

Recommendations by the Monopoly Commission are not binding, but do carry political weight.

Predictably, the chairman of the free-market Free Democratic Party, Guido Westerwelle, also joined the campaign against the minimum wage. He likened it to a planned economy along the lines of the former East Germany.

The head of the Institute for Economic Research and government advisor Hans-Werner Sinn was even more blunt. He called a minimum wage generally harmful. “The only minimum wage which would do no damage is under two or three euro,” he told the *FAZ* newspaper, “because there are already very many types of employment in Germany from upwards of three euro. If the minimum wage amounts to 7.50 euro, 1.1 million jobs will be lost in Germany.”

In the above-mentioned programme, “Hard but Fair,” Sinn is quoted: “Wages are computed on the basis of scarceness [supply and demand]. What has that got to do with justice? We do not recognise the principle of justice in free-market remunerations.”

There could be no clearer proof of the incompatibility of the capitalist free market with decent conditions of pay and work for the masses. Sinn makes his own proposal for a so-called combination wage, whereby unemployed persons are paid by the municipalities and are made available to the private economy through job agencies—i.e. with state subsidies business interests are provided with a pool of cheap labour and a source of huge profits. From there, it is then only a small step to forced labour. The only one who is “free” in this form of “free-market economy” is the capitalist.