The UN's Sustainable Development Goal 10 in Germany: Income inequality and the erosion of collective bargaining in contemporary Germany

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Abstract

The present dissertation describes the relation between the erosion of the German collective bargaining system and the increase in income inequality since 1990. A series of processes, including globalization and the shocks of reunification and the establishment of the European Single Market, are analysed to explain how they transformed industrial relations in the late twentieth and early twenty-first centuries. The effects of these factors are explored through a longitudinal study of the industrial relations and welfare institutions of Germany. The main findings of this dissertation are: that a shift in the institutional structure of German industrial relations, due to a change in the correlation of forces favouring capital, has contributed to rising market income inequality, through a rising capital share of income and further wage dispersion; and that recent welfare state reforms may reduce its long term redistributive function. Based on this historical path, as well as on the possibilities and constraints of Germany's contemporary economy, a set of policy recommendations are outlined to correct the diverging trend, with the aim of reverting the loss of bargaining power of labour. Both findings and policy recommendations stress the importance industrial-relations regulation to revert the global trend towards inequality, and consequently, contribute to the achievement of the United Nation's Sustainable Development Goals.

Keywords: inequality; Germany; bargaining power; industrial relations; labour market dualization.

Contents

1. Introduction

a. The threat of inequality

During the last decades inequality has emerged in public debate as one of the crucial issues of this century. Consequently, reducing it was included in the 2030 Agenda of the United Nations (2017), as the Sustainable Development Goal 10 – 'reduce inequality within and among countries' (UN, 2017, p. 12). There are several reasons why the trend of the past decades, especially in rich countries, should cause concern. First, economic inequality by itself may be dangerous to some of the most highly valued institutions of modernity, including democracy. Second, in many states the rise in inequality has not been followed by a general improvement in the welfare of the majority – there is no 'trickle-down' –, hence, there is not substantive reason for which the current level of inequality should be tolerated by a majority of citizens. Third, inequality has serious implications for other Sustainable Development Goals (SDGs), including the reduction of poverty (Goal 1) and hunger (Goal 2) at a time when economic growth may undermine achieving a sustainable economy.

b. Germany, a downward society?

Germany has been seen as an exception during the last decade: a prospering and stable country in the midst of a turbulent and even decadent continent. Yet, the rise of the far right shows that at least a significant portion of Germans are not satisfied with the current state of their country, especially in its eastern states (*Länder*), where the far left party The Left (*Die Linke*) also enjoys a relatively high level of support. The growing discontent among Germans about the functioning of their democracy (Zeit Online, 2019) and rising poverty (Knight, 2017), especially among pensioners (Preker, 2017), demonstrate that Germany has not been immune to the contemporary disorder so clearly present in other European societies. Significantly, a majority of Germans consider that the 'financial situation has worsened for average people' over the last two decades, while an even larger group consider that the next generation 'will be worse off financially than their parents' (Wike, Fetterolf & Fagan, 2019).

Thus, understanding inequality in Germany contributes to grasping the complex phenomenon that systemic inequality has become a global issue which is not exclusive of peripheral countries, but that is also present in the most central ones. It also helps to grasp the transborder character of inequality and other social issues, as regional integration and globalization have created new externalities to the domestic policies of (EU member-) states.

c. Methodology and research framework

Inequality is a complex phenomenon, with multiple causes and factors that influence its development over time. Labour conditions, class-struggle and workers bargaining power are the factors on which I have centred my research. These are not, in any case, the exclusive factors that condition how inequality evolves in a country or globally, however, I consider – and previous findings seem to corroborate it – that these are among the principal ones, and more important, among the most controllable, especially when compared to demographic trends.

To offer a more comprehensive explanation of how inequality has risen in Germany, the second section of the dissertation outlines a set of global and regional transformations than have had effects on income distribution and industrial relations, including labour bargaining power. The third section directly tackles the rise of inequality in Germany, starting with an overview of the historical trends and the existing literature on their causes. Special attention is payed to the erosion of the German collective bargaining system, basing my analysis on the assumption that bargaining between classes is not conducted 'in a void', but is constrained by existing institutions, that nevertheless can evolve and be violated. The *Varieties of Capitalism* literature (Hall & Soskice, 2001), as well as studies on the welfare state (Esping-Andersen, 1990), serve as a background on which to compare how the German institutional framework for both social policy and industrial relations have evolved over time. Therefore, my research is a longitudinal study. The fourth section explains the effect of past social reforms on both the market and post-taxes distributions of income, from whose evaluation a series of policy recommendations are drawn. The fifth section consist of concluding remarks.

Although my research is mainly qualitative, I combine qualitative and quantitative methods, for the latter I rely on data from various international databases, including Eurostat, the World Inequality Database, among others. I complement these findings with the data of the German Federal Statistical Office, which offers a more complete survey of the labour market and income inequality in Germany, as well as with the conclusions of previous academic literature on German inequality and an interview with Íñigo Macías Aymar, Research Coordinator at Oxfam Intermón.

2. Global, international and regional inequality

a. Inequality in the contemporary World-System

The last decades, and especially those since the end of the Cold War, have been marked by two distinct but related developments, namely, economic globalization and the rise of some peripheral nations. Economic globalization refers to industrial decentralization by means of foreign direct investment (FDI) and non-equity modes of production – through arm's length contracts instead of investment –, and the liberalization of trade and capital markets (Hart-Landsberg, 2013; Suwandi 2019). The latter, the gradual abolition of trade barriers, is a process that stretches at least from the post-war decades and the establishment of the General Agreement on Tariffs and Trade (GATT). Nonetheless, with the creation of the World Trade Organization (WTO) in the 1990s, this process was reinforced by the liberalization of trade in services, international investment and the reduction of non-tariff barriers (NTBs). This should be understood not as a natural and inevitable development, but as a 'political project in which states have collectively and individually provided critical support for its expansion' (Hart-Landsberg, 2013, p. 29).

Yet, while international trade plays a critical role in the modern economy, with effects on domestic distributional issues, it is the rise of FDI and outsourcing (or non-equity modes of production) which make the last decades starkly different from the post-war period. This is often seen as the trigger of a transformation by which 'discrepancies between countries have narrowed', but 'inequality within countries is rising' (Verbeek & Rodarte, 2015).

However, a more nuanced description of international inequality would be that, while some peripheral nations are in the process of 'catching up' with the core, most are clearly not, and the exploitation of the peripheral nations by the core continues to this day. Suwandi notes that

> globalization of production is built around a vast chasm in unit labor costs between center and periphery economies, reflecting much higher rates of exploitation in the periphery. This in turn reflects the fact that the difference in wages is greater than the difference in productivity between the Global North and the Global South. (2019, p. 48)

Thus, globalization is based on the relatively high mobility of capital with respect to labour, partially used to offshore industrial production in search of lower unit labour costs. Consequently, (mostly) core-headquartered trans-national corporations (TNCs) offshore part of their supply chains in search of more exploitable labour (in the Marxian sense, with employees working less of their working-day to generate their wages and more for the capital owner's profit). Therefore, Western and Japanese oligopolies capture much higher rates or surplus value through unequal exchange and social dumping, then materialized in the benefits and high salaries of the non-productive activities performed at the centre, value captured in rich countries, accounted as part of their gross domestic product, and partially nurturing these states through taxation.

Vast wage disparities result from this process. TNCs that employ workers globally, either directly or through their suppliers, have huge wage disparities. What is justified in terms of marginal productivity often reflects highly profitable businesses where CEOs (who sometimes set their own wages) earn incomes vastly greater that low-skilled workers at the other extreme of the same value chain in poorer countries, as Macías Aymar observes (personal interview: 20/04/2020)[1].

The surplus extraction from the periphery to the core that reinforces and perpetuates international inequality is not exclusively based on low unit labour costs, but also on the appropriation of profits by TNCs from their suppliers, due to the oligopolistic character of the former and the abundance of the latter. As Wallerstein notes, 'the struggle over price in these "intermediate markets" represent[s] an effort by the buyer to wrest from the seller a proportion of the profit realized from all prior labour processes throughout the commodity chain' (2003, p. 29).

Essential to this monopolistic power is the control by core firms of each supply chain of frontier technologies that are only shared with suppliers to the extent that it serves the profitability of the dominant corporation (Suwandi, 2019; Amin, 2018). This implies that TNCs can control vast global value chains with a small workforce of core workers, who still enjoy many of the securities and benefits typical of the post-war decades, while peripheral jobs involve increasing precarity and insecurity, and are often offshored to peripheral economies (Suwandi, 2019). This dualization also takes places within central countries, where core high-skilled workers see their real wages increase significantly and enjoy relatively good working conditions and benefits, while peripheral jobs

[1] See *Appendix A*.

within the supply chain are performed by workers with atypical working conditions, including agency workers (Nachtwey, 2018).

The immense economic power of TNCs and large national firms is also extended over political institutions to facilitate the reproduction of the system. As noted in a report by Oxfam, ‘corporations from many sectors (…) use their huge power and influence to ensure that regulations and national and international policies are shaped in ways that enable continued profitability’ (Hardoon, 2017, p. 4). Moreover, as off-shoring occurs and liberalization increases international competition, with states having given up using protectionist policies, ‘competition states’ are compelled to change their policies to increase their national competitiveness in international markets – by reducing unit labour costs –, often with devastating effects for part of the workforce as the following sections will illustrate in the case of Germany.

Peripheral growth and the abovementioned dualization in core countries leads to mixed views on the evolution of inequality. The industrialization of the periphery is often seen as a process of emergence, by which a real ‘catch-up’ process exists that will ultimately lead to international convergence. This process lead Piketty to state that ‘in the long run, unequal wealth within nations is surely more worrisome than unequal wealth between nations’ (2017, p. 546).

