

Germany: New study shows “upturn” only benefits the wealthy

Wage-dumping

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At the end of May this year, employment minister Olaf Scholz (Social Democratic Party, SPD) presented the federal government's report on poverty and wealth, based on data up to 2006. The report clearly documents the growth of poverty. At that time, Scholz stated that the economic upturn that had begun in 2006 was already benefiting all sections of the population. However, a new study by the Hans-Böckler Foundation, which relies on data up to the end of March 2008, shows the opposite is the case. The study proves that the fruits of the upturn have exclusively benefited the coffers of the wealthy—while real wages have been sinking.

The study finds that several factors are responsible: the shift of jobs from industry into the service sector, the transfer of jobs to low-wage countries, the deregulation—i.e., privatisation—of former large public concerns (Deutsche Telekom, post office, energy utilities, the railways, etc.), as well as legislation passed by the previous SPD-Green Party federal government and the present grand coalition of the Christian Democrats and SPD.

The study is not only an indictment of these governments, but also of the very trade unions that commissioned the report. The authors—Dr. Camille Logeay and Dr. Rudolf Zwiener from the Institute for Macro-economics and Market Research (IMK) at the Hans-Böckler Foundation—indicate again and again that the trade unions bear significant responsibility for this development.

For example, they explain that the “forgoing of appropriate wage increases that take into account the level of inflation and increases in productivity” for the sake of supposedly creating new jobs has “not been worthwhile.” Above all, it has been the trade unions that constantly spread the fairy tale that employment could be protected or created by accepting modest wage agreements or wage cuts.

The authors criticize the enforced labour flexibility and the “very low union wage rates, the increase in the working week, the expansion of annualised hours contracts and the increase in opt-out clauses” that benefit the employers. To this must be added: all these agreements bear the signature of the trade unions, whether in the public service, Deutsche Telekom, post office, railways or in private industry.

The authors prove that the restructuring of the labour market introduced by the SPD-Green coalition as part of its Hartz reforms was “successful to the extent” that the intention of introducing “atypical occupations developed dynamically, in particular over the last years.” By “atypical occupations” the two researchers mean the numerous forms of cheap-wage labour: so-called “mini” and “midi” jobs (with maximum monthly earnings of €400/800), “Ich-AGs” (one person companies), one-euro jobs (where a person works for one euro more than their benefit entitlement) and temporary work contracts.

The share of badly paid temporary contract workers as a proportion of all employees quadrupled between 1994 and 2006. According to official figures, by mid-2007 some 730,000 people were employed under temporary labour contracts.

The proportion of those with limited employment contracts has likewise risen since 2002, from 12 percent to 14.6 percent. For such people, not only is it impossible to make any medium- or long-term planning about the future, but their precarious situation means they are more easily susceptible to pressure from threats of unemployment, which affects both wages and working conditions.

The proportion of part-time workers has also constantly increased, from 13.4 percent in 1999 to 17.7 percent in 2007. These numbers do not include those employed in mini and midi or one-euro jobs. In the meantime, there are nearly 5 million people working in so-called mini jobs, with millions more working in other low-wage occupations.

Since companies only have to pay reduced social security contributions for those working in these low-wage jobs, “it can be assumed that these reduced contributions benefit the employers in the form of low gross wages.”

The fact that those whose earnings are so low are forced to claim additional state support (so-called “supplementary payments”), something that was much praised when it was introduced, “provides the employers with practically unlimited opportunities to push down wages at the taxpayer's expense.” In January 2008, over 1.2 million working people received these supplementary payments.

Cheap labour to depress wages

Wage-dumping

The pressure on wages brought about by the Hartz reforms has created deep-going changes in Germany's jobs market. "The downward pressure on wages has also opened up wage differentials," something for which there is "ample proof" over the last years.

