

REGIONAL DIFFERENTIATION OF THE LOW WAGES SECTOR IN THE FEDERAL REPUBLIC OF GERMANY

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Abstract

The share of low wage employment in the Federal Republic of Germany has increased significantly during the recent years. Because of considerable disproportions in the size of wages between the western and the eastern Lands it was necessary to introduce two different thresholds of low wages. The conducted studies show that the size of the low wages sector depends on its assumed definition and on the groups of employees included in the study. Its regional differentiation is influenced by numerous factors that are both the consequence of historical happenings and the result of the contemporary transformations taking place within the borders of the united German State.

REGIONALNE ZRÓŻNICOWANIE SEKTORA NISKICH PŁAC W REPUBLICE FEDERALNEJ NIEMIEC

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Słowa kluczowe: zatrudnienie, niska płaca, region.

A b s t r a k t

W minionych latach w RFN wzrósł wyraźnie udział niskopłatnego zatrudnienia. Z uwagi na znaczne dysproporcje w wysokościach płac między zachodnimi i wschodnimi landami konieczne było wprowadzenie dwóch różnych progów niskich płac. Przeprowadzone studia pokazują, że wielkość sektora niskich płac zależy od przyjętej jego definicji i grup pracowników włączonych do badania. Na jego regionalne zróżnicowanie ma wpływ wiele czynników będących zarówno konsekwencją historycznych zasłoń, jak i skutkiem współczesnych przeobrażeń w granicach zjednoczonego państwa niemieckiego.

Introduction

The discussion concerning the level of remuneration, including the size of low wages, has made an important contribution to solving the problem of unemployment in Germany since mid-1990s. However, it gained particular importance in the context of the widely understood labor market reform activities referred to as "Hartz IV". The intention of establishing in Germany "the best sector of low wages in Europe" was one of the major goals determined within the frameworks of the proposed changes. There were many reasons for that approach. Relatively moderate wage agreements have not offered any possibility for compensating the losses caused by inflation, high fiscal burdens and social insurance contributions for years. Germany is considered the European "tail light" (*Schlusslicht*) regarding the development of real wages. At the same time, the collective bargaining policy became largely unpredictable and numerous enterprises limited by collective agreements started applying the "opening clauses". Increasingly often groups of low wages covenanted in the collective bargaining agreements are much lower than the requirements set by the trade unions concerning their levels and the economic migration from the new members of the European Union is perceived as the competition to exactly the sector of low wages (ZEEB 2006, p. 10).

Considering the entire complexity of the processes determining the size of the low wages sector in Germany, two of these processes should be pointed out. On one hand growth (in absolute and relative values) and far-reaching expansion "downwards" of the sector takes place while on the other hand increasingly often low paid employment involves people in the middle age group having established vocational qualifications and are employed full time. Additionally, in the regional dimension, the division into the "richer west" and the "poorer east" continues.

Considering the economic, social and political topicality of the sector of low wages, this paper represents an attempt at explaining its comprehension, its scope and regional differentiation. Within these frameworks the dynamics of employment, different thresholds of low wages and the size of the average hourly rate were presented. The formulated thesis indicates causes for the regional diversity of low wages as it assumes that those causes are factors of economic and institutional nature.

The concept and scope of the low wages sector

Considering not only different perspectives which the issue of low wages is approached from, but also predictable economic and social consequences of it, the following two questions should be answered: What criteria must the wage

satisfy to be considered low and what should constitute the base for its identification?

The answer to the above issues should be preceded by some explanations. Firstly, it should be differentiated between low wage and low income (of an individual or a household) that is generated, e.g. as a result of part-time or short-time employment, even if the level of wages is not that low. In that context it is also important whether the low income generated by one person can be treated as additional earnings besides the other, higher income in the household coming from two people or whether the income of one person must finance the family consisting of many members (ZEEB 2006, p. 11). Secondly, it is worth specifying that the notion of "wage" is understood not as the tariff wage but as the effective gross remuneration resulting from the employment relation (RHEIN, STAMM 2006, p. 5). Finally and thirdly, the unit of time for which the measurement of low wage should be defined – whether it makes sense to assume the hourly wage, monthly remuneration or the yearly remuneration? In most cases wages are disbursed at monthly intervals and that is why it would represent an important argument for selecting that time unit. However, the same monthly remuneration can be accompanied by different work times and as a consequence there is risk of classifying full-time employment and part-time employment to the same category of low wages, which would be an obvious error. The hourly wage does not only include the amount of working hours, which makes it more comparable, but also involves the productivity of the workplace. That is why, the low wage per hour allows resigning from considering the absolute level of income and therefore it constitutes a better measure than the other ones (EICHHORST et al. 2005, p. 111).