There is certainly some truth in this thesis, to the extent that some nations are certainly ‘emerging’. However, this process may be limited to the People’s Republic of China, where, unlike in many of the other ‘emerging markets’ of the BRIICS group (Brazil, Russia, India, Indonesia, China and South Africa), a nationally-led auto-centred development project exists (Amin, 2013). This is seen, for example, in the rising international competitiveness of Chinese corporations in frontier-technologies. In the rest of the periphery, what seems to be emergence might only be a continuation of the historical capitalist process by which ‘“demotion” of particular processes on the hierarchical scale [in the commodity chain] also often led to geographical relocation in part’, a shift that ‘found a major attraction in the move to a lower labour-cost area, though from the point of view of the area into which the industry has moved the new industry usually involved an increase in the wage-level for some segments of the work-force’ (Wallerstein, 2003, p. 35).

In fact, many peripheral countries, in spite of relatively high increases in their income per capita during the first decade of this century, seem to have suffered from lower growth since the Great

Recession, many others have been stagnating in the 'middle-income trap' (Gill & Kharas, 2015) for longer periods, thus putting into question the eventual global convergence[2].

Regardless of the success of peripheral countries emergence projects, and of international inequality being abolished or not, the restructuring of production and liberalization throughout the world-system seems to have important distributional effects *within* countries. A case in point is the distributional effects caused by offshoring on workers in 'demoted' industries of the core, and (maybe) eventually, to other workers by Chinese competition in the technological frontier industries, Huawei being an obvious example.

Deindustrialization and the predominance of services may sometimes be seen as 'progress', in spite of being paralleled by the rise of atypical working conditions in much of the centre. Leading to the rise of what Amin calls the 'precarious popular classes' (2004). In this context the survival of the prevalent international hierarchy in the world-system may not be benefiting a significant part of workers in rich countries. Moreover, the net foreign holdings of these states are now 'masked by the fact that the wealthiest residents of rich countries are hiding some of [them] in tax havens' (Piketty, 2017, p. 593). Consequently, the rents extracted from foreign investment and the unequal exchange of global value chains are often ultimately kept save from taxation, while the liberalization of markets has facilitated fiscal competition, two factors that limit the compensatory capacity of states to the externalities of globalization upon the popular classes of the Global North (Kersbergen & Vis, 2014).

These developments have contributed to the rising global inequality that Oxfam has repeatedly reported during the last decade. According to one of its reports 'since 2015, the richest 1% has owned more wealth than the rest of the planet' and 'eight men now own the same amount of wealth as the poorest half of the world' (Hardoon, 2017, p. 2).

b. Regional situation: Inequality in the European Union

According the World Bank Group's data, the trajectory of inequality in Europe is mixed, if the indicator of SDG target 10.1 – that is, if the income growth of the bottom 40% is higher than average – is used. In the period between 2009 and 2014 this target was met in countries like

[2] For a more detailed description of international inequalities see *Appendix B*.

Lithuania, Latvia, Belarus, Denmark, Poland, and France, albeit by a short margin. On the other hand, in other states the income growth of the two bottom quintiles was significantly lower than the average, as in Estonia, Bulgaria or Hungary. More importantly, in the states of Southern Europe and Romania the income of this sector declined at a higher rate than the average national income decrease (2018, p. 40). More recent data shows that the overall trend between 2011 and 2016 was also mixed in Europe.

Nevertheless, these figures describe extremely short periods, the first of which is far from being representative, as it starts in 2009, after the Great Recession that saw many incomes from capital drop at a higher rate than incomes from labour, in its immediate aftermath. Target 10.1 is only effective if it is sustained over long periods of time, in order to influence the income distribution and ultimately the wealth distribution, however, the period for which the UN presents its data is limited to seven years. To better understand the underlying trend a more long-term perspective is required. The post-tax shares of income of the top 10% exhibit a clear trend of rising inequality.

In *Figure 2.1* the post-tax income of the top decile is represented for selected European countries, ranging from the 'liberal' UK, to Italy and the Nordic 'social democratic' Sweden, exposing a clear trend towards income concentration at the top decile.

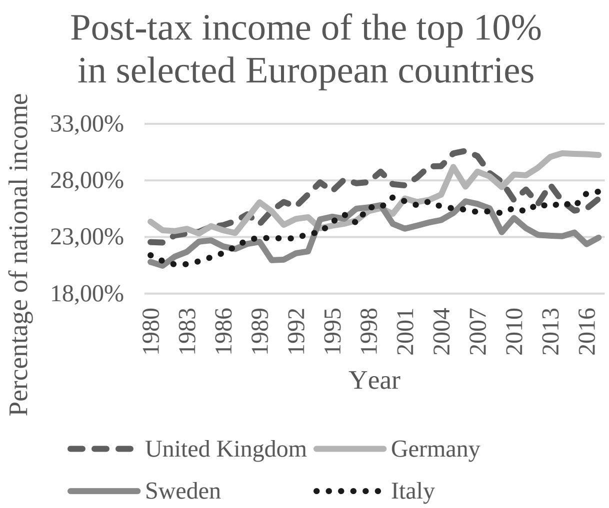

Figure 2.1. Post-tax shares of national income of the top 10% highest incomes in selected countries. Source: (WID, 2020)

Other sources also expose a less ambiguous picture. On September 2015, Oxfam published a report named *A Europe for the Many Not the Few*, in which it did not just assemble data and the conclusions of various research studies on economic inequality and poverty in Europe, but also identified the policies that have led to the current situation, as well as recommended political measures to reverse the present trend of divergence (Cavero, 2015).

Among its findings were the increasing share of wealth owned by the top 1%, a growing number of people in risk of poverty and social exclusion, unrestrained influence by the economic elites and corporate lobbies on states and European institutions, and in general a trend towards the erosion of the welfare state driven by the ‘austerity’ policies implemented during the Great Recession and the euro crisis.

On the other hand, Piketty has demonstrated that there is a long-term trend of increasing inequality since the 1970s among the rich countries, especially in Anglo-Saxon ones, but also in continental Europa (including the Nordic countries) due to systemic causes; rejecting the old narrative that as countries develop inequality tends to naturally decrease once a certain point is reached. Among the factors he identifies for the rise in inequality are the increasing amount of capital to income (since capital, and thus income from capital, is more concentrated than income from labour), that in turn leads to a higher capital share of income; the decrease in growth and resurgence of inherited wealth; and fiscal competition. Factors that will probably be exacerbated in the future, as demographic growth remains stagnant or even reverses (Piketty, 2017).

Macías Aymar notes that not only does inequality increase due to revenues from capital, but also because of wage dispersion (personal interview: 20/04/2020). The raise of the ‘supermanager’, in Piketty’s terms (2017), is one element of the dispersion of incomes from labour. On the other hand, the unemployment reduction strategies in some countries have led to an increase in the working poor. Thus, as Macías Aymar points out, it is not only employment itself, but the quality in employment which can give rise to increased inequality (personal interview: 20/04/2020). Low wages, the gig economy – with workers as independent contractors, on-call workers, and brief contracts – , and atypical work conditions can maintain inequality levels at those achieved during times of high unemployment even when employment rises.

3. Inequality in Germany

a. Evolution of income and wealth inequality in Germany

In the last decades inequality in Germany has been on the rise. According to the OECD, the average change in incomes from the mid-1980s to the late 2000s has been of an increase by 0.9% annually, while the top decile has increased its income by 1.6% and the bottom decile by just 0.1% per year (OECD, 2011, p. 23). In other words, if we consider these rates of income growth during a period of twenty-five years (for example, 1985-2010), the total income for the top-decile should have risen by 49%, while the bottom ten percent would have stagnated with a relative growth of only 2,5%. Hence, from the national income growth of the last decades the bottom decile would not have benefited at all, at least in terms of net income. The Gini coefficient of post-tax income inequality has therefore risen from around 0.25 to 0.3 or even higher (OECD, 2011, p. 24; Eurostat, 2020).

However, alternative indicators to the Gini coefficient may manifest more explicitly the same developments. Although many different ratios between quintiles and deciles are commonly used, I find more explicit the income groups used by Piketty, the top one and ten percent, the middle forty percent, and the bottom half of the population (2017).

The pre-tax income distribution (*Figure 3.1)* shows a clear diverging trend, with the middle-income group's slightly income declining form 47% to 45%, and the bottom half's income falling from 24% to 19%, while the top decile increased its income share from 29% to 37%, and the top centile one's increased form 10% to 13%. These changes in pre-tax income shares (primary distribution) are significant, the top centile increased its income by 30%, and the top decile by 26%, while the bottom half of the distribution suffered a decline of 23% in its income share, between 1980 and 2017.

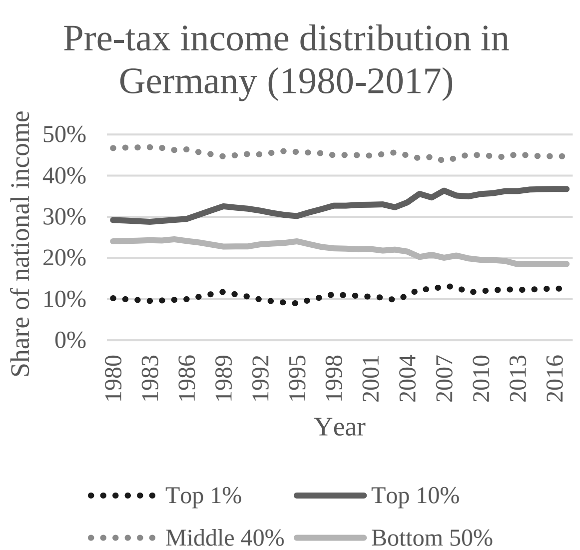

Figure 3.1: Germany's pre-tax income distribution over time. Source: (WID, 2020.)

