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Socially Just Growth – The Debate on the Minimum Wage

*Economy of Tomorrow – Building the Good
Society in Asia and Europe: How to produce
socially just, resilient, and green dynamic
growth*

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Structure of Presentation

- 1. Impact of MW'S**
- 2. Different wage setting systems in the EU**
- 3. The erosion of the German wage system**
- 4. The bumpy road to the German MW**
- 5. Possible impacts of the German MW**
- 5. Conclusions**

1.1 Impact of MW's – What do we know?

1. Employment effects:

New US and UK Minimum wage research: No significant employment/disemployment effects – Mainly based on difference-in-difference analysis (neglecting macro-economic effects)

- Meta analysis in USA and UK:

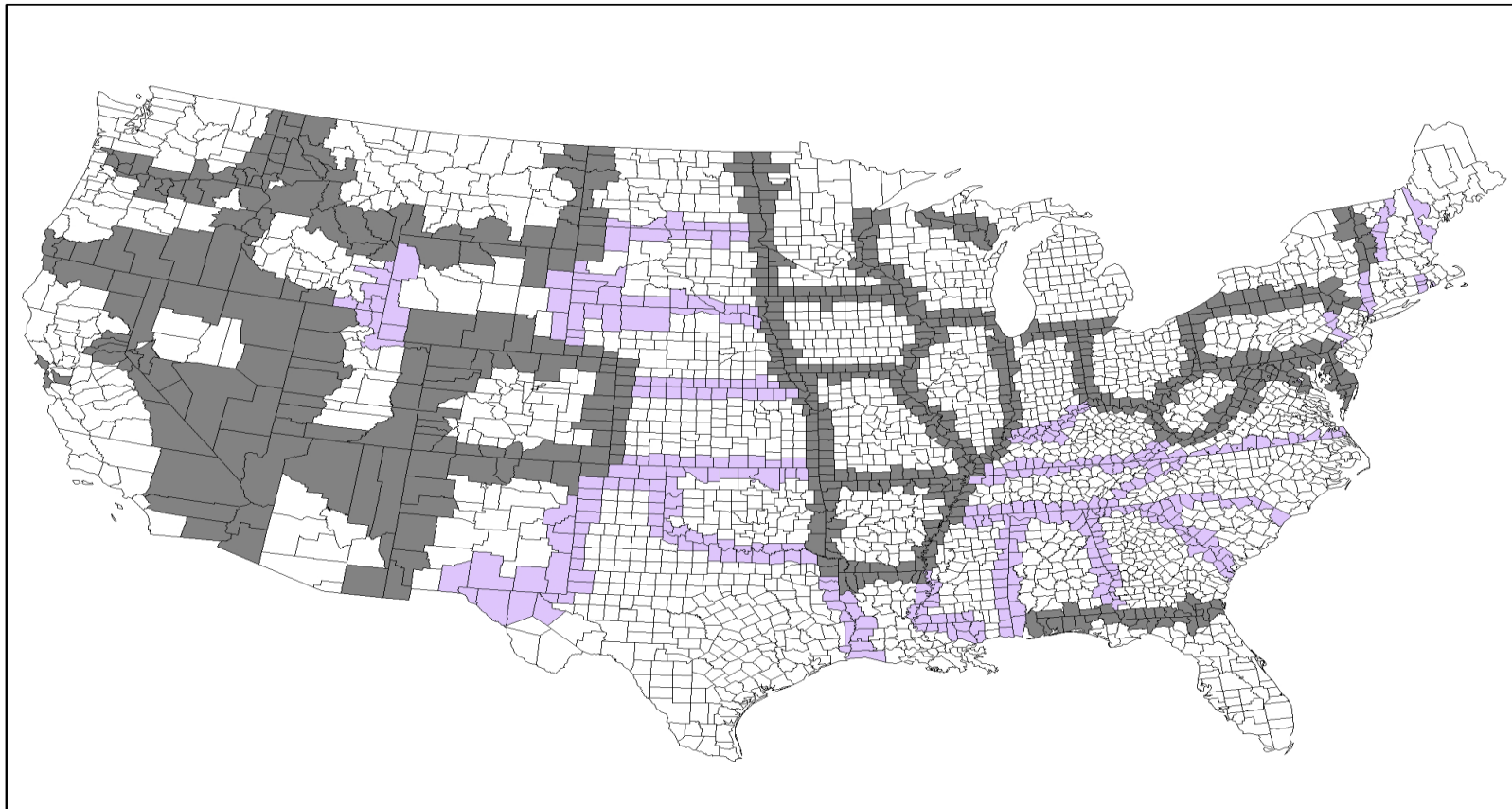
- „overall elasticities for the United States are both statistically insignificant and very close to zero, even when restricting the focus to teenagers and young adults“ (Belman/Wolfson 2014: 402)

Belman, Dale / Wolfson, Paul J. (2014): What Does the Minimum Wage Do? Michigan: Upjohn Institute for Employment Research.

- „there are small but significant positive employment estimates from 2003 onward, when the average bite of the NMW was at its highest since its introduction“ (Dolton et al. 2012) (Dolton, Peter / Rosazza-

Bondibene, Chiara / Wadsworth, Jonathan (2012): Employment, Inequality and the UK National Minimum Wage over the Medium Term. In: Oxford Bulletin of Economics and Statistics 74 (1): 78-106).