In order to define the term low wage a so-called threshold value has to be introduced. It can be the arithmetic average or the median. However, the arithmetic average is less resistant to extreme values and as a consequence the median, which divides the amount of the observed wages into two parts, is a better reference value. The 2/3 of the median of wages in a examined population is assumed to be the threshold of low wage¹. Thus, the point of interest is not the absolute but the relative measure referred to in the subject literature as the statistical definition of low wage². All wages below that threshold represent the sector of low wages.

¹ The same measure is also applied in the analyses and studies of OECD and the European Commission.

² It would be possible to introduce an absolute limit of low wages setting as the threshold value, similar to the threshold of poverty, an income that is guaranteed by the social state and focused on the socio-cultural minimum of existence. In case of Germany that would be the level of the social aid or the dole II, including the housing supplement (EICHHORST et al. 2005, p. 111). However the development trends and structure of low wage employment are largely immune to the choice of the specific limiting value (SCHANK et al. 2008, p. 3).

The results of empirical studies concerning the scope of the sector of low wages depend on the applied definition, the source and the topicality of used data as well as the inclusion or exclusion of specific groups of employees (KALINA, WEINKOPF 2006, p. 2).

Table 1 presents the basic information from and results of studies conducted by three leading German research institutes dealing with the extent of low-wage employment³.

Table 1
The scope of the sector of low wages in the Federal Republic of Germany
in the context of the results of investigations conducted in the years 2001-2003

Research unit name Category of variables	Institute for Employment Research IAB (Institut für Arbeitsmarkt- und Berufsforschung)	German Institute of Economic Research DIW (Deutsches Institut für Wirtschaftsforschung)	Institute for Work and Technology IAT (Institut Arbeit und Technik)
Source of data	IAB – regional random sample (IABS-R01)	socio-economic panel (SOEP)	BA – panel of the employed people
Definition of low wage limit	gross monthly income below 2/3 of the median	gross hourly wage below 2/3 of the median	gross monthly income below 2/3 of the median
General population	employed full time with social insurance (excluding apprentices), 2001 r.	all working people from 16 to 74 years of age, 2003.	employed full time with social insurance (excluding apprentices), 2002.
Low wage threshold	1630 € (Germany as a whole) 1700 € western Lands	8,67 € per working hour	1709 € western Lands 1296 € eastern Lands
Share of low wages in total wages	17.4% Germany as a whole 15.0% western Lands	23.4% Germany as a whole 20.3% western Lands 38.6% eastern Lands	17.1% Germany as a whole 16.6% western Lands 19.0% eastern Lands

Source: RHEIN et al. (2005, p. 2), GOBEL et al. (2005, p. 180), BOSCH, KALINA (2005, pp. 36–37). KALINA, WEINKOPF (2006, p. 3).

The presented data indicate the diversified ranges of the low wage sector being the consequence of using different groups of employees in the investigated population. In the studies by the IAB and the IAT the general population of full

³ The investigation conducted by Wirtschafts- und Sozialwissenschaftliches Institut in 1997 based on the random sample established and later used by the Institute for Employment Research (IAB-Regionalstichprobe) offered results differing significantly from those presented in Table 1. The threshold of low wages assumed in the investigation was set at the level of 75% of the average wage of the people employed full time. The threshold wages expressed in monetary units for the western and the eastern Lands amounted 2002 euro and 1415 euro respectively while the share of the sector of low wages in relation to all the wages in the western part of Germany constituted 45.9% and in the eastern part of Germany 35.5% (SCHÄFER C. 2003, pp. 420–421, KALINA, WEINKOPF 2006, p. 3).

time employed people was used and that is why the results concerning the share of low wages in overall wages for Germany show little difference (0.3%), whereas the same relation in case of the western Lands shows a slightly larger spread (1.6%). In the DIW paper excessively high values were obtained for both Germany in general (23.4%) and for the western Lands (20.3%) in comparison to the results of the other mentioned institutes, which resulted from using the data encompassing all the employed (even those who were short-time or part-time employed). The extremely high value of the indicator of the share (38.6%) for the eastern Lands can be explained by the fact that the common threshold of low wage was set for the eastern and the western part of Germany while in the other investigations those thresholds were distinguished in such a way, that the wage differentiation between those parts of the country could be presented more adequately.