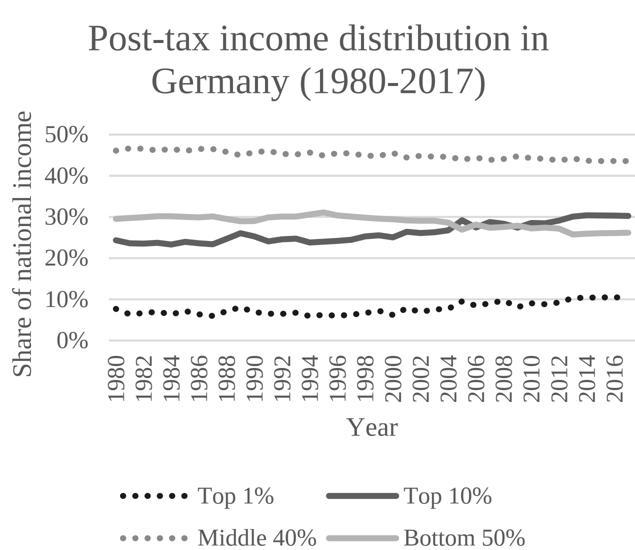

Figure 3.2: Germany's post-tax income distribution over time. Source: (WID, 2020.)

Although the pre-tax figures are important, for a strong welfare state, as the German one, the post-tax figures are arguably more relevant. The secondary distribution – including tax and transfers – is presented in *Figure 3.2*. The redistributory effects of the German welfare state are evident, while the middle-income group does not experience significant changes in their share, the bottom half of the distribution sees its income share rise from 19% to 26% (in 2017), while both the top decile and the top centile see their share drop, by seven and three points respectively.

It is important to note that the long-term resilience of the resdistributory mechanisms of the German welfare state should not be overestimated, as Bosch and Kalina observe, ‘it takes decades for the social costs of an unequal primary distribution to fully show up in the social protection system’ something that ‘applies in particular to the effects of low pay on future pensions’ (2016, p. 75).

The data used for *Figure 3.1* and *3.2* are the ones of the World Inequality Database (WID). I consider the database superior to other commonly used in the literature, mainly Germany’s Socio-Economic Panel (SOEP), because it relies on oficial tax incomes and not household surveys. However, it has the defficiency of being distorted by tax-evasion, which is mainly concentrated at the top of the distribution. Furthermore, the importance of the family-owned business, the *Mittelstand* – amounting to more than 99% of all German firms, producing 52% of its output (BMWi, 2016) – causes what Behringer, Kowall, Theobald and Treeck call the ‘corporate veil’ (2019, p. 7), the underestimation of inequality due to retained profits.

> Consequently, the top household incomes (and their share of total household income) have not risen as much as they would have done if instead of retaining these increased earnings companies had followed the lead of e.g. the US by distributing a greater proportion of them to senior executives and shareholders. (Behringer, Kowall, Theobald & Treeck, 2019, p. 7)

Indeed, if these shortcomings were taken into account the rise in inequality would probably be greater than the one presented in *Figure* 3.2. This critique notwithstanding, the distributional changes are already evident: while the bottom half has seen its income share fall, the top decile, and especially the top centile, have seen their income rise by 24% and 36% respectively – two and six points in the overall distribution. While the welfare state has suceeded in redistributing income significantly, it has not fully compensated the divergence in the primary (market) distribution.

Therefore, the middle strata have seen their income fall, not only the bottom half. These findings are consitent with others on the stagnation of the Western lower and middle classes, as famously represented in ‘Milanovic’s elephant’ (Lakner & Milanovic, 2013), and more specifically, on the erosion of the German middle class. Bosch and Kalina find that, using a much broader definition of middle class – including around 80% of households in the secondary distribution – that this income group shrunk between 1992 and 2013,

> the share of households in the middle-income groups before taxes and transfers fell between 1992 and 2013 by eight percentage points, from 56.4% to 48%. In the same period, the share of the middle-income groups after redistribution fell only by about three percentage points. (...) Thus, to a large extent, though not fully, the welfare state has been able to compensate for the growing inequality in the primary income distribution (Bosch & Kalina, 2016, p. 74).

The reasons behind income inequality in the primary distribution should be explained by changes in the capital and labour shares of national income, and changes in wage dispersion, assuming that no major shifts have occurred in the distribution of capital income (which is always highly concentrated).

The trend in the distribution of national income is clear, the labour share has been declining during the last thirty years, from around 80% to 70%, while the capital share has increased from 20% to 30%. The latter has increased by fifty percent in this period, which is certainly not a negligible transformation. As with the overall income distribution (both before and after taxes and transfers) a major divergence period occured during the second half of the 1990s and the first decade of the twenty-first century, after which the distributions stabilized, without any significant trend towards convergence nor divergence.

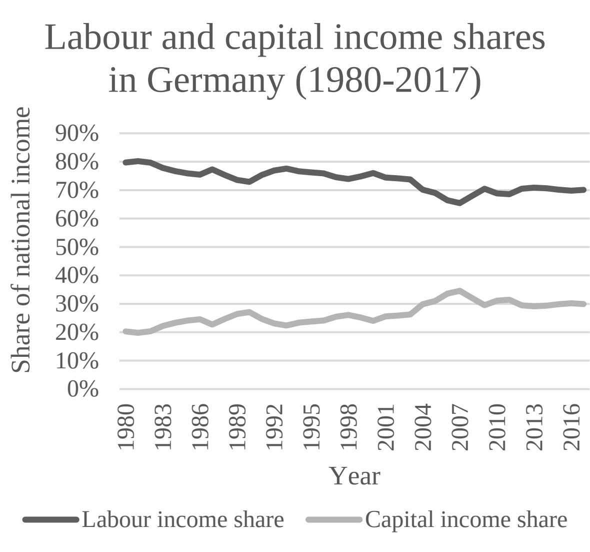

Figure 3.4: Germany's labour and capital income shares Source: (WID, 2020.)

The rising capital share of national income could probably be partially explained by the historic trend that Piketty identifies as characteristic of the last decades in the core countries, the rising share of capital to income (Piketty, 2017; WID, 2020). This tendency involves increasing aggregate capital income (OECD, 2011, p. 35), since it is – at least for now – not fully compensated by the falling returns on capital (Piketty, 2017). However, the rising share of capital income probably does not fully account for the increase in top incomes and inequality. The existing evidence shows that rising inequality within labour income has also contributed to the overall trend (Biewen & Juhasz, 2012; Piketty, 2017; Antonczyk, Deleire & Fitzenberger, 2018, Biewen & Seckler, 2019).

b. Causes of income and wage inequality

In this section I outline some of the existing literature on the causes of the diverging trend of wage inequality of the last decades, and especially of the period spanning from 1995 to 2010, when the largest increase in inequality took place.

As Piketty notes, the rise of ‘supermanagers’ is not a phenomenon completely alien to continental Europe (2017). However, in spite of its importance, it can certainly not account for the rising labour income inequality to the extent that it does in Anglo-Saxon countries, where top managers have experienced significantly higher wage increases. The up-ward trend is not concentrated in the top centile of the income distribution, but rather, it is common to the top decile. Simultaneously, the fall in relative income is much more accentuated in the lower half than the middle strata, which, despite a slight decrease, has not experienced profound changes. Consequently, it follows that the correct approach at analysing rising wage inequalities must take into account the whole distribution, and not just its extremes.

Biewen and Juhasz emphasize the impact of wage dispersion since the end of the 1990s (2012). This period was marked by a high unemployment rate, which gradually fell after 2005. Yet, ‘the fact that unemployment fell again after 2005 while inequality and poverty remained at their high levels suggests that the rise in unemployment is unlikely to be the only reason for the inequality increase between 1999 and 2005’ (p. 625). Instead, increasing inequality is associated to ‘changes in employment outcomes, changes in the tax schedule, and especially changes in labor market returns’ (p. 639). Thus, two of the three main explanatory factors are directly related to the labour market: dispersion in labour market incomes and employment outcomes, ‘especially the growth of part-time and marginal part-time work’ (p. 645).

In a subsequent research, Biewen, Ungerer and Löffler found that the 2005 tax system did in fact not have the effect previously thought of (2017). The same study reveals why the annual labour income distribution did not become more unequal after 2005, namely, due to ‘additional within-year employment opportunities which had an equalizing effect on the distribution of yearly net incomes’ (p. 29).

Antonczyk, Deleire, and Fitzenberger found that ‘the decentralization of wage setting in Germany may have lowered in particular the wages of less skilled workers in the youngest cohorts’ (2018, p. 31). Biewen and Seckler, using data for hourly wages and unionization at the employee level, reach similar conclusions, noting that ‘the most salient factors behind the recent rise in German wage inequality were a dramatic decline of union coverage and compositional changes of the work force with respect to age and education’ (2019, p. 463). Specifically, they observe that ‘fewer and fewer workers in firms who reported to take part in union bargaining were actually paid according to a union agreement’ (p. 467). Surprisingly, they did not find any association between offshoring and wage loss, although pressure from imports on consumption goods did have a negative effect on labour income (p. 474).

Summarizing, union coverage and employment outcomes are identified as factors contributing to labour income inequality, while other factors, especially those related to international trade and globalization have more ambivalent effects, some of which are predictable (pressure by imports and exports premiums) while others are more striking, like the seemingly scarcely positive effects of offshoring.

c. The decline of Germany’s ‘coordinated market economy’

Hall and Soskice (2001) identified Germany as a coordinated market economy (CMEs), in contrast to liberal ones (LMEs). As such, German capitalism is characterised by what they define as ‘non-market relationships to coordinate’ firm’s endeavours (p. 8). Among these mechanisms industrial-level (sector-level) wage-setting is used for ‘equalizing wages at equivalent skill levels across an industry’, pursued by the employers to ‘make it difficult for firms to poach workers’ (p. 25). Workers, on the other hand, benefit from this system by bargaining with employers’ associations at a sectoral level through relatively strong unions, a system complemented by works councils at the firm-level.