1.2 Dube/Lester/Reich (2010) 318 County-Pairs with different MW's – No dis-employment effects



■ Border Counties with MW Differential
■ Border Counties without MW Differential

1.3 Impact of MW's – What do we know?

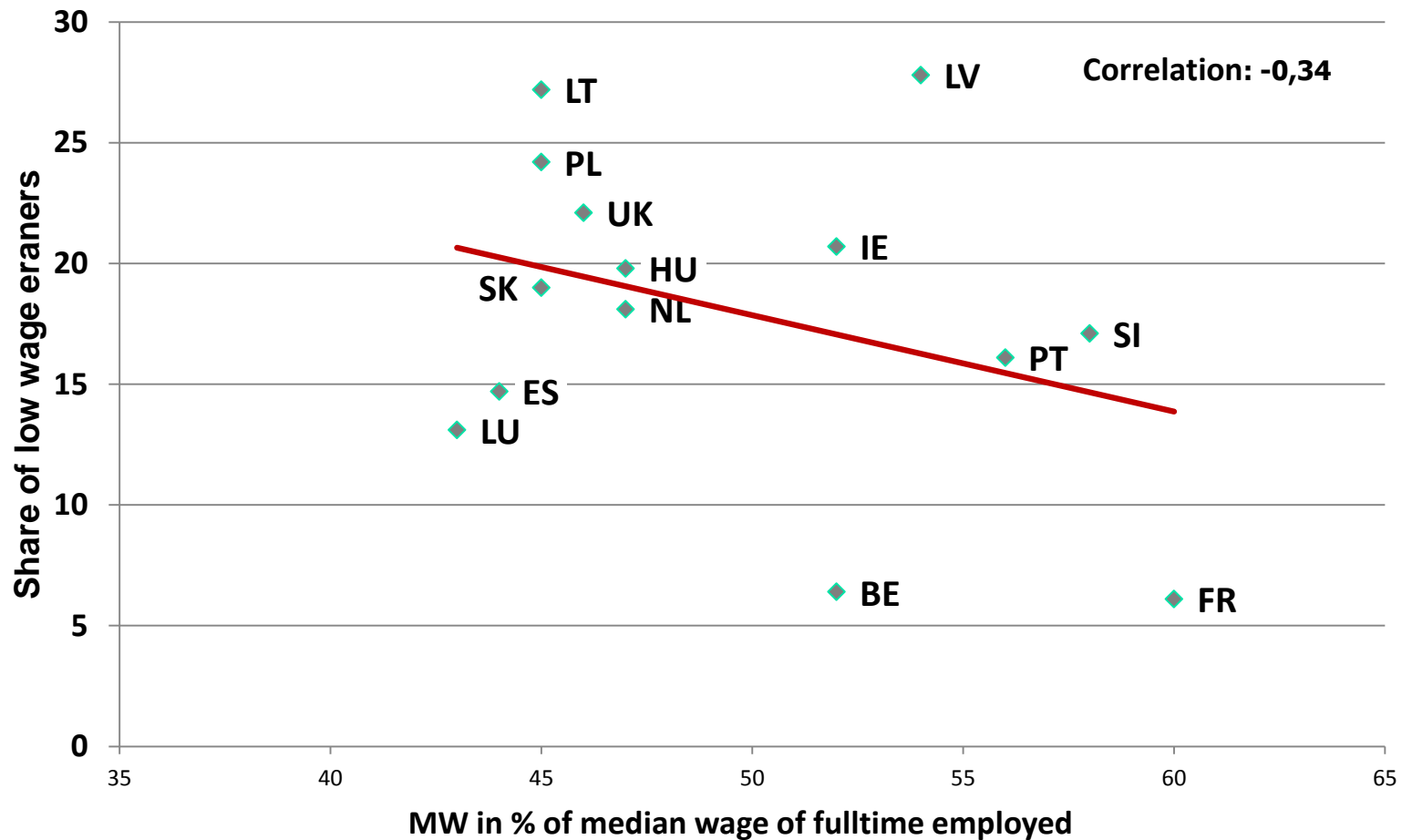
2. Impact on wage inequality: Wage compression in the lower deciles, but low impact on overall wage inequality