Dynamics of employment development, differentiated thresholds and average hourly wage in the sector of low wages

Germany has been known for a long time for its balanced structure of wages, but that trend has been reversed significantly. While the share of low wages in the majority of the European Union countries was rather stable or even decreased, in Germany that share has been increasing since mid-1990s and in 2000, for the first time, it exceeded the average of the European Union countries. The increase in low paid employment has also been continued during the recent years, so that today its share in all wages is one of the highest in the united Europe (BOSCH et al. 2008, p. 423).

During the years 1995–2007, the development of the sector of low wages showed diversified dynamics (Fig. 1). Until 1998, in the eastern Lands a slight decrease of those employed in that sector was observable while in the western Lands that share was rather stable.

Only in 1998 it increased evidently and from this moment it showed a differentiated, but still increasing trend. The share of low wages in relation to all wages in Germany between 1998 and 2007 increased from 14.2% to 21.5%. Generally higher deviations of that share in the eastern Lands were caused mainly by a lower number of cases included in the investigations⁴. But, the collapse of the curve representing the development of low wages in the eastern Lands in the year 2006 was caused, *inter alia*, by the fact that the Federal

⁴ The results obtained from the socio-economic panel survey (Sozioökonomisches Panel – SOEP) encompassing over 12000 households in Germany were meant. Those surveys are carried out continually as of 1984 at yearly intervals.

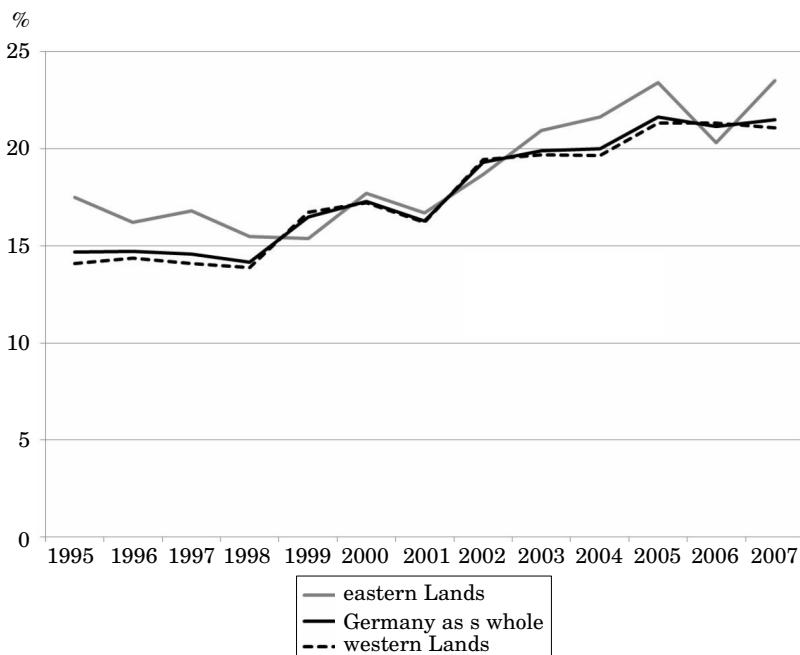


Fig. 1. Share of the employed in the sector of low wages in Germany during the years 1995–2007 (considering the differentiated thresholds of low wages for the eastern and the western lands in %)
Source: KALINA, WEINKOPF (2009, p. 4).

Statistical Office, as of 2005, stopped presenting the data separately for the eastern and the western part of Berlin (KALINA, WEINKOPF 2009, pp. 3–4).

As it concerns the measure, that the threshold of low wages is, particularly in the case of Germany the question appears, whether it is adequate taking into account the differences of the wage levels between the western and the eastern Lands and whether two separate or just one common threshold of low wage should be established. The computations made for separate thresholds and for a single threshold for both parts of Germany indicate significant differences in the level of low-paid employment (Table 2). Differentiated thresholds (west 9.62 euro, east 7.18 euro) allow obtaining comparable results because the shares of low wages in overall wages are similar (west 21.1%, east 23.5%), while when applying the same threshold for the eastern and the western Lands the difference regarding the sector of low wages becomes clear – in the west 18.8% of the employed obtained the wage below the uniform threshold while in the east that percentage was as much as 40.1%. Converting those relations to absolute numbers it results that in both variants of computations similar outcomes were achieved for Germany as a whole – in case of

separate thresholds the low paid employment size in 2007 was 6.5 million people while with the uniform threshold the number of those affected by low wages was 6.8 million people.

