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To Pay or Not to Pay: Wage Variations in Germany and France

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Based on the briefing note “*Comment se comparent les salaires entre la France et l’Allemagne*” by Odile Chagny (IRES) and Frédéric Lainé (France Stratégie)

The eurozone’s two economic powerhouses are often contrasted. Germany is frequently portrayed as the star pupil, with a dynamic economy and a thriving manufacturing sector. France, on the other hand, is seen to be a laggard, weighed down by a rigid economy that underperforms.

Of course, the reality is that both countries’ economies have been pretty much stagnant over the past year. Nonetheless, there is a grain of truth in the oft-wheeled-out cliché: on the whole, Germany’s economy has largely outperformed France’s since the turn of the century.

The question then is why is this so. One way of providing an answer is to take a look at wage variations across different industries in both countries to try to determine their impact on economic performance.

Recent studies have shown Germany’s wage disparities between sectors and levels of qualification to be crucial to the competitiveness of its export industry. France Stratégie has taken these a step further in a recently published study, drawing on the Eurostat *Structure of Earnings Survey* to compare the distribution of wage variations in the two countries and better understand their economic impact.

It found that while the average cost of labour is unsurprisingly lower in Germany than in France (9.2% less in non-agricultural sectors in companies with more than 10 employees), average gross hourly wages are in fact higher in Germany across all major industries, save business services.

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The study pointed to a key to the success of German manufacturing, with its focus on high value-added products: the median wage and top wages are higher than in any other sector, allowing companies to attract highly skilled workers (see graph below).

In fact, the most recent data from 2010 shows the cutoff for the top 10% of blue and white collar German workers (what economists refer to as the ninth wage decile) is no less than 31% higher than in France.

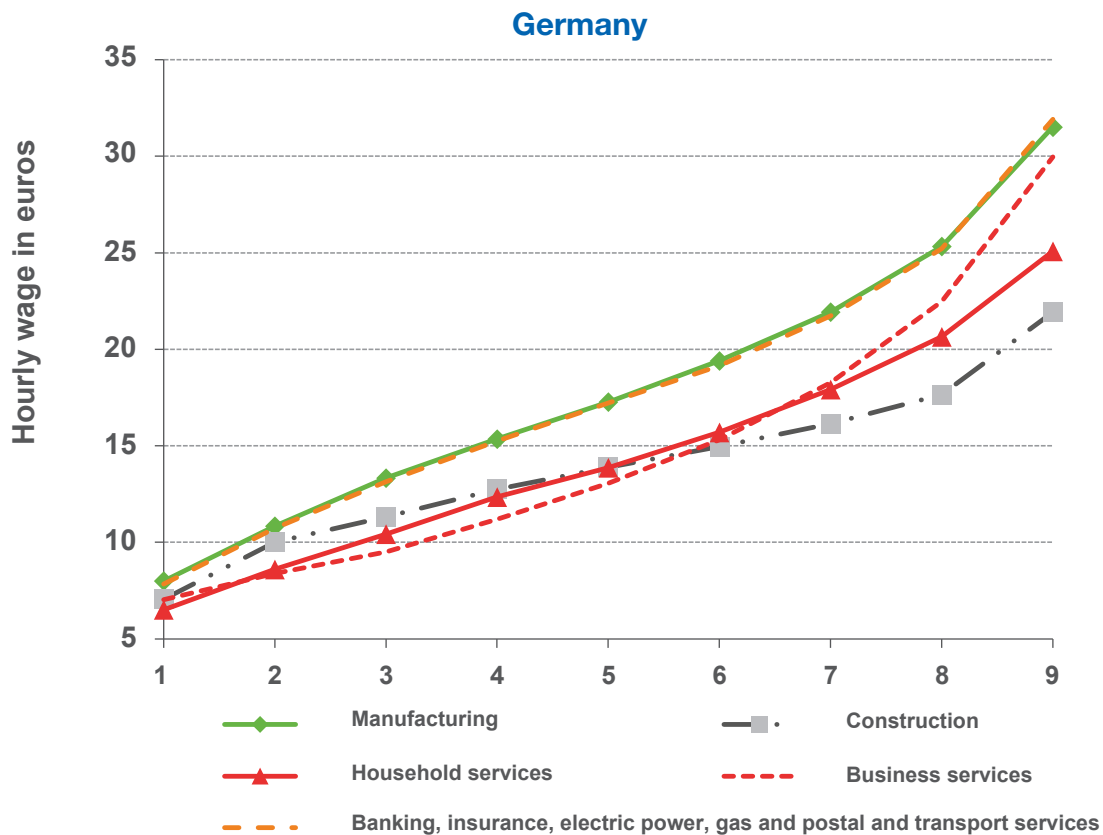
In terms of industries with high median wages in France, transportation, postal services and the electric power and gas industries all have a median wage 10% higher than in Germany. The industry with the highest wages, business services, has a median wage 20% higher than its German counterpart (see graph below).