- Higher impact on middle incomes if linked with collective bargaining

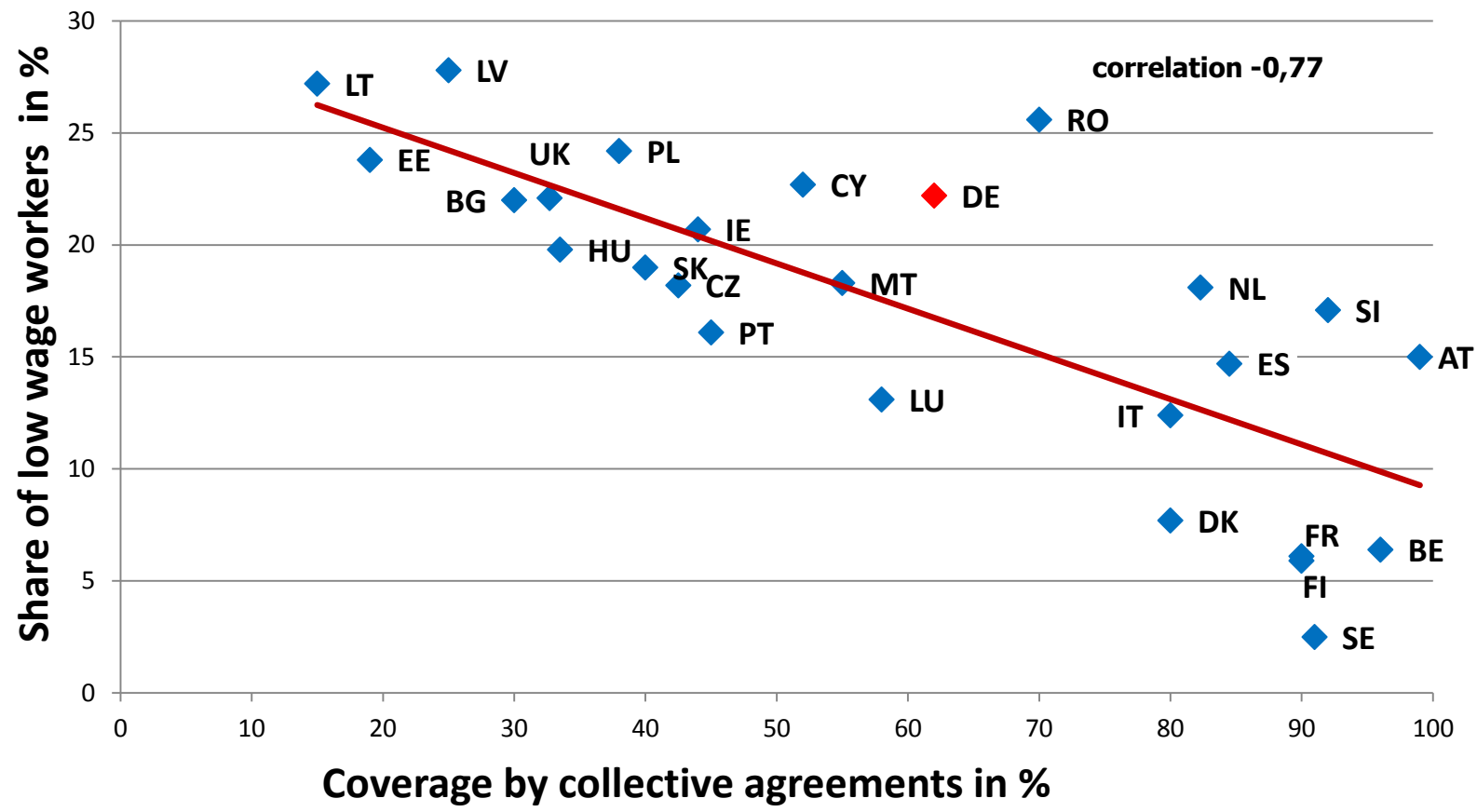
3. No universal effects

- level of MW important
- Higher MW possible in innovative environment and with higher skill level
- Not only „if“ but also „how“ important: early announcement important, no shocks, enforcement crucial for acceptance

1.4 Minimum wage in % of median wage (Kaitz-Index) and share of low wage earners (2010)



1.5 Coverage by collective agreements (2008) and low wage share (2010)



Source: Bosch/Weinkopf 2013 (Visser 2011 Bezzina 2012)

1.6 Impact of MW's – What do we know?

Note:

Impact of European welfare models: Minimum wage earners

- **Covered by health, unemployment, age insurances**
- **Entitled to**
 - **4 weeks of paid vacations**
 - **Paid public holidays**

2.1 Different wage setting systems in the EU

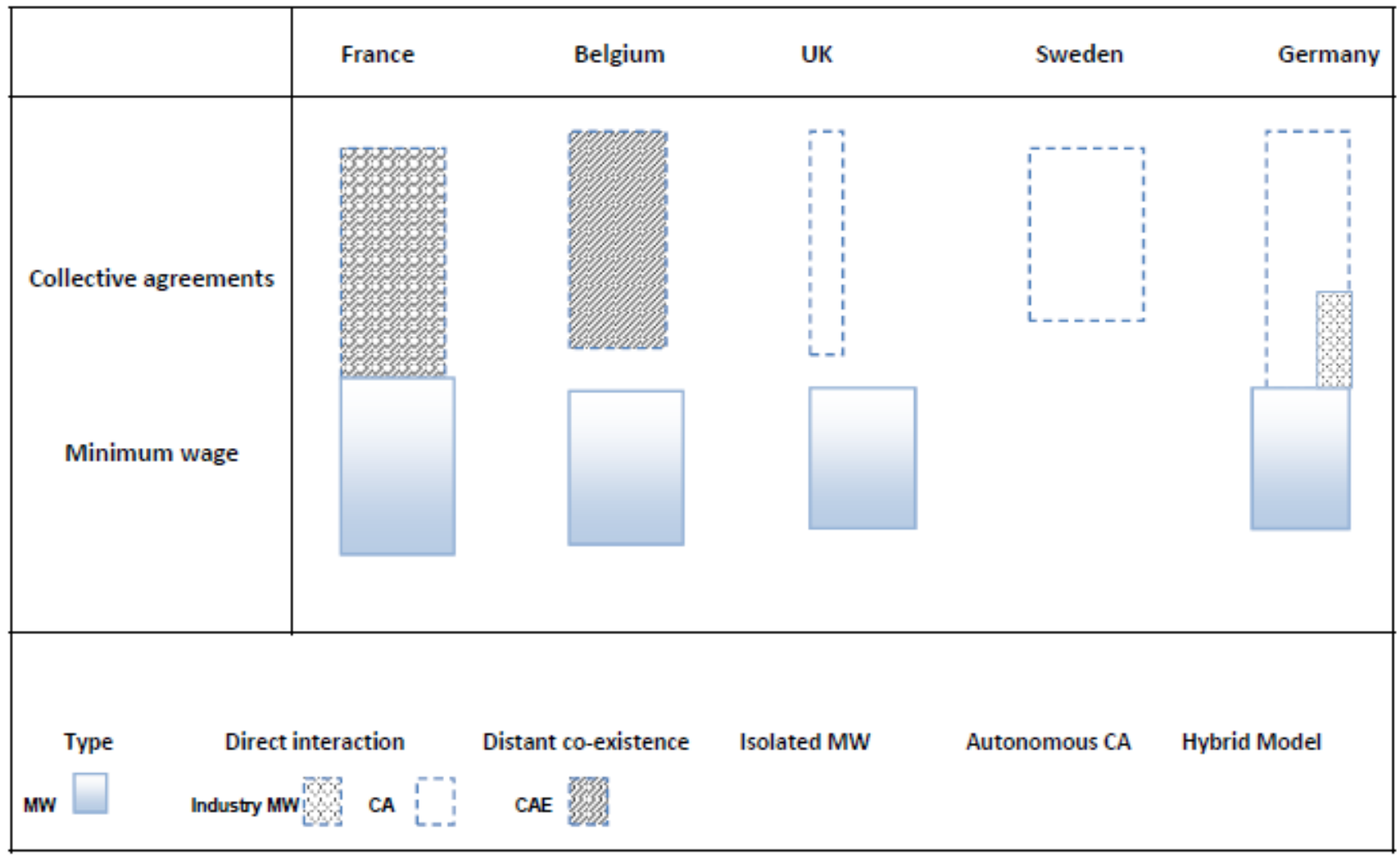
- Wage setting by the employers, the state or collective bargaining
- Different mixes of unilateral, mandated and negotiated wage setting in EU countries
- State may intervene directly in wage setting by protective standards or indirectly by participative standards
(Sengenberger 1994)
 - *Protective standards*: MW, Extension of CA, prevailing wage laws
 - *Participative standards*: Gent-system, co-determination
- High inclusiveness only with high coverage by multi-employer bargaining
- Germany traditionally autonomous system without protective wage standards