Table 2
Thresholds of low wages (gross) and share of low wage employment in total employment in the Federal Republic of Germany in 2007

Details		Separate thresholds of low wages for western and eastern Lands	Standardized low wage thresholds
Low wage threshold (gross per hour)		9.62 € (west) 7.18 € (east)	9.19 €
Share of low wages in overall wages (%) germany	western Lands eastern Lands	21.1 23.5 21.5	18.8 40.1 22.4
Number of people obtaining low wages (in millions)	western Lands eastern Lands Germany	5.4 1.1 6.5	4.8 2.0 6.8

Source: KALINA, WEINKOPF (2009, p. 2).

Calculating the absolute quantities at distinguished low wage thresholds for the western and the eastern Lands their significant differences in relation to the values obtained in case of applying the uniform threshold for the low wage sector should be emphasized (in the first case low wage employment involved 1.1 million and in the second case 2.0 million people). However, the variant of estimating the size of the low wage sector taking into account two separate thresholds assures that the analyses of structure of that sector would not be distorted by including a large part of the east German labor market (KALINA, WEINKOPF 2009, p. 3).

The analysis of the changes in low wage thresholds during the years 1995–2007 allows concluding that in the western Lands their value increased from 8.21 euro to 9.62 euro while in the eastern Lands from 5.79 euro to 7.18 euro (Tab. 3). During the last two years of the discussed period there was no increase in the thresholds of low wages, they even decreased partly. The reasons for that situation can be explained in three ways: firstly, a slight or no increase took place in general wages, secondly, an increasing number of people work for low wages and thirdly, the level of the average wage in the sector of low wages decreased. All those causes influenced the size of the median (KALINA, WEINKOPF 2009, p. 7).

The conclusion that the importance of the particularly low hourly wages increased in the sector of low wages can be drawn from the development of the average hourly wages in both nominal and real terms. Since 2004, the decrease

in values of both of these economic variables can be noticed in the western Lands while in the eastern Lands they were subject to significant deviations. The average real wages between 1995 and 2007 decreased in the western part of Germany by 0.26 euro while in the eastern part they increased by 0.03 euro. During the same time all values of the average wages in the sector of low wages in both parts of Germany were below their thresholds of 1995.

Table 3
Average hourly wage* and thresholds in the sector of low wages in Germany during the years 1995–2007 (in EUR)

Details	Eastern Lands		Western Lands		
	average wage in the sector	low wage threshold	average wage in the sector	real	nominal
Year	nominal	real**	nominal	nominal	real
1995	6.03	6.03	8.21	4.66	4.66
2000	6.76	6.35	8.90	4.96	4.66
2001	6.45	5.94	8.71	5.10	4.71
2002	6.96	6.33	9.39	5.32	4.83
2003	7.18	6.45	9.66	5.50	4.95
2004	7.26	6.41	9.72	5.47	4.84
2005	7.24	6.31	9.79	5.60	4.88
2006	6.90	5.92	9.54	4.97	4.26
2007	6.88	5.77	9.62	5.60	4.69

* in case of hired labor, excluding work on short-time or part-time bases.

** after considering the inflation rate that was 19.3% between 1995 and 2007

Source: KALINA, WEINKOPF (2009, p. 7).

Factors determining the regional differentiation of the low wages sector

The analysis of the unemployment rates in the individual Lands shows evidently the disproportions between them. In all the eastern Lands, during the years 2005–2008, a two-digit unemployment rate continued while in the western part of the country only Bremen experienced such a situation. The eastern Lands that had during that time the highest unemployment rate was Saxony-Anhalt with the following values: 2005 – 20.2%, 2006 – 18.3%, 2007 – 16%, and 2008 – 14% (Fig. 2). Whereas in Baden-Württemberg, the Land with the lowest unemployment rate, the situation was as follows (assuming the same order of analyzed years): 7%, 6.3%, 4.9%, 4.1%.

