Sharp decline in income of Germany's low-wage earners

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The gap between rich and poor in Germany is steadily increasing. On Tuesday, the *Frankfurter Rundschau* newspaper reported that, in particular, low-paid workers have suffered a dramatic fall in income.

Researcher Markus Grabka from the German Institute for Economic Research (DIW) released the results of the German Socio-Economic Panel (SOEP) on the state of net incomes. The SOEP is a survey conducted annually since 1984 of more than 12,000 private households. In his analysis, Grabka concluded that employees in lower income groups have suffered heavy losses: their real income—i.e., their inflation-adjusted net pay—has declined by between 16 and 22 percent during the last 10 years.

Those workers with so-called "mini-jobs" (marginal part-time employment), who in 2000 had a real net monthly income of €270 (US$380), received just €211 (US$303)—or nearly 22 percent less—last year. Those earning €835 net in 2000—for example, sales staff, assistant handicraft workers, employees in call centers and security services—made just €705, or 16 percent less, in 2010.

According to Grabka, the so-called lower middle class is hardest hit by this development. "This is due mainly to the increasing number of atypical types of employment", i.e., agency work, temporary work and part-time jobs offering less than 20 hours per week. The number of such jobs rose in Germany in 2010 to 7.84 million. The majority of jobs created in this so-called boom year—187,000 out of 322,000—were contract worker positions. After a downturn in 2009, the number of temporary workers rose again last year to a total of 742,000—an all-time high.

Another reason for the decline in real wages, according to Grabka, is the employment of more and more women, who are usually paid below average. In addition, "young people today start their careers with much lower incomes than they did ten years ago", the DIW researcher concluded. This applies equally to academics and other occupational groups. Excellent qualifications and a good CV are no longer insurance against a miserly starting salary.

Employees in the highest income group, on the other hand, were able to record an increase of just under 1 percent in their real income from 2000 to 2010. Since the survey only deals with regular earned income and does not include bonuses, premiums and income from assets, the total income of the wealthy has undoubtedly risen much faster, Grabka declares.

According to the DIW, the average net wage has fallen by 2.5 percent in a decade. Average annual real income in 2000 was €1,429; 10 years later it was €1,394. Average gross income has declined even more. Eva Roth, writing in the *Frankfurter Rundschau*, notes that it is not social security contributions that are responsible for the decline in real wages, but above all continually declining gross wages. Companies are keen to deny this in their campaign to reduce their own contributions to social security entitlements. According to the German system, employers pay half of social security contributions, while workers pay the remaining 50 percent.

"The problem lies elsewhere", writes Roth. Companies are often able to enforce extremely low salaries, "because the balance of power has shifted to the disadvantage of workers". She refers to the genuine "fear of Hartz IV" unemployment payments, which ensures that workers are prepared to accept pay cuts and work in extremely low-paid "mini-jobs" earning a maximum of €400.

"Politics has overdone its reform", Grabka declares. "If there are seven million mini-jobbers among the 40 million employed then something is out of control". He then goes on to recommend reconsidering the pay levels for those engaged in marginal employment and paying contract workers the same wages as permanent employees.

The *Rundschau* then cites economic analyst Peter

Bofinger, who also criticises this state of affairs. "There are ways to stabilise wages. But politics is not interested in that", he explains. Bofinger calls for changes to the current system of joint financing of health insurance coverage to favor employees and concludes: "Most people feel that economic developments are passing them by—and they are right". Anger is growing against the government and politics in general.

There must be a political "change of course", according to the *Rundschau*'s Roth. Liberalisation of the labour market has gone too far. Roth then goes on to claim that the Social Democratic-Green Party coalition, which introduced the Hartz reforms and created the basis for the huge low-wage sector in Germany, was motivated by the need to find more jobs for the unemployed.

This claim is simply false. When the SPD-Green government led by Gerhard Schröder (SPD) and Joschka Fischer (Greens) came to power in 1998, it deliberately pursued a policy whose results are confirmed by the new DIW statistics: the general reduction of wages and the massive introduction of low-paid work. The Hartz reforms were part of the Agenda 2010, which was introduced by the Schröder government and has led to a social redistribution in Germany without precedent since the Second World War. This policy involved cutting corporate taxes while slashing social security benefits. This in turn has had extremely negative repercussions for both pensions and health insurance.

Germany's trade unions have actively supported this development. Not only did they sit on the commission headed by Volkswagen personnel chief Peter Hartz (SPD and IG Metall union member) that prepared the cuts. They also boycotted the massive protests against the Hartz IV reforms, which erupted in 2004.

When Grabka says that the unions should "be encouraged" in wage negotiations to campaign for higher pay, he is either misled or deluding himself. The unions are part of the conspiracy against employees. They have agreed to one contract after another that involves falling wages. The unions are not the victims of the shift of the "balance of power to the detriment of workers" (Roth), but rather one of its key organisers.

A survey by the trade unions' own Hans-Böckler-Foundation shows how contract deals celebrated by the unions as victories have in fact led to real wage cuts. In 2010, average agreed wage rises were 2.3 percent, and taking into account agreed increases in coming years, the figure rises to 3.2 percent. These increases, however, are conditional on the long periods agreed for in contracts—in 2010, an average of 24.3 months. This means that, taking inflation into consideration, workers have suffered and will in future suffer a significant reduction in wages.

Germany's trade unions are making possible the decline in real income, nipping labour disputes in the bud and stifling strikes in those cases where they could not prevent them from the outset. The Federal Labour Agency estimated that between 2004 and 2008, there were just five days lost due to labour disputes per 1,000 employees. Only in Switzerland and Austria have there been fewer strikes. The unions are clearly on the other side of the barricade, alongside the corporations.

While the majority of working people have faced growing levels of poverty and a daily struggle for survival due to the policies of every federal government since 1998, the wealthy and big business have enjoyed increased corporate profits and increased incomes. The 2008 global financial and economic crisis briefly interrupted this process. Last year, the companies listed on the German stock index DAX recorded an average increase in pre-tax profits of 66 percent. The combined profits of the DAX-listed companies were not only significantly higher than in 2009, they also surpassed 2008 profits by 22 percent.

In 2009, the increased profits did not lead to increased hiring. Twelve of the 30 corporations listed on the DAX index have announced plans for more job cuts.

Corporate profits have ended up exclusively in the pockets of the managers and the rich. According to the last "World Wealth Report", the number of millionaires in Germany rose to 924,000 by 2010. That was an increase of 7.2 percent, or 62,000, compared to 2009.