For as long as workers are included into the bargaining system they may benefit, yet, from the employer's point of view the value of the 'non-market' coordination is associated to, first, retaining skilled workers, and second, being able to train in industry or firm-level skills their workforce without fear of suffering relative losses to, and poaching by, firms 'who free-rid[e] on the training efforts of others' (Hall & Soskice, 2001, p. 25). In other words, workers benefit from the system for as long as they have either highly valued skills or collective bargaining power through unions to maintain the collective wage-setting even when employers have lost their interest in pursuing them, for a given (skill level) strata of workers.

In fact, the model presented by Hall and Soskice has been in decline since the 1990s, as Biewen and Seckler note,

> the drop in numbers of individuals paid according to union agreements was massive: from 1995 to 2010, the proportion of uncovered workers increased from 26.5 percent to 61 percent, while that of individuals paid according to sector agreements fell from 69.7 to 35.7 percent (2019, p. 467).

This is a much higher decline in union agreement coverage than numbers on union membership and workers with the right to bargain would suggest, although both have also been in long term decline too during the same period, as shown by *Figure 3.5*.

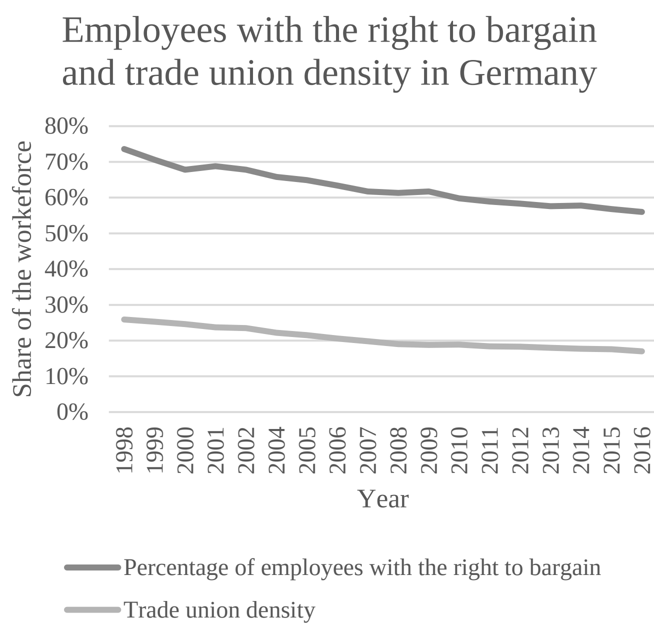

Figure 3.5. Percentage of employees with the right to bargain and trade union density. Data source: OECD (2020a).

There are various factors which could explain the erosion of the 'non-market cooperation' in German capitalism that would account for the loss of collective bargaining power by workers, and the subsequent rise of inequality. As noted, declining unionization is one of them, but others should be considered too, like a higher supply of workers for a certain skill level – reducing the employer's incentive to grant bargaining rights to retain these workers – or the creation of longer supply chains (not necessarily outside its domestic market).

As economist Costas Lapavitsas remarks, German reunification ‘devastated the East German economy by exposing the region’s enterprises to West German costs and prices’, which consequently created ‘a great mass of unemployed – and unemployable – labour (…) in the East, which exerted continuous downward pressure on wages in the West’ (Lapavitsas, 2019, p. 43; a similar conclusion is drawn by Bosch & Kalina, 2016).

This process was complemented by the creation of supply chains in countries with cheap labour, a process common to all developed countries during the last wave of globalization, but that in the German case was facilitated by the ‘collapse of the Eastern Bloc [that] detonated a further transformation in the long run’, due to the ‘opening of Poland, Hungary, the Czech Republic, Slovakia and Slovenia, with their high-skilled and low-cost labour’, and turning these countries ‘into a periphery for German capital, while adding wage pressures on workers in German labour markets’ (Lapavitsas, 2019, p. 43).

Although the latter conclusion is empirically disputed, as noted in the previous section, the role of Eastern German and Central European workers is undoubtedly significant. These were highly-skilled workers whose economies experienced deep transformations (and initially, recessions) during the 1990s, leading to a surge in the supply of workers not only in the lower, but also in the higher skill levels. The structural capitalist interest to take advantage of the opportunity to decrease labour costs was further aggravated by the rise in exports and competitiveness of the East Asian economies, and also, by the historically high rate of unemployment in the German market and the recessions of 1993 and of the beginning of the century.

The ‘coordinated market economy’ that Germany enjoyed during the decades following the end of the Second World War was characterised by high employment, wages and international competitivity. As described before, collective wage-settlement and employment stability not only secured a low wage dispersion, but also incentives for employers to promote apprenticeships programs and train workers with industry and firm-level skills, while ensuring that employees would be highly remunerated through pursuing these programmes (Hall & Soskice, 2001; Streeck, 1997).

However, as the German sociologist and political economist Wolfgang Streeck observed, the ‘German model’ relied on quality-competitive goods (and not price-competitive ones) to sustain the difficult balance between high wages and international competitivity, especially considering that devaluation was not seen as an option (1997). During the early 1990s ‘Japanese advances in traditionally German quality markets suggested that the era of undisputed German product leadership had ended’ (p. 249), precisely in a moment when the German capacity to react to exacerbated competition without engaging in price-competition was constrained by its financial and institutional efforts to assimilate East Germany (and its workers). More generally, ‘globalisation dissolves whatever negotiated coordination may have been nationally accomplished between them [capital and labour] and replaces it with the global hierarchical dominance of the former [capital] over the latter [labour]’ (p. 252). Evidently, what Streeck refers to as globalisation also includes the integration of the European Single Market.

d. The erosion of collective bargaining in Germany

i. East Germany and the ‘Institutionentransfer’

A crucial shock to the German model was the failed ‘*Institutionentransfer*’ (Streeck, 1997, p. 250), that is, the transition of the West German non-market coordination institutions to the new *Länder*, following reunification. Among these institutions the collective bargaining of wages played a central role. This bargaining process was led by labour unions and employers’ associations, and its agreements were extended to the whole industry (Bispinck, 1993), which explains why despite a moderately low level of unionization (as shown in *Figure 3.5*), collectively agreed wages covered most of the workforce.

In East Germany the obstacle to the expansion of industry-wide wage bargaining during the ‘*Institutionentransfer*’ was the inexistence of one of the two required actors, namely, an employers’ association for each sector (Bispinck, 1993). For some employers the reason for escaping such membership was evident, ‘operating in East Germany provides an opportunity to test out new manufacturing strategies and patterns of work organisation free of the restrictions imposed by collective agreements’ (p. 317). Since the fall of the Berlin Wall in 1989 collective bargaining has remained much lower in the eastern part of the country, a difference that ‘may have proved a catalyst in promoting greater decentralization in sectoral-bargaining elsewhere in the system’ (Addison, Teixeira, Pahnke, & Bellmann, 2014, p. 223). In the (former) absence of a national minimum wage, to be free of the constraints of collective bargaining implied to have virtually no obstacles in setting very low wages, sometimes below the level of the minimum wages in Southern Europe (Nachtwey, 2018).

ii. Globalization and European integration

This was probably the first shock to Germany's collective bargaining institution, however, other major transformations followed reunification, namely, those coming from globalization and especially European integration. The events of the last two decades have proven that Streeck's (1997) concerns about the future of the 'German model' were well placed, and that the future success of Germany's capitalism would require a shift from the predominance of quality-competition to an increasing focus on price-competition by cutting labour costs. The creation of the European Economic and Monetary Union (EMU), culminating in 1999 with the formal introduction of the euro, proved to be a recipe for success for the German export industry (Flassbeck & Lapavitsas, 2015; Lapavitsas, 2019), as its trading partners within the euro area would lose the capacity to devaluate their exchange rates, and the relatively low value of the euro following the crisis boosted exports outside of the EMU. Fuelled by the loosening of collective bargaining institutions domestically, and by the new institutional constraints in the euro area, German exports boomed.

Contrary to what could be expected, this new era of economic hegemony in Europe was not followed by rising relative incomes, but, as *Figure 3.3* shows, those who suffered during the 1990s continued to see their share of relative income fall during the first decade of the century. As Raess observes, in Germany, 'the greater the degree of export dependence of a sector, the greater the degree to which *domestic-oriented* enterprises within that sector abandon collective bargaining' (2014, p. 282). Among these 'domestic-oriented' firms are those supplying the export sector, which partially explains the increased international competitiveness of Germany (Nachtwey, 2018), despite the premiums on the income of workers in export-oriented firms (Biewen & Seckler, 2019).

According to Raess, the effect of export-orientation within a sector for domestic-oriented firms is double:

> First, exporting brings economies of scale and learning effects to those firms that export, enhancing their productivity and profitability. Second, short-term economic gains associated with export upswings in net export-competing sectors tend to push wage settlements up. All in all, export-oriented firms can afford the collectively agreed wages that take account of a sector's average productivity, whereas domestic-oriented firms cannot. (2014, p. 282)

Yet, this effect is limited where firms have works councils, 'because establishments with works councils respond to trade openness by making more flexibility compromises that allow these firms to reduce costs and remain profitable' (Raess, 2014, p. 282)

However, Addison, Teixeria, Pahnke and Bellmann found that during the last decades the works council system has also lost ground, together with the number of 'establishments (and workers) having sectoral bargaining *and* works councils' (2014, p. 223). More importantly, there is no 'real evidence of any material increases in the extent of firm-level collective bargaining' (p. 223), to compensate for the aforementioned losses.

Consequently, a first shock to the collective bargaining system caused by unification and the failure to expand collective bargaining system – at the industry-level – to East Germany was followed by the transformations of the changing international and European economic integration and the surge in German exports. It should be noted that during the same period, beginning in 1990, some employers' associations adopted the possibility of a 'bargaining-free' membership (BFM), thus weakening collective bargaining even where such associations exist, and in firms belonging to these. Moreover, as Behrens and Helfen show, this kind of membership is 'much more widespread within private services (…) a sector where the key institutions of labour relations such as works councils and collective bargaining are already weaker than in the core manufacturing' (2018, p. 63). The expanding trend of the services sector should therefore imply the expansion of the BFM.