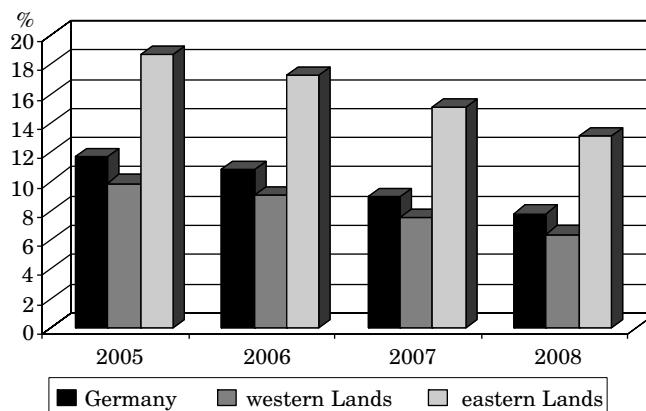


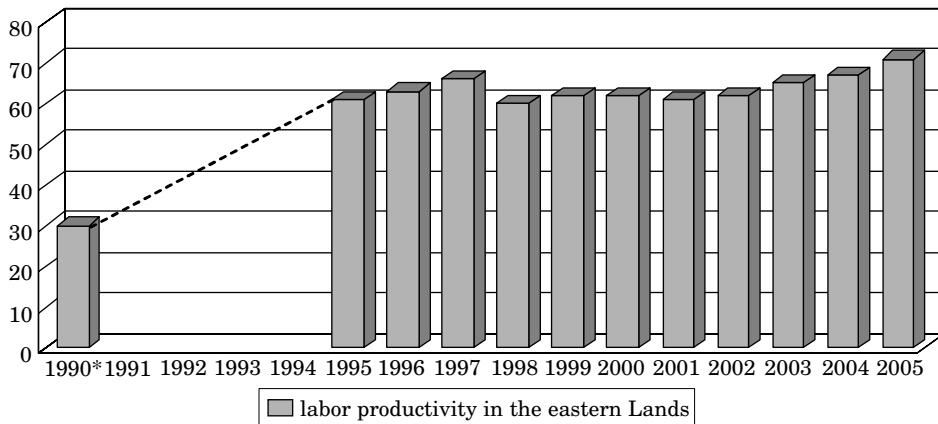
Fig 2. Unemployment rates in eastern and western Lands of Germany during the years 2005–2008
Source: *Arbeitsstatistik* (2008, p. 56).

The presented values of unemployment rates both by region and, partly, at the level of individual Lands show a big gap between the two parts of Germany, which does not remain without influence on the conditions of determining the size of wages. It seems that the less favorable starting point of the employees in the eastern Lands for wage negotiations with the employers is the consequence of that situation in the labor market.

Labor productivity⁵ is an important factor influencing the development of the sector of low wages in both parts of Germany. Significant differences in that field exist among all the Lands but the division into “the east” and “the west” is extremely well visible so that the “productivity gap” between the two parts of Germany, despite the fast process of “catching up” has not yet been closed (Fig. 3). That issue should not be seen only as a problem of local nature but it should be seen in the context of the entire German economy and evaluated as a factor influencing its conditions negatively⁶. The explanation of differences in the labor productivity between the east and the west of Germany is linked to the complex issues concerning its determining factors that should include the size of the enterprise. Nonetheless, different studies indicate, that it is correlated significantly with labor productivity. That is why, its lower level in the eastern Lands, can be, at least partly, explained by a less favorable structure in the size of enterprises because there the average

⁵ Labor productivity computed on the base of IAB-Betriebspanel data was expressed as the ratio between the value of turnover and the employment in the enterprise (FISCHER et al. 2007, p. 16).

⁶ “The development of the new Lands depends on the economic strength of Germany as well as the other way round also the prosperity of Germany depends significantly on the situation in the new Lands” (*Jahresbericht*, 2006, p. 8).



* estimated value

Fig 3. Differences in the labor productivity levels between the western and the eastern Lands of the Federal Republic of Germany during the years 1990–2005 (western Lands = 100)
Source: FISCHER et al. (2007, p. 18).

enterprise size is clearly smaller than in the western Lands⁷ (FISCHER et al. 2007, pp. 18–19).

Next to labor productivity, the costs of labor represent a factor that may be an important and at the same time convincing argument for the necessity of differentiating the level of low wages in the eastern and the western Lands of Germany. Starting from the year 2000, those costs increased in the processing sector in both parts of Germany (Fig. 2) while in the west of the country, in 2008 they amounted 56 090 euro per full-time employee and in the east 37 140 euro, with it that distance has not changed notably in absolute terms during the recent years. However, the relative values reveal a slow process of closing the gap. In 1992 the labor costs in the new Lands were only 55% of the level in western Germany, while in 2008 already 66%. This results mainly from the clearly higher dynamics of labor costs in the eastern Lands because during the period of 1992–2008 they increased in average by 3.7% per year while in the western Lands by only 2.4%. The net wages corresponded to those levels and the difference between the costs of labor and the net wage in the western Lands was 23 340 euro while in the eastern Lands 13 950 euro. In 2008, the structure of labor costs changed, mainly caused by the decrease of the social insurance contribution, although 24.8% of the labor costs in the western Lands and 26.7% in the eastern Lands was generated on the base of the statutory

⁷ According to the assumed classes of enterprise size (*Betriebsgrößenklassen*) on 30.06.2006 in the western Lands there were 22% and in the eastern Lands 27% of enterprises employing 1 to 9 employees and, respectively 26% and 15% employing over 250 employees (FISCHER et al. 2007, p. 19).

directives and as a consequence they could not be negotiated freely between the parties of the employment contract⁸ (SCHRÖDER 2009, pp. 1 and 9).