2.2 Statutory protective and participative labour standards in five national wage setting systems

	Germany	Sweden	UK	France	Belgium
Statutory standards					
- protective	(X)*	-	X	XXX	XX
- participative	XX	XXX	-	X	XXX
Trade union density	18%	70%	26%	8%	50%
Rate of coverage by collective agreement (employees)	62%	88%	29%	98%	96%
Share of low wage earners 2010	22.2%	2.5%	22.1%	6.1%	6.4%

* From 2007 with the introduction of industry minimum wages 2015 with the statutory national minimum wage
 State-imposed standards: - none, X weak, XX moderate, XXX strong
 Source: ETUI 2014; Eurostat in Focus 48/2012; own compilation

2.3 Typology of interaction between MW and CA



3.1 The erosion of the German wage system

The traditional autonomous wage setting system until 1990

- Wage setting left to autonomous social partners
- No direct state intervention – extension of representative collective agreements only on demand of social partners
- **But: Strong participative standards:** (codetermination of work councils and in supervisory boards, resources for works councilors (time-off, training etc.))
- **Highly inclusive: 85% coverage by CA, low share of low wage workers, but low trade union density (never higher than 35%) - system dependent on employer density - very vulnerable**

3.2 The erosion of the voluntarist system

Decrease of coverage by collective agreements from 85% in 1990 to 60% in West and 47% in East-Germany in 2013 - Reasons:

1. Transplantation of West-German wage-system into the fragile East-German economy failed
2. High unemployment encouraged employers to leave or not to join employer's organisation - Change of employer strategies with accumulative effects (outsourcing / pull-effects from low wage industries)
3. Product market deregulation: public utilities etc.
4. Labour market deregulation – Hartz-laws 2003
5. Unions locked-in in manufacturing and public services

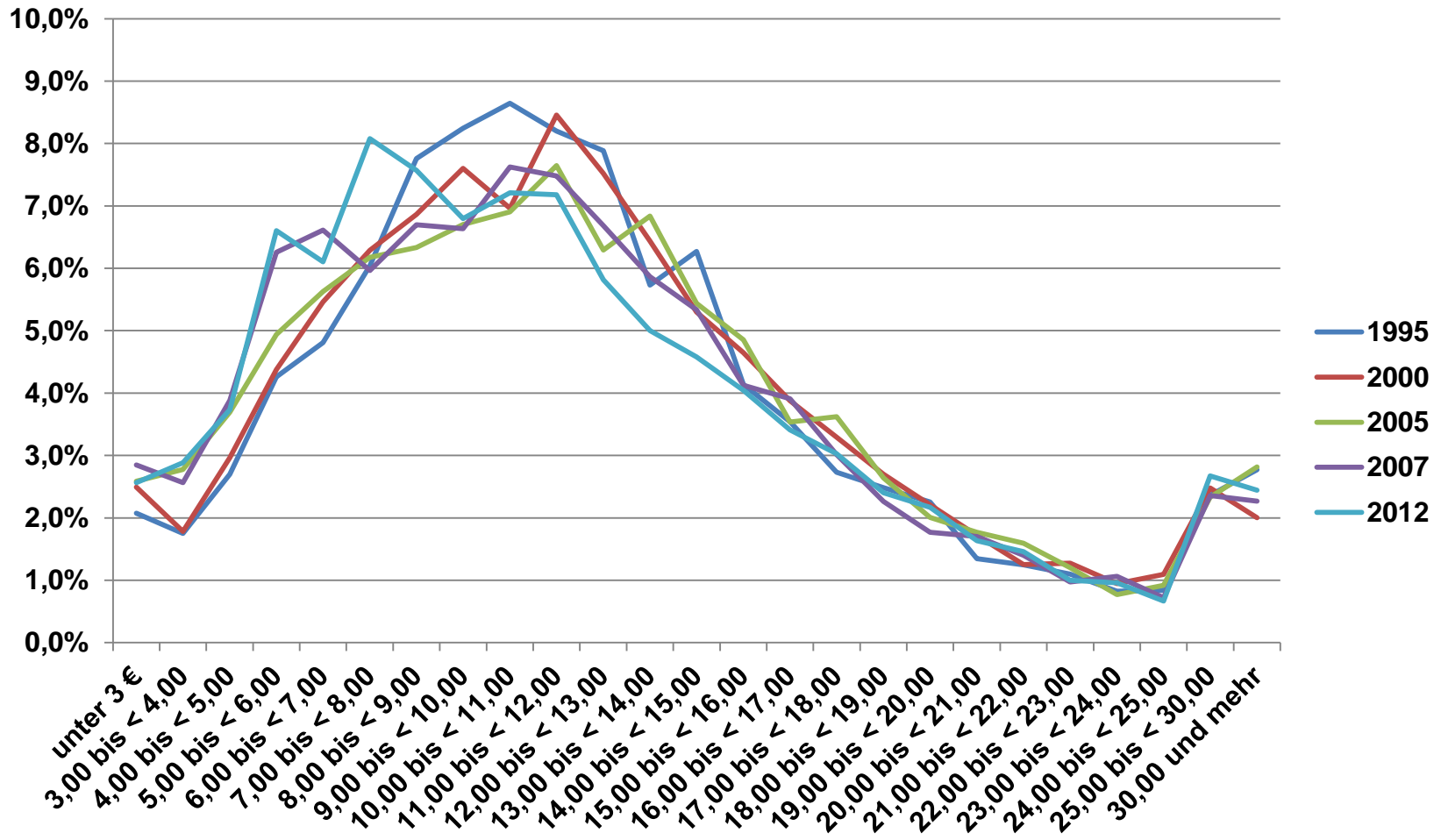
- DE Trade Union Density 1980 to 2009: Men from 50,7% to 24,7%; Women from 21,4% to 12,9% / SE between 1963 and 2008 Men from 74% to 68%, Women from 48% to 74%