“Simply put, 10% of workers in companies with more than 10 employees earn less than €7.05 euros gross an hour in Germany, whereas in France they earn less than €9.44,” explained Frédéric Lainé, an economist at France Stratégie and co-author of the study.

Indeed, Germany’s income inequality as measured by the ratio of the median gross wage to this cutoff was the highest in the EU in 2010.

According to a 2012 German study¹, in 2009 just over 1.2 million workers earned a gross hourly wage of less than seven euros. A full 43% of them work so-called minijobs, which in their current form are a result of Chancellor Gerhard Schröder’s 2003 Hartz II reforms. Pay is capped at €450 per month and workers are exempt from tax and social insurance payments and employers have lower social contributions.

Distribution of hourly wages in 2010, according to industry



1. Voss D. and Weinkopf C., “Niedriglohnfalle Minijob”, WSI *Mitteilungen* 1/2012.



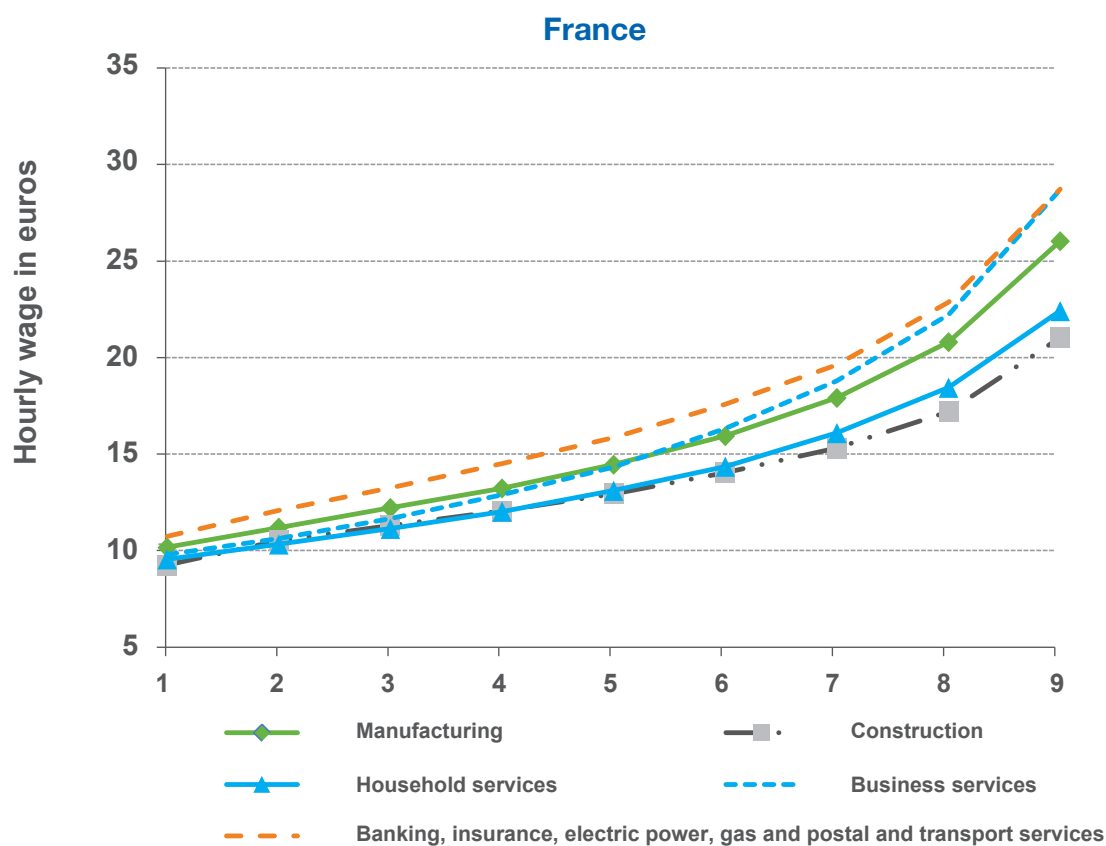
On the whole, the increase in low-wage workers in Germany has been a direct result of the rise in minijobs, the lack of a guaranteed legal minimum wage, the wane of trade unions and the subsequent decline in collective bargaining.

At the other end of the spectrum is France, where hourly wage disparities at the bottom of the pay scale are among the lowest in the EU. France Stratégie's study shows that the country's minimum wage, known as the SMIC, has contributed to evening out earnings at the bottom of the pay scale.

Overall, France has taken a more uniform approach to wage variation across different sectors. What this means is that costs have generally been high for industry, putting a damper on competitiveness.

Germany has pursued a different tack, combining attractive wages for skilled and highly skilled workers with low wages for unskilled workers to achieve cost competitiveness. The imbalances this has created among workers from different industries and with wage earners in other countries may well be set to change: the country is in the process of implementing a national minimum wage.

Distribution of hourly wages in 2010, according to industry



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