Also, as Biewen and Seckler (2019) note, firms subject to collective bargaining – in employers' associations without BFM, or engaging in firm-level bargaining – increasingly pay workers in wages different from the collectively established ones, at both extremes of the wage distribution.

Hence, both global and European trends – increasing international competition from Eastern Asian economies, labour mobility within the European Union, etc. – and distinctive features of Germany's recent history – re-unification – have contributed to the erosion of the non-market coordination institutions of the German 'coordinated market economy'; including the industry-level collective bargaining system, which has contributed, along with other factors like demographic changes and skill-biased technological progress, to increasing wage dispersion. Moreover, the weakened labour bargaining power may have facilitated the limited firm-level redistribution of wealth necessary to balance the increasing capital-share of income, further contributing to the significant increase in income inequality during the last three decades.

4. Reducing inequality

a. The welfare state and income inequality

As outlined in previous sections, inequality of income in Germany reached its highest point during the last half century in 2010, when it began to stabilize at the new level. Hence, the large inequality surge took place before the Agenda 2030 was established and agreed upon in 2015. Yet, since then, no clear improvements have been achieved by Germany, in spite of its success in meeting with target 10.1 before its establishment, during the period 2009-2014, according to the World Bank Group (2018). These two realities are fully compatible, target 10.1 is very conservative – since it focuses only on the relative increases of the income of the bottom two quintiles relative to the average, and not directly in its relative share – and potentially deficient, because it neglects how the top five quintiles (the top 60%) behaves. It is fully conceivable that the income of the bottom quintiles could grow above the average due to increasing inequalities at the top, for example between the top decile and the rest, leading to a convergence between the lower and the middle classes despite growing inequality.

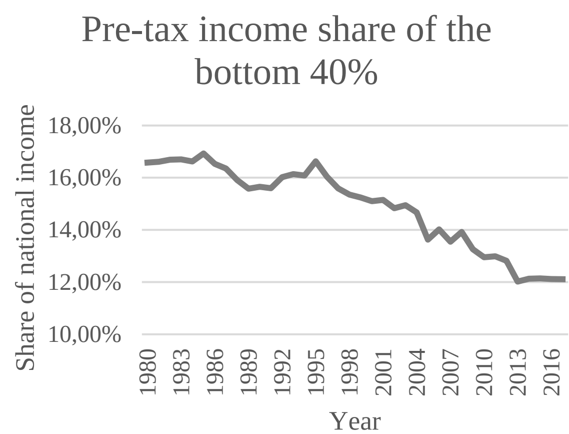

Figure 4.1. Pre-tax income of the bottom 40%. Source: WID (2020).

Furthermore, as a long-term target, it fails to address the particularities of every country, which might alter the initial success in the long-run. Germany is such a case. *Figure 4.1* shows the evolution of the pre-tax income of the bottom quintiles. The UN’s focus on post-tax incomes is not misplaced, however, for welfare states in which many of its benefits are earnings-based; to contemplate the long-term evolution of market incomes is important, due to its future repercussions, for example in pensions.

This notwithstanding, it is evident that ambitious measures are necessary if Germany is to restore the levels of equality enjoyed at the peak of its welfare state during the 1970s.

In the following pages I will discuss the main policies that have been implemented at the national level to tackle different social problems – not inequality itself – which may have had consequences on the evolution income distribution. Before, I will outline the transformations that has suffered the welfare state as a whole.

i. The German welfare state

Esping-Andersen classified Germany among the 'conservative' welfare states. This welfare regime is characterized by the 'preservation of status differentials' (1990, p. 27), an aim embodied in the predominance of a benefit scheme not only based on performance, but also on being a civil servant or being employed in a certain sector. Moreover, such welfare states have only modest 'de-commodification' (p. 22) – the possibility to drop-out of the market without significant loss of income. Nonetheless, the German welfare state and comparable ones transgressed the limits of the 'liberal' Anglo-Saxon regime, thus, its benefits targeted not only the worse off in a stigmatizing manner, but were extended to the whole population, including the middle classes, who were entitled to benefits (unemployment benefits, pensions, etc.) in accordance with their past earnings.

According to some analysts, there has been a major shift in German social policy. Seeleib-Kaiser notes that the welfare reforms of the last two decades

> make it no longer sensible to categorize Germany as a conservative welfare state. The dualized pension system for future pensioners looks remarkably similar to pension systems in liberal welfare states, such as the UK and the USA, where pensioners are largely dependent on complementary occupational (or private) provision in order not to be poor. Also the unemployment insurance only provides somewhat adequate benefits for the short-term unemployed and no longer guarantees occupational status protection and the achieved standard of living. (2016, p. 235)

As noted before, German reunification proved costly for its workers, contributing to the demise of the quasi-universal collective bargaining coverage. It also had a comparable long-term effect on social policy. Namely, as social insurance schemes became the chosen channel through which to fund unification, its costs spiked, leading employers to see the increasing contributions as pressuring downwards international competitiveness. Ultimately, this led to the reforms of the first decade of the twenty-first century, with significant changes in the unemployment benefits, and the aforementioned dualization of the pensions system (Seeleib-Kaiser, 2017).

Regardless of the evolution in fixed or mandatory social spending, as in most OECD countries, in Germany there seems to be a clear downward trend in public investment, as part of its austerity policies, and more concretely in ‘soft’ public investment, as fiscal consolidation policies lead to a decline in discretionary public spending (Mertens & Streeck, 2011; Streeck, 2017). This happens at a time when social investment is seen by many observers as the appropriate policy for future development of the welfare state (Hemerijck, 2017). ‘Soft’ public spending is the one ‘aimed at creating the conditions required for the prosperity and sustainability of a “post-industrial” or “knowledge society”’ (Mertens & Streeck, 2011, p. 2). In other words, as Germany became under fiscal stress – due to the costs of unification and ideological and technical resistance to increase spending – it also ceased to spend as much of its budget in public investment, whether on ‘hard’ infrastructural investment, or, more importantly in this context, ‘soft’ investment in education, training, and creating opportunities for the worse off families.

These pressures on the German welfare state have run parallel to the transformations in the German industrial-relations regime outlined above, in part due to exogenous and unrelated reasons – fiscal competition and the secular exhaustion of the German industrial model respectively – but also due to common ones, namely, the effects of unification. Moreover, it is plausible that the latter – changes in industrial relations – has led to transformations in the welfare state, in what Hall and Soskice call ‘institutional complementarities’ (2001, p. 17). The implementation of the minimum wage, to which I will refer later, is a clear example of this relation.

ii. Unemployment benefits and social assistance

As unemployment and public debt rose during the 1990s and early 2000s, the red-green government engaged in a set of reforms known as the Agenda 2010 or the Hartz reforms[3]. The reform was the result of the failures of the previous decade, including the incapacity of the German

[3] The Hartz reforms or ‘Hartz concept’ were named after Peter Hartz, head of the committee who outlined these policy recommendations. Peter Hartz was, until 2005, the human resources executive of Volkswagen AG. One may ask to which extent his role in reforming the labour market was not a clear and very direct case of corporate influence on public policy.

government and unions to effectively reproduce the industrial non-market coordination institutions of the West in the new *Länder*.

Among the reforms was the so called Hartz IV, tackling unemployment benefits. The resulting (current) system includes two types of benefits, the *Arbeitslosengeld I* and *II*, with the first having a shorter duration than previous benefits ‘from 32 to 18 months, with regular benefits being limited to 12 months’ (Seeleib-Kaiser, 2016, p. 224). The second, which became the main social benefit for the long-term unemployed, known with the name of the reform, established a minimum means-tested benefit targeted to those eligible under strict conditions (not exclusively the unemployed), including lacking significant savings or the possibility of being subject to accept any job offer (Zimmermann, 2017; Biewen & Juhasz, 2012). As Seeleib-Kaiser notes, the new means-tested social benefit lead ‘to a reduction in the net replacement rate from 54 per cent to 17 for a single with a previous average wage. For recipients of this new jobseeker benefit *any job* offer is deemed *suitable*’ (2016, p. 224).

The consequences of the Agenda 2010 were ambivalent, although the criticisms coming from the German radical left contain much truth. Biewen and Juhasz, for example, find the reform hit the middle income households, while those ‘with very low incomes benefited from the introduction of unemployment benefit II as its level was slightly higher than that of the former social assistance, and more households were eligible’ (2012, p. 638). Consequently, it set a floor for the worse off, and thus, it contributed at limiting inequality on this extreme, although not without creating distribution changes, as ‘middle incomes earners’ (in a very broad sense) could be significantly affected by the reform if unemployment were to increase in the future.

What Hartz IV represents is the introduction of last-resort social policies typical of ‘liberal’ welfare regimes, in which ‘entitlement rules are (…) strict and often associated with stigma; benefits are typically modest’ (Esping-Andersen, 1990, p. 26). In general, the new unemployment benefit scheme of Germany is less de-commodifying than previous ones either due to the decrease of its duration (Unemployment Benefit I) or because of the stigma it carries and its low replacement rate (Unemployment Benefit II), both of which tend to stimulate participation in the market (and probably reduce the reservation wage).

Overall, ‘the underlying logic is no longer status protection, the protection of the achieved living standard and the abolishment of “substandard employment”, but seemingly an understanding that any job is “better” than unemployment’ (Seeleib-Kaiser, 2016, pp. 224-225).

iii. Labour market

On the other hand, what the Hartz reforms did was establish a legal framework for the flexibilization of the labour market, something that was intended, and which may partially explain why the inequality surge of the early 2000s was not reverted as full employment was restored.

Figure 4.2 shows the evolution of the employment outcomes among German workers since the country’s reunification in 1991. Full-time employees with normal labour conditions were a declining group in absolute terms until 2006. Simultaneously those employed in ‘atypical conditions’ – part-time employment of at most twenty hours a week, temporary contracts, those working in an irregular frequency by an agency, etc – and those with part-time contracts of over twenty hours a week, have been an emerging group both in relative and absolute terms. Finally, there has been a slight increase in self-employed workers, some of whom should be added to the precarious workforce.