3.3 The erosion of the voluntarist system

„If unions because of member losses do not have anymore the power to enforce collective agreements, then the withdrawal of employers from collective bargaining is only a question of time “

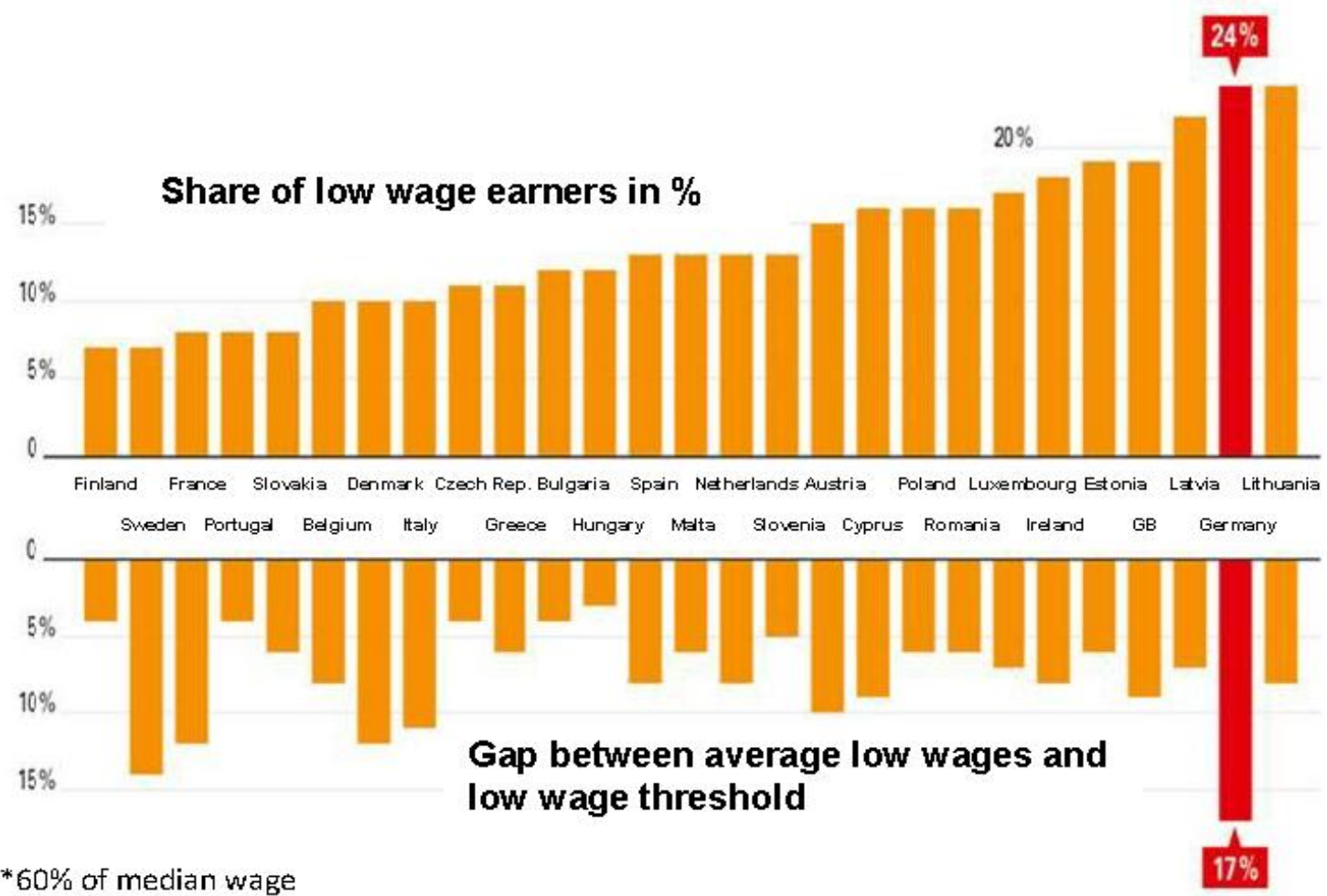
**Detlef Wetzel (2012)
President of the IG Metall**