Since mid-1990s, the process of permanent erosion of territorial collective employment contracts (*Flächentarifverträge*) has taken place in the Federal Republic of Germany⁹, with it also the organizational and institutional power of the trade unions and it has continued until the present day. It does not progress in “big jumps” but it is of a creeping nature, it has numerous causes and forms of appearing. One of them is the deterioration of the conditions of economic development and structural changes in the labor market, which limited significantly the field of operations of trade unions (BISPINCK, SCHULTEN 2009, p. 201). In the public debate the decrease of interest in trade unions among the enterprises is interpreted as the “retreat” caused by the dissatisfaction with the industry’s collective agreements¹⁰ (KOHAUT, ELLGUTH 2008, p. 1).

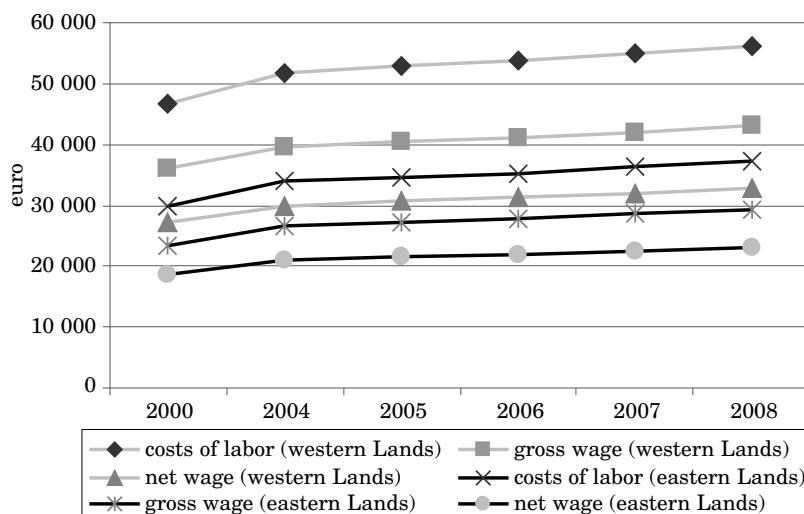


Fig. 4. Costs of labor and net wage in the processing sector in the western and the eastern Lands the Federal Republic of Germany during the years 2000–2008 (in EUR)
Source: SCHRÖDER (2009, pp. 6 and 9).

⁸ That situation is caused by the higher effective rate of the social insurance contribution in the new Lands as a larger proportion of the income is subject to that contribution and the accident insurance rate is higher (SCHRÖDER 2009, p. 10).

⁹ *Flächentarifvertrag* is the collective contract effective at the spatially determined area (tariff area/territory) or specified jurisdiction (e.g. Land or county). It covers one or several industries (e.g. metal processing, retail trade, construction, services) and as a consequence it is frequently referred to as the industry collective contracts (<http://de.wikipedia.org/wiki/Flächentarifvertrag>).

¹⁰ For years the discussions on the industry collective contracts have been continuing because they are negotiated for the entire industries and do not consider the situation of individual enterprises. Those criticizing them consider them, as a consequence of the new needs concerning increasing flexibility of enterprises, rigid and as a result the “brake on the adjustment abilities of the enterprises” (*als Hemmschuh für die betriebliche Anpassungsfähigkeit*) (KOHAUT, ELLGUTH 2008, p. 2).

Since the integration of Germany the differentiated level of trade unions membership and binding of enterprises by collective contracts has existed. Around 62% of the employed work in enterprises where there is such a binding, while in the western Lands that percentage is much higher than in the eastern ones (Fig. 3). Considering particular industries it can be concluded that large differentiation in that point exists: in public administration and construction industry the trade unions membership is 96%, and in energy sector 90%; the sector producing investment goods is in the middle zone (65%), while the sector dealing with comprehensive services for enterprises is at the end of that ranking (45%). The size of the enterprise represents an important criterion in the analysis of trade union membership among employees – in large enterprises employing over 500 people more than 90% of the employees belong to trade unions while in small enterprises employing up to 9 people only one third of them are trade union members. Newly established enterprises are much less frequently tied by collective contracts than the older ones (BISPINCK, SCHULTEN 2009, p. 203, KOHAUT, ELLGUTH 2008, pp. 5 and 7).