Only recently, a study by the Institute of Work and Qualifications (IAQ) at the University of Duisburg-Essen showed that in the last 11 years increasing numbers of low-wage earners have lost nearly 14 percent in their real incomes. Since 2000, even nominal wages have been sinking. In 2006, low earners received 4.8 percent less hourly wages than six years previously. In the upper income brackets, however, wages increased nominally by more than 10 percent over the same period, according to the IAQ study.

The IMK researchers investigated the latest figures. They wanted to examine whether the federal government's claim is correct—that the economic upturn is benefiting "everyone"—or whether the "impression" of large parts of the population that they were not profiting from the upturn corresponds to reality. As is to be expected, the impression of the population does not deceive.

Looking at the upturn cycle from the end of 2004 to the beginning of 2008, net real wages sank by 3.5 percent. According to information from the Federal Department of Finance, the material net income of a single-person household has sunk in the past three years by 2.6 percent, the income of a four-person household with a single breadwinner sinking by 3.5 percent.

To investigate the question whether making the job market more flexible and the unions' enforcing wage restraint has created an above average number of additional jobs, the two IMK scientists compare the upturn of mid-1998 to the beginning of 2001 and the current upturn from the end of 2004 to the beginning of 2008. The periods are comparable, since in both economic cycles gross domestic product (GDP) grew by around 7.5 percent. Comparing jobs that are paid sufficient to accrue social security contributions, however, "the job market reforms altogether show no positive effects," the authors conclude. The growth in employment and the move from unemployment into work are approximately the same, i.e., they cannot be explained by the job market reforms.

In the previous cycle, private consumption had grown by the same percentage as GDP, i.e., by 7.5 percent. In the current upturn, it has stagnated over the whole period, increasing by less than 1 percent.

Above all, it is "the increase in Value Added Tax (VAT) by around 3 percent in January 2007" that is responsible. The report's authors forget to mention, however, that the demand for a VAT increase came from the then Minister for Social Affairs Franz Müntefering (SPD), and had been made in contradiction to all election promises before being introduced.

However, there are further reasons why the real income available to all private households sank despite a small rise in employment of 3.3 percent over the period from the end of 2004 to the beginning of 2008, while it had risen over 8 percent in the previous upturn. In addition to the VAT increase, the low wage settlements agreed by the unions contributed their part.

For those receiving state benefits the consequences of the legislation were even more serious. Real social transfers to private

households have decreased in the current upturn by 6 percent, whereas they had grown by 4 percent in the previous one. This is due to holding pensions down, and also the failure to increase child benefits, student financial assistance and other benefits.

While working people have confronted rising costs and falling or stagnating wages and social security benefits, "entrepreneurs, the self-employed, shareholders and other owners of capital have seen a steady rise in incomes," the study continues. Real profits and investment income grew by 10 percent, with profits and investment income derived from share capital rising by 25 percent. By comparison: in the previous economic cycle they grew by only 5 percent, less than the rise in incomes of private households.

Thus the proportion of wages and salaries as a share of national income sank. The so-called wage ratio was reduced from approximately 71 percent in the 1998 to 2001 cycle to 64 percent now.

The authors see "a new quality of an upward business trend" in the present upturn. Something not previously witnessed: "economic activity is clearly growing, but the majority of private households do not benefit at all."

They conclude by saying, "The facts and analyses of this report, like other studies, are clear: It is not only that the majority of the population *feel* they are not profiting from the upturn. It is the reality."

Despite nearly three years of an upward business cycle, the real incomes of many households today are worse than before. And the reforms carried through by the last two federal governments mean people have to pay more for old age care and other life risks. "So who has profited from the upturn? Not the mass of employees and not those receiving benefits. Arguably, however, it is company directors, those possessing wealth and many self-employed."

Whereby, it should be added that this is not simply the result of "unfettered capitalism," as is claimed in the press, but is the result of the policies of the SPD-Green Party federal government under Gerhard Schröder (1998 to 2005), the grand coalition of the SPD and CDU/CSU under Angela Merkel (since 2005), as well as the wage and collective bargaining policies of the trade unions.



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