3.4 Increase of low wages: Distribution of hourly pay, Germany, adjusted for inflation (base = 1995)



Source: SOEP 2012, own calculations

3.5 Low wages are especially low in Germany



*60% of median wage

Source: Fernandez-Macias 2013, Vacas-Soriano 2013, Hans-Böckler-Stiftung 2013

4.1 The way to the minimum wage

Introduction of industry-specific MW's (I-MW) by the Great Coalition in 2007

- If employers and unions agreed on a I-MW the government extended this agreement
 - I-MW's are negotiated, but enforced by the state - *path-dependent reform* - *sympathies of social partners for I-MW*

Impact:

- Until 2014 agreements only in 14 industries
- In many low wage industries no negotiations
- No aggregate effects: no reduction of low wage sector
- Evaluation in 8 industries showed no disemployment effects

Consequence of positive evaluation - Political parties did not believe anymore in horror szenarios with disemployment of up to 4 Million jobs

4.4 The new minimum wage

- **Introduction of a MW major demand of SPD, Greens and the Left in the federal election campaign 2013**
- **New Great coalition agreed on a „law to strengthen autonomous collective bargaining“ (Tarifautonomie-verstärkungsgesetz)**
 - **Introduction of a MW of 8.50 € in January 2015**
 - **Strengthening of collective bargaining**
 - **facilitation of the extension of collective agreements**
 - **extension of the possibility to negotiate I-MW's to all industries**

4.5 The new minimum wage

The new Minimum Wage:

- **Exemptions:** Apprentices, young workers under 18 years, long term unemployed, newspaper delivery, traineeships
- **Possibility to deviate from the MW by a collective agreement until the end of 2017**
- **„Low Pay Commission“ should evaluate MW and decide each two years on pay increases – the two academics in the commission do not have the right to vote**
- **increases each two years - should follow average increases of collectively agreed wages**

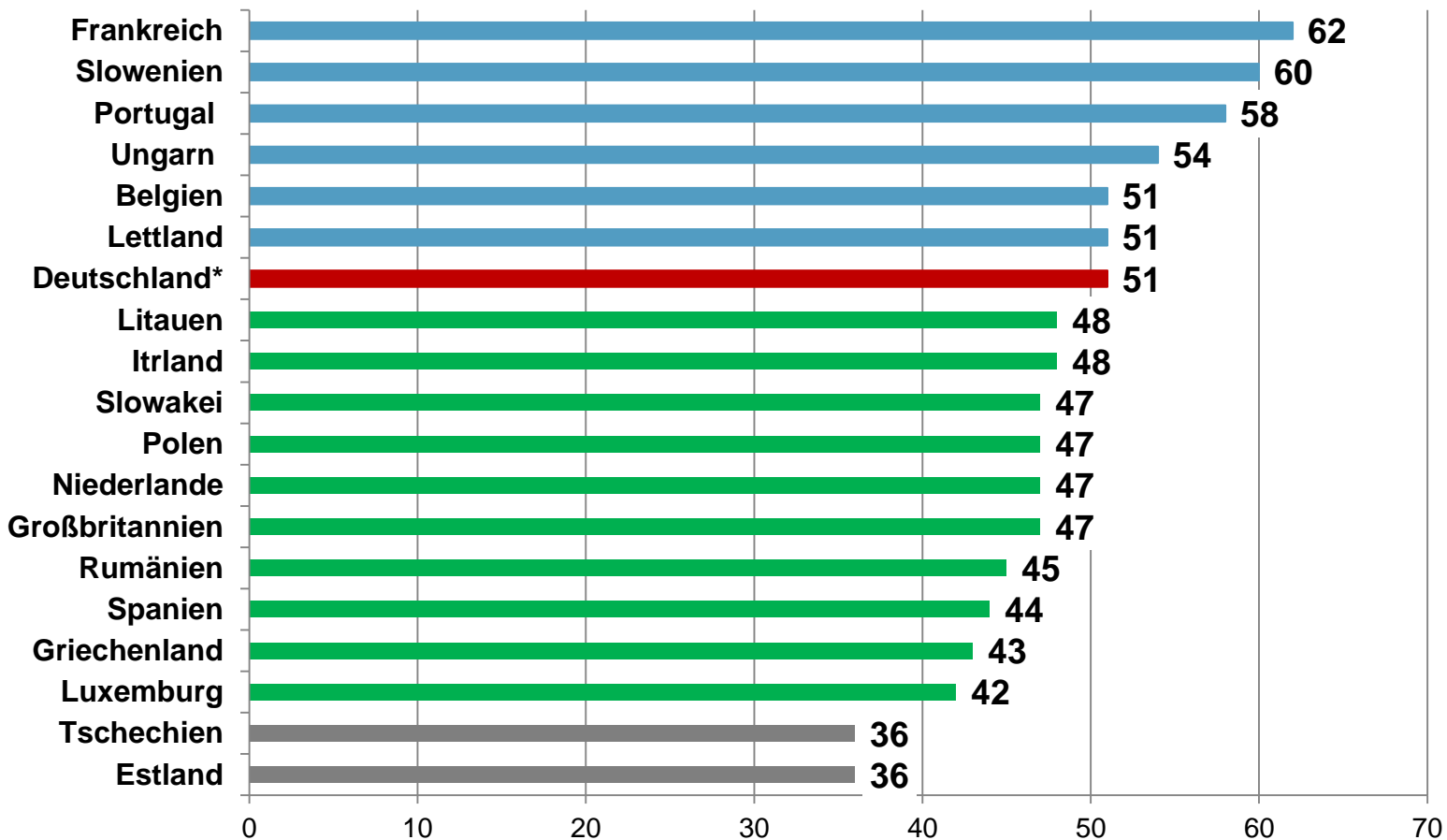
Change from autonomous to mixed wage system: – but social partners tried to make it as path-dependent as possible: much stronger role of social partners than in the UK or in FR