A significant decrease in membership of the German trade unions can be observed since the late 1990s when in the western Lands that membership decreased from 76% in 1998 to 63% in 2007 while in the eastern Lands that decrease amounted from 63% to 54%. In many areas covered by the collective contracts the “no tariff conditions” (*tariflose Zustände*) have existed for years. Although the collective contracts are still binding, formally the tariff norms are

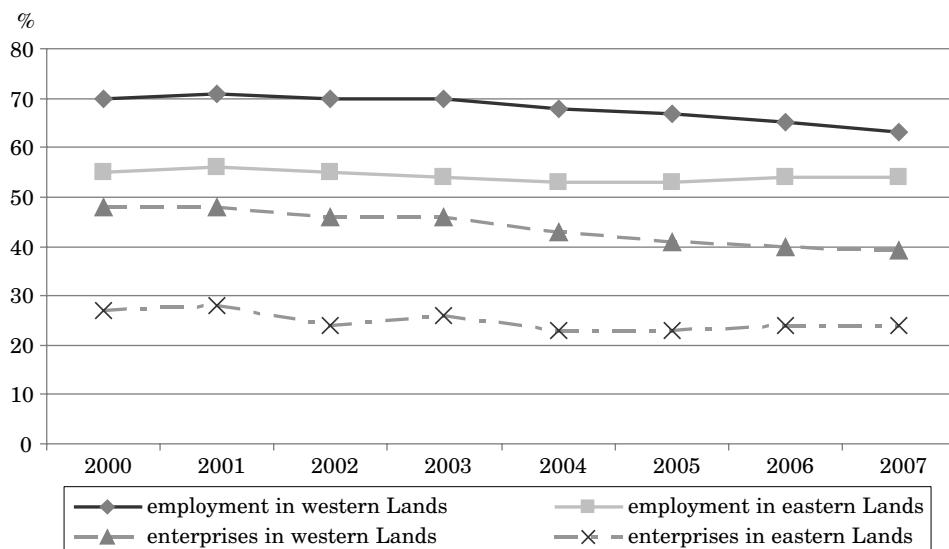


Fig. 5. Level of trade unions membership among employees and level of binding the enterprises by the collective employment contracts in Germany during the years 2000–2007

Source: BISPINCK, SCHULTEN (2009, p. 203).

only of secondary importance because the employers may substitute them with other regulations. This applies mainly to poorly penetrated by trade unions industries dominated by small workshop type and service enterprises (BISPINCK, SCHULTEN 2009, pp. 203–204).

With the decrease in importance of the collective agreements covering more than one enterprise a slight increase in the number of enterprises that are geared to such contracts takes place, i.e. the collective wage agreements are only the reference point for their decisions concerning the development of the payroll system and work conditions.. In this scale a clear disproportion between the western and the eastern Lands can be observed. Significant differences occur also in both parts of the Federal Republic of Germany in the use of wider than company and company collective contracts¹¹ (Fig. 4). However, the relatively high percentage of enterprises in the eastern Lands (55%) as compared to the western Lands (41%) that are not bound by collective contracts deserves attention.

The decentralization implemented together with increasing the work time flexibility represents the general trend in development of tariff policies as of 1980s. The response to the “wild” version of it was the introduction of the so-called “opening clauses” thanks to which the parties to the collective contract may, during negotiating the individual issues or regulations, resign the compulsory character of the tariff contract and by the same “open the door for individual solutions”¹².

The presented group of factors having a significant influence on the development of the differentiated levels of low wage employment in both parts of Germany cannot be closed. In the theoretical sense, many other causes of that differentiation should be considered, although not all of them, as a consequence of incompleteness of the so far conducted studies or of differences in method-

¹¹ Company collective contracts are often concluded as the so-called discretionary collective contracts that are concluded with enterprises that are not (yet or already) members of the confederation of employers and as a consequence formally are not subject to the tariffs. Actually, however, they basically accept the standards negotiated in the wider than company collective contracts. This is a clear deviation from the principles effective in making company contracts because in that later case the standards effective in the given enterprise are clearly defined as without reference to the regulations in the wider than company contracts. That is why the provisions in both wider than company and company contracts can frequently be equivalent (HAIPETER 2009, p. 159).