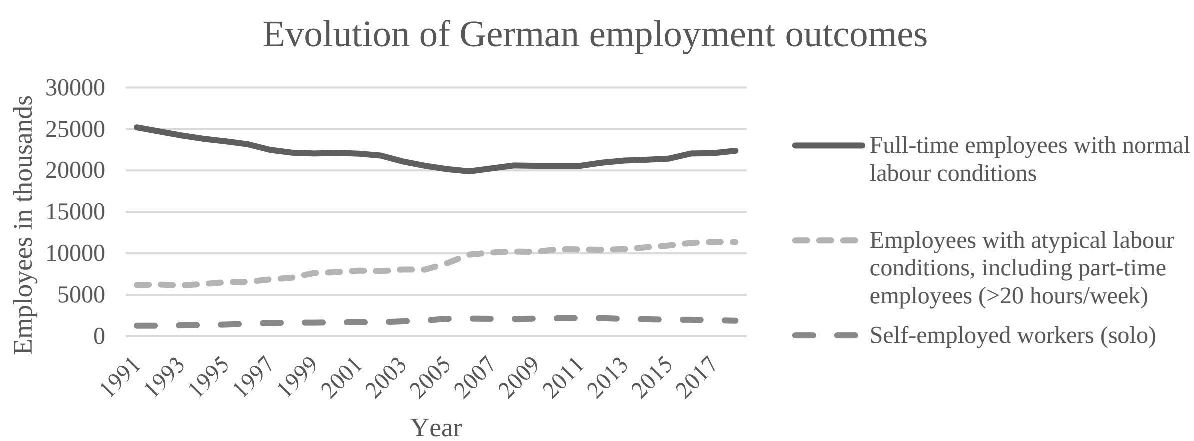

Figure 4.2. Evolution of German employment outcomes. Data source: Federal Statistical Office (2019), also in the Appendices.

In relative terms, there is a clear increase in workers with atypical working conditions and part-time jobs, including ‘mini-jobs’. Significantly, there are 2.2 million workers who would prefer to work more (Federal Statistical Office, 2020a). Furthermore, it is important to note that the data on which the numbers of *Figure 4.2* are drawn only take into account the ‘core working population’

(*Kernerwerbstätige*), neglecting workers over 64 years, working students or internship employees, social groups which are more vulnerable to exploitative working conditions and who account for almost eight million workers or more than fifteen percent of the workforce[4].

Certainly, a large part of this transformation is due to demographics, namely, the increasing participation of women in the labour market, many of whom prefer, or might only be able to reconcile with reproductive labour, part-time employment. Nonetheless, the 'activation' policies of the Agenda 2010, and the flexibilization of the labour market have contributed to increasing the participation of the workforce on the precarious labour market. Even the increasing participation of women is not necessarily 'progressive', as it might be a product of Nachtwey's 'regressive modernity'. In other words, women may have increasingly entered the labour market not because of societal progress and emancipation, but due to economic necessity (2018).

This development has also contributed to mask the persistent dispersion of wages, as labour income inequality stabilized not due to a stable hourly wage dispersion, but do to 'within-year employment opportunities which had an equalizing effect on the distribution of yearly net incomes' (Biewen, Ungerer & Löffler, 2017, p. 29).

Furthermore, the short-term effect of falling unemployment may certainly be a stabilization of inequality, yet, the growing presence of atypical jobs and part-time employment contributes to the falling share of income of the lower classes in the primary distribution, and eventually, those who have earned less (due to lower wages or shorter working days) will also earn lower social benefits, especially pensions, with increasing importance in an ageing population.

iv. Pension scheme

More importantly, the German pensions scheme is built on a contribution-based system in which failing to have worked or earned enough leads to very scarce benefits, especially after the 2001 reform. In other words, even if many women are not involuntary part-time workers, their employment outcomes will eventually lead to very high pension disparities. In the case of households in which part-time workers are involuntary, the result of the system may not only be large inequalities, but elderly poverty.

[4] This is based on the difference between the total employed population and the 'core working population' (*Kernerwerbstätige*) for 2018 (Federal Statistical Office, 2019, 2020b).

As noted, the reforms enacted to the pension system to constrain the costs of the public insurance scheme and reduce its pressure on international competitiveness after unification, led to a significant dualization of pensions. Seeleib-Kaiser observes that with the replacement rate – the ratio of the pension income with respect to pre-retirement income – of the public pensions scheme being reduced from 72 to 52%, there was a major shift in the German pensions system, as it ‘put an end to the guiding principle of guaranteeing the achieved living standard for pensioners’ (2016, p. 223). Thus, ‘those who have contributed to the subsidized private and occupational schemes are “promised” a combined replacement rate of 70 per cent, i.e. the same level as previously provided exclusively by the public scheme’ (p. 223), leaving those without a private or occupational pension scheme with much lower pensions, a process that will be completed by 2030.

Hence, as inequality rises significantly in the primary (market) distribution of income, and the welfare state shifts its policies to less de-commodifying ones with reforms that clearly establish a dualization that reinforces the divide between core workers with standard working conditions and the rest, secondary distribution inequality may ultimately reach a higher level than today, replicating with delay the market distribution to a greater extent.

v. Minimum wage

As a result of declining incomes in some sectors the Social Democratic Party of Germany (SPD) adopted the establishment of a national minimum wage as a central issue when negotiating the Great Coalition talks with the ‘Union’ party led by Merkel (CDU/CSU), a measure supported by the Greens and The Left.

Previous to its implementation, Germany was experiencing the results of the erosion of its collective bargaining system; namely, workers non-covered by industry-level agreements who earned often less than 5€ per hour (Nachtwey, 2018), in some cases less than a euro in the eastern states (Marsh, 2012).

Hence, the ‘institutional complementarities’ can be clearly seen in the shift in the regulation of wages (Hall & Soskice, 2001, p. 17). As one institution is eroded, in this case collective bargaining, a new set of institutions must be put in place, in this case the national minimum wage, the absence of which was compensated by the strength of the former. The debate on a European minimum wage is enlightening in this sense: Nordic countries with strong collective bargaining systems oppose it, as it could undermine the system (Boffey, 2020). Therefore, the shift Germany has experienced differentiates it even further from the social democratic welfare state of its northern neighbours, to bring it close to the hybrid liberal-coordinated market economies of France and Southern Europe and their conservative welfare states, all of which have a minimum wage. Yet, the German minimum hourly wage of 8.50€ lies behind France’s (OECD, 2020b), despite Germany’s higher productivity in terms of GDP per hour worked (OECD, 2020c).

Undoubtedly, the minimum wage has contributed to limiting poverty in Germany, and consequently, wage dispersions at the lower extreme of the distribution. However, given Germany’s productivity, it could be higher than it currently is, and it is hardly a good substitute to the old collective bargaining system.

b. Towards further regression?

The secondary distribution partially corrects the diverging trend of market outcomes, but changes in unemployment and social benefits, as well as the pensions reform, consolidate a benefit dualism typical of liberal welfare states that may ultimately reinforce the existing differences in the labour market. Those who are more at risk of unemployment are at the same time those who are more likely to lack access to a ‘generous’ benefit, even more so, low-income and unprotected workers will ultimately face the consequences of the pensions reform that generates a very low replacement income for those who have neither a complementary private scheme – those with a large enough income – or an occupation one – workers with standard working conditions.

Arguably, the creation of a minimum wage has been the only policy with a clearly positive impact in reducing inequality. Yet, as it only tackles the lower extreme of the distribution, it might not be enough to stop the trend towards higher inequality levels, especially its concentration at the top decile and centile, and even less reverting them.

c. Policy recommendations

Ideally, a reversal of the current trend should be driven by those most negatively affected by it through collective struggle. The decline of unions is worrisome in this respect, and their historical role as almost exclusive to the core workforce, and alien to precarious workers and the unemployed, further hinders them from realizing this function.

The short-term aim must acknowledge that welfare income cannot be compared to a monetary-equal income from labour so far as the latter ‘imparts self-confidence and a feeling of greater social independence, than being depend on transfers, which can be restricted at any time by political decisions’ (Bosch & Kalina, 2016, p. 75). But also, that any changes in the ‘market’ distribution via training face constrains, since fiscal consolidation and austerity limits the possible ‘soft’ public investment required to support programmes to increase the human capital of the German workforce and especially of the less skilled workers and their offspring (Mertens & Streeck, 2011). While the restauration of the old skill training programmes cannot happen independently of the evolution of other institutions, including collective bargaining ones, due to ‘institutional complementarities’ (Hall & Soskice, 2001).

Consequently, I propose a diverse set of proposals that would facilitate the reversal of the diverging trend that could ultimately lead to a more equal society, both ‘market’ and post-taxes distributions. The first section is essential for supporting any short-term increases in public expenditure, the second section the long-term aims for the (labour) market, while the third focuses on the redistributive and regulatory powers of the welfare state.

i. Regulating capital and financing the state

Income tax: Redistribution through taxation becomes increasingly necessary as the primary distribution becomes more unequal. The Nordic countries are mong the most equal one in both distributions, market and post-taxes, no less because of their collective bargaining systems and high state revenue. If inequality is to be tamed in the short-term via taxation, more progressive income taxes will be required.

Wealth and inheritance taxes: As Piketty notes, if wealth (in his terminology, capital) increases to historically high levels throughout the century, and higher fortunes imply significantly higher returns, progressive wealth and inheritance taxes may be required to avoid larger (and accelerating) concentrations of wealth and capital income (2017).

Tax coordination: Both for income and wealth taxes, coordination at the European level is necessary to avoid fiscal competition. The relative hegemony of Germany allows it to have the necessary power to at least create policies that move Europe in this direction.