5.1 The impact of the new minimum wage

1. *Impact on employment?*

- **Strong bite in Germany: 2012 19% of employees < 8,50€ - Bite especially strong in East-Germany – for political reasons no East-West-differentiation of MW**
- **Very strong bite for mini-jobbers (nearly 80%)**
- **To avoid negative employment effects**
 - **MW set below the MW's of Western neighbours**
 - **Wage increases until 2015 will reduce bite**
 - **Freeze of MW until 2017**
 - **Exemptions by collective agreements in many industries (used in meat industry, temp agencies, hair cutting etc.)**

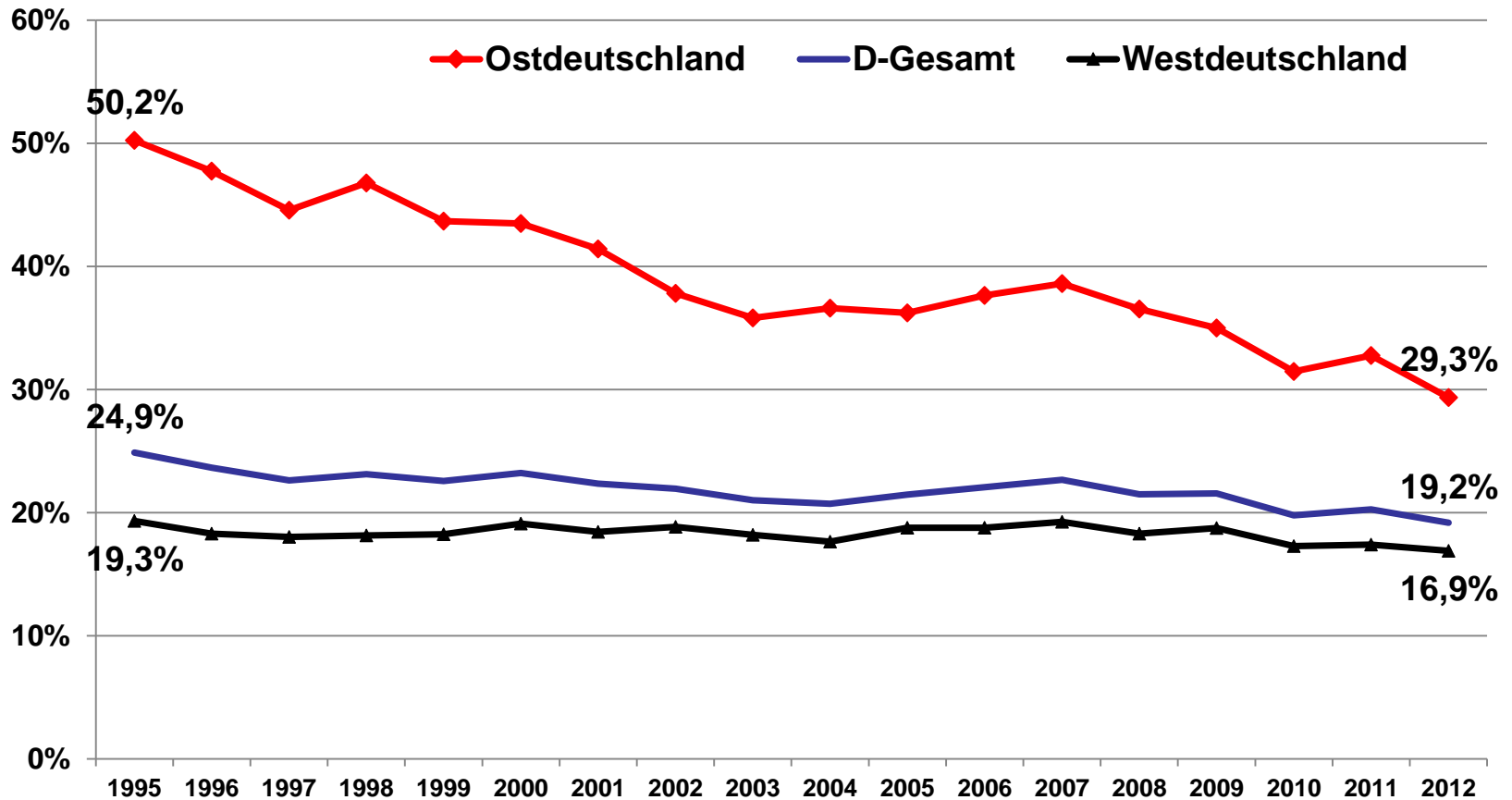
5.2 Minimum Wage in % of median wage (Kaitz-Index)



* Geplante Mindestloohnhöhe ab Januar 2015

Source: Eigene Darstellung nach Schulten (2014:135) auf Basis von Angaben der OECD und für Deutschland nach WSI-Berechnungen auf der Grundlage der Beschäftigungsstatistik der Bundesagentur für Arbeit.