¹² <http://www.vnr.de/b2b/personal/arbeitsrecht/die-oeffnungsklausel-im-tarifvertrag.html>. In that respect there are two positions among theoreticians. According to O. Jacobi, the opening clauses represent the functional adjustment of the tariff-based system to the new conditions as they allow precise control of tariff standards in respect to a specific enterprise. On the other hand, R. Bispinck believes that a clear change in the function of the clauses takes place. Their importance as the basic regulation on flexible work time decreased in the context of extending the working time by enterprises and tariff opening goes wider and wider beyond the particularly difficult economic situations, whereas not achieving the standard levels (determined by tariff contracts) in relation to the regulation of material issues is becoming increasingly common (HAIPETER 2009, p. 77).

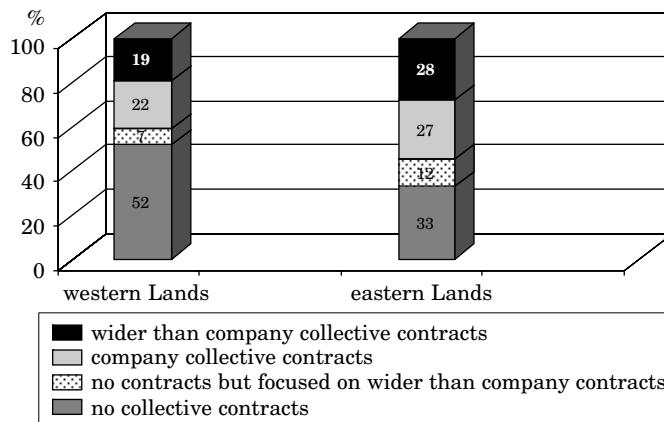


Fig. 6. Binding by collective contracts in German enterprises in 2007 (%)
Source: KOHAUT, ELLGUTH (2008, p. 1).

ological assumptions, can be considered. The expanding sector of services (“tertialization of the economy”) and numerous new forms of employment that are politically intended and supported financially could probably represent an interesting research area in which regional disproportions in the field of low wages should appear (FACHINGER 2007, p. 529). At the same time empirical findings indicate clearly the differing characteristics of that sector in both parts of Germany. While the high share of women and low skilled people is characteristic for the eastern and western Lands, different social patterns are reflected as it concerns individual types of households (*unterschiedliche Gesellschaftsmuster*)¹³. The situation is similar in case of non-standard employment in the eastern Lands where an increased influence of only some of its forms on the probability of appearance of low wage can be noticed while in the western Lands it applies to almost all the forms (WILDE, KELLER 2008, p. 426).

Among many arguments justifying the lower level of wages in the eastern Lands of the Federal Republic of Germany one can also be found that indicates the adjusting influence of regional differences in prices on the level of available incomes of households. More exactly speaking, the general level of wages is lower in the eastern Lands because more favorable price relations of goods and services purchased by those households balance the differences in incomes. That conclusion is partly confirmed by the results of studies presenting that during the years 2005–2008 the income gap between the eastern and the western part of Germany decreased by around 5% (from 21% to 16%). Detailed computations

¹³ In the western Landss, among the households with children, a much lower probability exists of getting into the sector of low wages than in the eastern Lands where no significant differences were found in that area between households with and without children (WILDE, KELLER 2008, p. 424).

prove that thanks to the regional differences in prices the average incomes (computed in 2005 prices) in the east increased by 4.7% while in the west decreased by 1.2%. However, those results caused no significant changes in the basic trend of the recent years and they did not result in a complete closing of the existing gaps in the division of personal incomes between the eastern and the western part of the Federal Republic (GOEBEL et al. 2009, pp. 891–894).

Conclusion

The results of the above analysis show that the extent of the sector of low wages in the Federal Republic of Germany is increasing while the average wage within its frameworks is decreasing. More than every fifth employed person is working below the low wage threshold. The introduction of two separate thresholds of low wages was necessary because of the big differences in the levels of wages in both parts of Germany. The lower one is characteristic for the eastern Lands and it is determined by the following factors:

- high unemployment level that causes that the starting position of the unemployed in wage negotiations is weaker than in the western Lands;
- the existing “productivity gap” continuing, among others, as a consequence of the less favorable structure regarding the size of the enterprises among which smaller enterprises than those in the western Lands dominate;
- lower costs of labor determining also lower net wages;
- a lower level of binding the enterprises with collective contracts, which causes that a larger number of employment contracts contains wage conditions determined below the tariff standards and are treated in wider than company collective contracts as the minimum wage.

In addition to the specified causes for the lower level of wages in the eastern Lands it is also worth mentioning the (minor) influence of regional price differences on the level of household income. Hereby it should be highlighted that all presented determining factors do not operate separately but they mutually depend on and influence each other with a different intensity creating an exceptionally complex and dynamic system.

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