Public ownership: A more radical shift in state financing could embrace ownership (complete or partial) of the largest German corporations, in order to socialize its profits. Germany is no alien to collective and public ownership of production. On the contrary, worker ownership is common, and some states have significant shares of some of the most competitive private corporations. A case in point is Volkswagen, with the State of Lower Saxony owning 11.8% of its shares (Volkswagen, 2020).

Public banking: Ultimately, creating of a strong public banking sector, to reduce the influence of the *Marktvolk* [5] of financial capital (Streeck, 2017) through public indebtedness. It would also constrain the power of the consolidation dogma of nowadays.

ii. Labour market policies and collective bargaining

Minimum wage: The minimum wage should at least be adjusted to a level proportional to Germany's economic strength, and all opt-outs – for the youngest workers and, temporarily, the long-term unemployed – must be abolished.

Restoring collective bargaining: As far as the policies outlined in the previous sections are effective, they also depend on state agency to work, and they are susceptible to political changes. State incentives and investment in the reconstruction of collective bargaining – including where it was always weak – both at the industry level and through works councils, can lead to long-lasting effects on the income distribution more resilient than fiscal measures.

Collective workers ownership: The alternative to the old collective bargaining system is a more solid ownership distribution, by which workers own at least part of the firm. Unlike works councils and sector-wide bargaining, collective ownership is not based on concessions by capital, and consequently, it may prove more resilient and less susceptible to the changing interests of employers.

[5] The *Marktvolk* or people of the market, a concept coined by Wolfgang Streeck, refers to the second constituency of modern capitalist democratic states, which, due to their dependence on debt (because they are reluctant to finance public spending through the necessary level of taxation) are increasingly influenced by financial capital, that wages its power to promote consolidation policies (fiscal discipline) and other capital-friendly measures (2017).

iii. Unemployment benefits, pension schemes, social investment and basic income

Unemployment benefits and universal basic income: The Hartz IV model of social and unemployment benefits must be replaced with a more universal and less stigmatizing programme. A universal basic income would not only create a historically high level of de-commodification, but would probably also be defended by the middle class, creating an important consensus in favour of the programme while strengthening the bargaining power of workers vis-à-vis employers, reversing the ‘understanding that any job is “better” than unemployment’ (Seeleib-Kaiser, 2016, p. 225).

Social investment: Although Germany’s vast trade surplus and net foreign assets allow for a loss in international competitiveness; – assuming that no protectionist turn is feasible in the near future –, social investment can contribute to maintain the capacity to compete in global markets while assuring that expensive social programmes can be supported, and that, by limiting unemployment and in-work poverty, a broad and strong tax base exists.

Reforming pensions: Creating a public scheme that is also supported by the middle class – that, at least since the pension reform of 2001, increasingly depends on a complementary private insurance –, will require a Swedish-style model in which a high universal base; is complemented by an earnings-based scheme in order to allow for higher incomes to achieve full replacement income while driving the private sector out (Esping-Andersen, 1990).

5. Final remarks

The trend towards increasing inequality in Germany during the last three decades can be explained by the loss of bargaining power for a significant part of the German workforce. Different long term trends, such as increasing trade liberalization and the exhaustion of the economic sustainability of the post-war ‘German Model’, combined with the shocks caused by reunification and, to a lesser extent, the disintegration of the Eastern block and the EU membership of Eastern and Central European countries, have led to profound changes in the institutional framework of the German economy. As capital lost interest in sustaining the quasi-universality of the collective bargaining system, due to a need to compete in prices and the opportunities made possible by the less regulated eastern *Länder* as well as by the growing supply of skilled workforce, the institutions of the German coordinated market economy have increasingly been restricted to the core-workforce.

The labour market dualization has been facilitated by the declining power of unions, as well as by a labour and industrial relations legislation clearly favourable to capital, such as the creation of a ‘bargaining-free’ membership for employers’ associations or the promotion of atypical work conditions with the Agenda 2010.

The rising level of inequality in Germany should cause concern, as an economy usually presented as highly prosperous seems to be uncapable of improving, and even maintaining, the life standards of a significant part of its population. In fact, what my dissertation shows is that in a globalized economy where capital enjoys much more freedom than before, the state prefers to accommodate its interests for increased ‘competitiveness’ – profitability – as if they were the interests of society as a whole. However, the success of German capital has been at the expense of part of its workforce, who, lacking the former well-functioning bargaining institutions, see their relative incomes fall.

I have outlined several policy recommendations: the necessary measures to increase government revenue and the independence of the state vis-à-vis (financial) capital; the reform of the labour market and firm ownership to alter the ‘market’ distribution of income; and, the reform of the welfare state to further redistribute in the post-tax distribution. These are preliminary recommendations; further research is needed to understand the collateral effects, and to gather data on, their implementation. That is to say, how their implementation without the right policy mix could prove counterproductive or inefficient. For example, research on the impact of a universal income on collective bargaining, or of public ownership on government revenue and international competitiveness would be necessary and useful. Special attention should be given to the interplay between domestic and regional policies, given the high level of European economic integration, and the possible externalities of domestic policies.

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7. Appendices

a. Appendix A: Personal Interview 20/04/2020 to Oxfam Intermón's Research Coordinator

Brief bio of the individual and transcription of the interview

Íñigo Macías Aymar is a Research Coordinator at Oxfam Intermón, he is also an associated lecturer at the Institut Barcelona d'Estudis Internacionals (IBEI). He earned his degree in Economics and Business Management at the Universitat Pompeu Fabra, and his Master of Science in Development Studies at the London School of Economic and Political Science. He is the author of some of the latest Oxfam Intermón reports, like *Bajan los salarios, crece la desigualdad el impacto de las diferencias salariales en los hogares* (2016), *Una economía para el 99%, España, un crecimiento económico que deja fuera a las personas vulnerables* (2017), and *Reward work, not wealth* (2018).

The following interview represents exclusively the views of Iñigo Macías Aymar. It was conducted the 20th of April 2020.

Why did the UN introduce reducing inequalities in the Agenda 2030?

The SDG are aimed to promote inclusive development, that is, growth with which poverty is reduced. This means that overall growth should involve an increase in the lower incomes, in this case [SDG 10] higher than the average income growth. The point is to reduce the gap between higher and lower incomes that has been increasing due to the vulnerability of labour (which accounts for the majority of income for most of the population), that is to say, that lower wages are often payed even when working days are extended. In the current context, however, the economy is increasingly rewarding more incomes from capital than wages, and, moreover, inequality within wage incomes is also growing. These labour income inequalities must also be solved.

Yet, target 10.1 only focuses in increasing the income growth of the bottom 40% above the average, given the increase in inequality at the top, is this adequate for the current context?

As I said capital is increasingly being rewarded, relative to labour, and top wages are also reaching new records while at the bottom incomes from labour do not. Thus, it makes sense to also focus on the higher incomes, hence, the UN’s indicator should probably be improved.

When reporting progress in the accomplishment of the SDG, and especially with regards to target 10.4 – implementing policies to reduce inequality – the German government uses the capital share of income as an indicator of the success/failure of its policies. Is this a good indicator?

It is a telling number because income from capital is far more concentrated than income form labour, thus if income from labour increases relative to overall income it is likely that is will be more evenly distributed. However, other factors should be considered, like the redistributive function of the state, or wage inequality. The point is not just to increase the labour share of income, its distribution within wage earners is also important.

A typical argument regarding the causes of inequality, especially among liberal economists, is that the surge in inequality is mainly caused by skill-biased technological change, that in its extreme form renders some kinds of jobs completely obsolete, while rewarding other immensely. Does this line of argument accurately describe the current transformation?

There are some good points in such reasonings. Globalization certainly creates a ‘rift’ among workers, as it significantly rewards those who are highly-skilled, while those who are not see their share decline. Yet, this is not the full picture, someone has to decide the value of each type of labour, and there are vast disparities between the CEO of a large firm and its workers at the bottom of the value chain. It is hard to believe that this income gap is exclusively a result of a skill gap. Undoubtedly, the labour of managers and entrepreneurs should be highly valued, nonetheless, those at the bottom of the value chains of some of these innovative companies do not earn enough to get by. I do not believe that the innovations and success of the former justify the misery of the latter.

In many countries, at one moment or another during the last decades, part of the problem has been a high unemployment rate. Should governments target unemployment as the main cause of inequality of income?

Evidently, reducing unemployment is important, but the quality of employment should also be considered. The working poor should not be neglected, reducing unemployment to reducing inequalities and poverty means creating sufficiently well-payed jobs. Moreover, when manipulating data of wage inequality, it should be noted that the unemployed are not included into wage inequality statistics, consequently, when unemployment is high wage disparities may not reflect accurately income inequalities.

The post-war order established in the West was characterised by a historically high level of equality in these countries, and many historians attribute it, at least partially, to the strong role of trade unions. However, they have lost power in the last three to four decades in most of the developed world, could their reinforcement contribute at reestablishment the former level of equality?

There is certainly a strong correlation between low union affiliation and increasing inequality, according to the IMF, and unions play a role by influencing wage distribution in firms, a function that is nonetheless complicated by globalization. Moreover, the expansion of the gig economy is changing the relation between employer and employee decreasing the bargaining power of workers. But I would not overestimate the role of unions in their current form, their bad reputation, for example in Germany, is justified as far as they have defended the already employed neglecting those who were not. This is translated to a a void in mobilization in response to high unemployment rates, when they exist.

Oxfam's reports focus mainly on poverty and inequality, and often its proposals rely on distributing the benefits of growth among the worse of. However, other influential NGOs, especially environmental ones, are demanding a change in paradigm to one in which economic growth ceases to be a target for governments, in order to avoid an environmental collapse, which would have vast social consequences. Is there a real tension between the different demands?