5.3 Share of employees with an hourly wage < 8,50 € 1995-2012



5.4 The impact of the new minimum wage

2. *Impact on job quality?*

- Substantial wage increases in D1 and D2
- Especially for East-DE/ women/migrants/young workers/ mini-jobs/SME's

But: MW cannot prevent shrinking of middle class

In addition substantial enforcement problems

- For 7 Million mini-jobbers: research shows low compliance of mini-jobs with labour law and collective agreements
- In SME's - representation gap - erosion of codetermination
- Exemptions: Long-term unemployed....

Danger getting a „Minimum Wage Light“ not enforced for mini-jobs

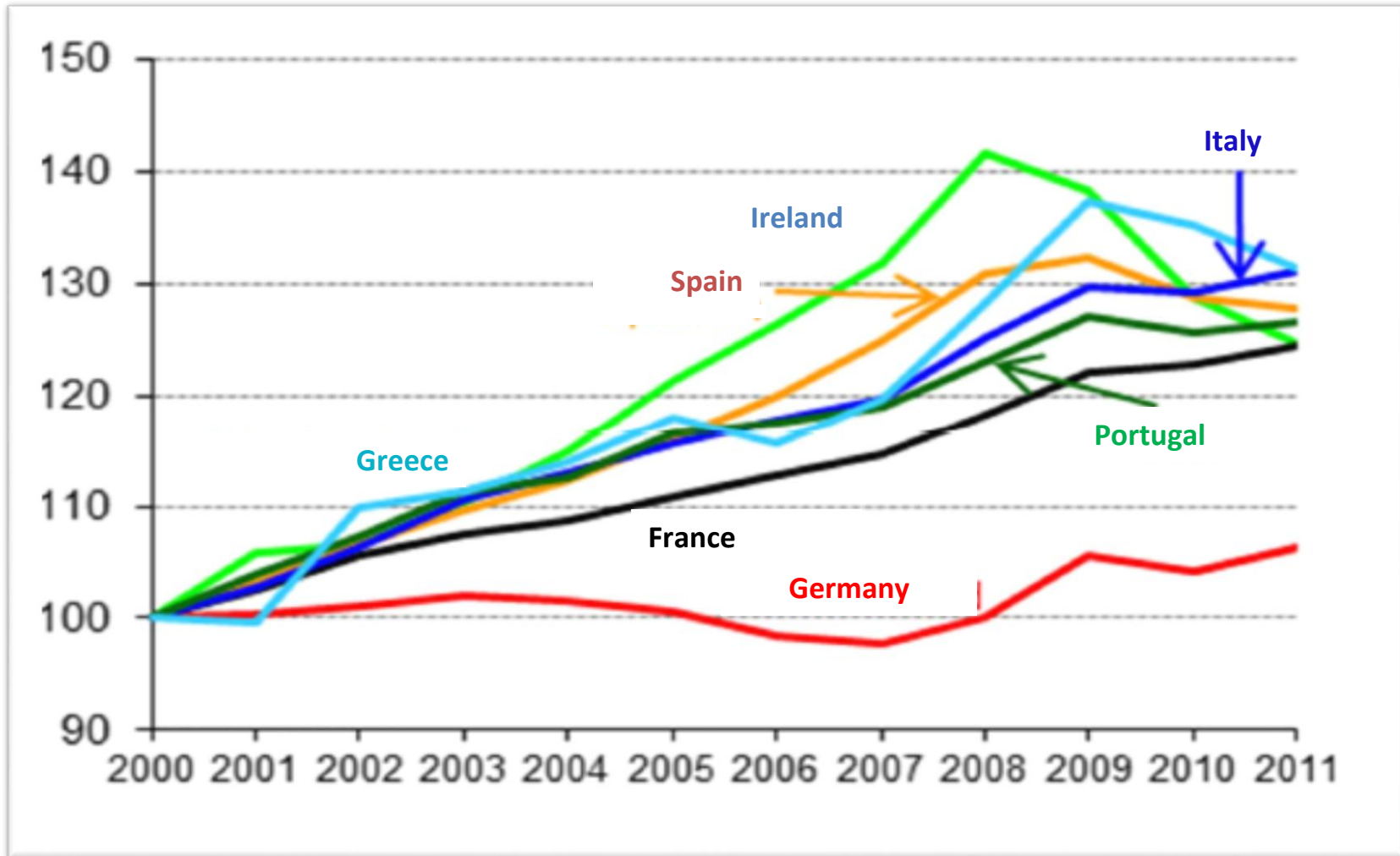
5.8 The impact of the new minimum wage

5. Impact on domestic demand and trade balance

Prognos study

- Increase of total gross wages by 14,5 Billion €
- Increase of consumer taxes 0,7 Billion €
- Decrease of transfers 1,7 Billion €
- Ripple effects - ???
- Increase of wages and taxes 0,56% of GDP in 2013 – but impact will be spread over three years 2015 – 17
- Only small impact on domestic demand and trade balance - *no substitute for European investment programme*

5.2 Unit Cost (nominal, in EURO 2000=100)



6. Conclusions

- Introduction of MW in Germany major social reform**
- Introduction stretched over two years to avoid negative employment impacts and encourage CB**
- Mainly wage increases in services - increase of internal demand – low impact of export prices**
- Enforcement problems – especially for mini-jobs**
- High bite – wage compression in the lower deciles**
- Unclear if collective bargaining and middle class will be strengthened**

5.7 Unemployment rate by skill level, Germany 1975 – 2009