The problem with de-growth strategies is that they would exacerbate some of all the already existing problems. In other words, we are already struggling with how to share growth, we would for sure have aggravated problems with sharing de-growth. We are evidently exceeding the environmental limits, and many of us consume beyond these, however, de-growth could lead to even larger inequalities than the existing ones. By this I do not mean that we should not approach the issue, we should probably go beyond the GDP as an indicator for prosperity and focus on *how* it grows. Moreover, if we achieve a higher level of equality it is likely that less growth will be required to sustain an adequate level of wellbeing.

b. Appendix B: International inequalities and the ‘middle-income trap’.

GDP as an indicator of value added, although broadly accepted, is controversial in many ways. First, it fails to account for income hidden in tax havens, which is not insignificant (Piketty, 2017). Second, although described as an indicator for the *value added* in the domestic economy by liberal economists, a Marxist critique shows that it really accounts for the *value captured,* usually in benefit of centre/core states, due to the monopolistic power of their TNCs, who extract both surplus value from workers with lower unit labour costs in the periphery – around forty to sixty percent of the rich countries’ costs –, and appropriate large part of the profits of their capitalist suppliers through their monopsonic position vis-à-vis these smaller firms. This extracted value is then accounted as value added in core countries, where higher salaries are paid to core workers and managers, and superprofits are realized (Suwandi, 2019).

Nevertheless, GDP comparisons can still give a hint of the relative capacity and power of different economies, and GDP per capita an indicator of the potential material wellbeing and level of development of each country.

Using the World Bank’s data for GDP per capita both in international exchange value and PPP, the ratio between the US’ and selected countries’ per capita GDP are charted. The ratio represents how many times the US product per capita supersedes the one of the selected countries. Unfortunately, while the data for the per capita GDP in international exchange value exists for a period starting in 1960, the PPP data exists only for a shorter thirty years period starting in 1991.

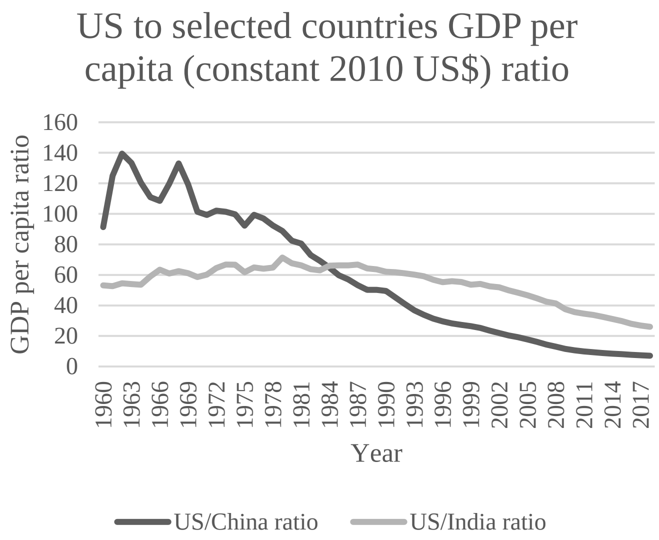

Figure B.1. Representation of the ratio between the GDPs per capita of the US to the ones of China and India, in the international exchange value using constant 2010 US$. Source: (World Bank, 2020a)

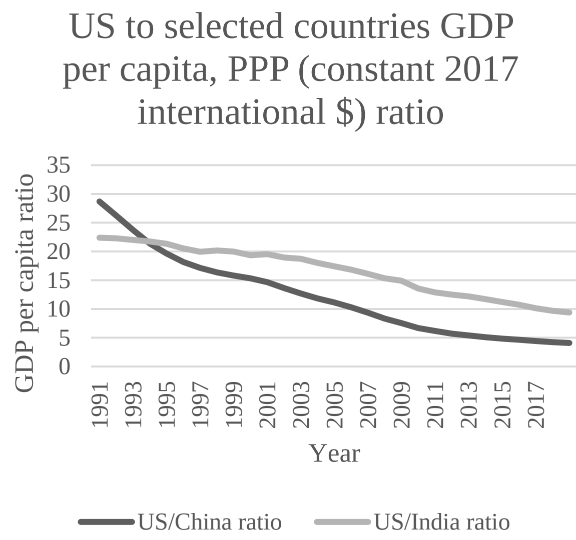

Figure B.2. Representation of the ratio between the GDPs per capita of the US to the ones of China and India, in PPP using constant 2017 international $. Source: (World Bank, 2020a)

In the case of *Figure B.1* and *B.2* the ratios between the GDP per capita of the US and the two largest ‘emerging markets’, China and India, are shown. China’s evolution towards convergence is more marked than India’s, although the latter started from a lower level of divergence. In *Figures B.3* and *B.4* the same is represented for other ‘upper-middle income’ countries, a World Bank category already including China (but not India).

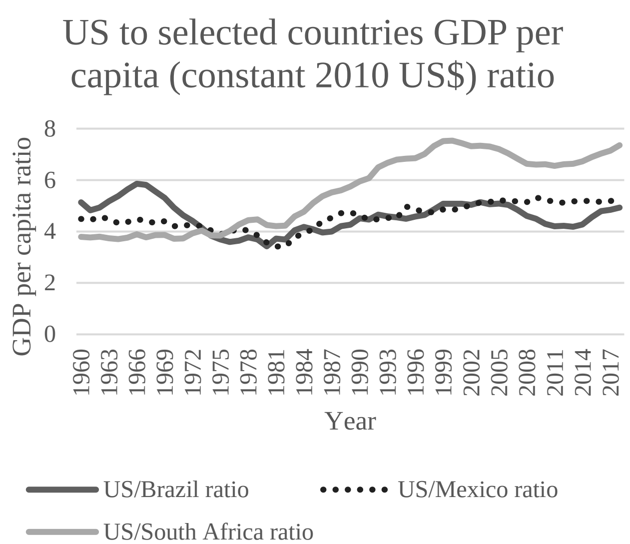

Figure B.3. Representation of the ratio between the GDPs per capita of the US to the ones of Brazil, Mexico and South Africa, in the international exchange value using constant 2010 US$. Source: (World Bank, 2020a)

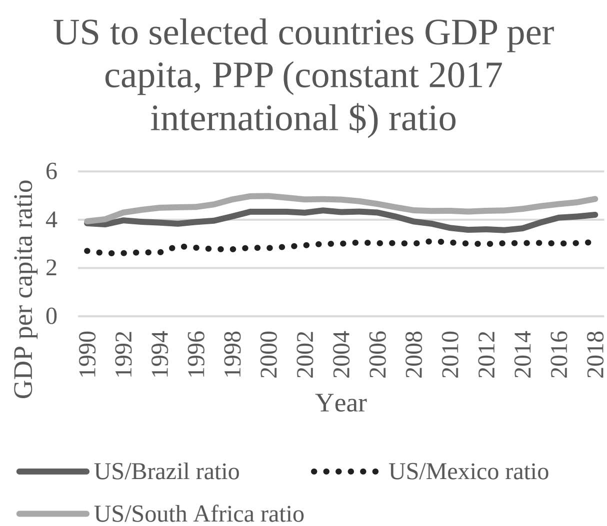

Figure B.4. Representation of the ratio between the GDPs per capita of the US to the ones of Brazil, Mexico and South Africa, in PPP using constant 2017 international $. Source: (World Bank, 2020a)

In the case of these ‘upper-middle income’ countries there are no signs of any evolution towards convergence. These are among the countries that could be classified as suffering the ‘middle-income trap’ (Gill & Kharas, 2015), that is, incapacity to escalate further in the income hierarchy of the world-system. With India and (especially) China approaching these income levels, the question is if these economies will too become ‘trapped’, thus halting the ‘catch up’ of almost three billion people with the ‘core’. It is plausible that China, with a stronger development project driven by its auto-centred state capitalism will succeed where others have not (Amin, 2013), although significant (geographical and class) inequalities still exist within the People’s Republic.

References to Appendix B

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c. Appendix C: Table for the data in Figure 4.2

Employees numbers are in thousands of workers. The data for self-employed workers, workers under normal employment conditions, part-time employees and employees with atypical conditions are drawn from the Federal Statistical Office (2019), numbers for full-time employees with normal labour conditions are calculated as the difference between the total number of employees under such conditions and those with part-time employment (with more than twenty working hours a week, else, they fall under the category of employees with atypical working conditions).

Year	Self-employed workers (solo/no employees)	Total employees with normal conditions	Part-time employees with normal working conditions	Full-time employees with normal working conditions	Employees with atypical working conditions	Part-time employees and workers with atypical working conditions
1991	1284	26948	1751	25197	4437	6188
1992	1284	26368	1649	24719	4589	6238
1993	1320	25927	1707	24220	4434	6141
1994	1355	25550	1734	23816	4575	6309
1995	1422	25185	1672	23513	4854	6526
1996	1521	24760	1586	23174	4986	6572
1997	1617	24119	1628	22491	5231	6859
1998	1646	23800	1653	22147	5426	7079
1999	1649	23727	1674	22053	5951	7625
2000	1697	23850	1720	22130	6012	7732
2001	1682	23828	1801	22027	6114	7915
2002	1715	23620	1818	21802	6050	7868
2003	1807	22903	1824	21079	6229	8053
2004	1920	22436	1868	20568	6177	8045
2005	2110	22138	1979	20159	6854	8833
2006	2128	22173	2278	19895	7574	9852
2007	2112	22554	2309	20245	7785	10094
2008	2103	22981	2382	20599	7845	10227
2009	2137	23057	2486	20571	7699	10185
2010	2169	23131	2571	20560	7945	10516
2011	2192	23185	2615	20570	7857	10472
2012	2189	23682	2729	20953	7709	10438
2013	2091	24063	2873	21190	7638	10511
2014	2047	24515	3226	21289	7506	10732
2015	1991	24832	3410	21422	7534	10944
2016	1989	25641	3597	22044	7655	11252
2017	1944	25757	3671	22086	7718	11389
2018	1874	26214	3847	22367	7509	11356

References to Appendix C

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