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The bumpy road to a Minimum Wage in Germany

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- After a 10 year union campaign for *fair* wages the German Parliament decided the introduction of a National Minimum Wage (MW) in July 2014
- One of the major social reforms in Germany after WW II

Many reasons why this change is interesting

- Example of creation of new labour standards – not only deregulation and erosion
- Institutional change from a voluntarist wage system to a mixed system with state intervention
- Increase of domestic demand – possible reduction of EU imbalances - important for European cohesion

Structure of Presentation

- 1. The old voluntarist system in DE**
- 2. The erosion of the voluntarist system**
- 3. The new German MW**
- 4. Possible impacts of the MW**

1.1 The old voluntarist system

- Wage setting left to autonomous social partners
- No direct state intervention – extension of Collective Agreements only on joint demand of social partners
- But strong codetermination rights at plant and board level – *institutional stability of unions* in big and medium-sized companies

1.2 The old voluntarist system

- High coverage by collective bargaining (85%) and low share of low paid workers (OECD 1996)
- But low trade union density (declined from 35 in the 70's to 19% 2012)
- *Achilles Heel*: German wage system highly dependend on membership of employers in their organizations - not a problem with low unemployment before 1989

1.3 Statutory protective and participative labour standards (Sengenberger 1994) in five national wage setting systems

	Germany	Sweden	United Kingdom	France	Belgium
Statutory standards					
- protective	(X)*	-	X	XXX	XXX
- participative	XX	XXX	-	X	XXX
Trade union density	18%	70%	26%	8%	50%
Collective bargaining coverage (employees)	62%	88%	29%	98%	96%
Share of low wage workers (>2/3 of median wage), 2010	22,2%	2,5%	22,1%	6,1%	6,4%

Notes: Statutory standards: - none, X weak, XX moderate, XXX strong, * MW since 1/2015

2.1 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

2.2 The erosion of the voluntarist system

Drivers:

- 1. Transplantation of West-German IR-System into the fragile East-German economy failed**
- 2. Change of employer strategies with accumulative effects (outsourcing / pull-effects from low wage sectors)**
- 3. Product market deregulation: EU directives to open up public utilities for private providers**
- 4. Labour market deregulation – Hartz-laws 2003**

2.3 The erosion of the voluntarist system

4. Traditional male breadwinner model

- Income splitting system, derived health care insurance and tax free Mini-Jobs - channelling women into marginal part-time – *net wages depended more on tax and welfare system than on negotiations*
- Unions locked-in in manufacturing and public service – could not compensate member losses in manufacturing in private services like in SE
 - *DE Trade Union Density 1980 to 2009: Men from 51% to 25%; Women from 21% to 13%*
 - *SE between 1963 and 2008 Men from 74% to 68%, Women from 48% to 74%*

2.4 From an inclusive to a dualist wage system

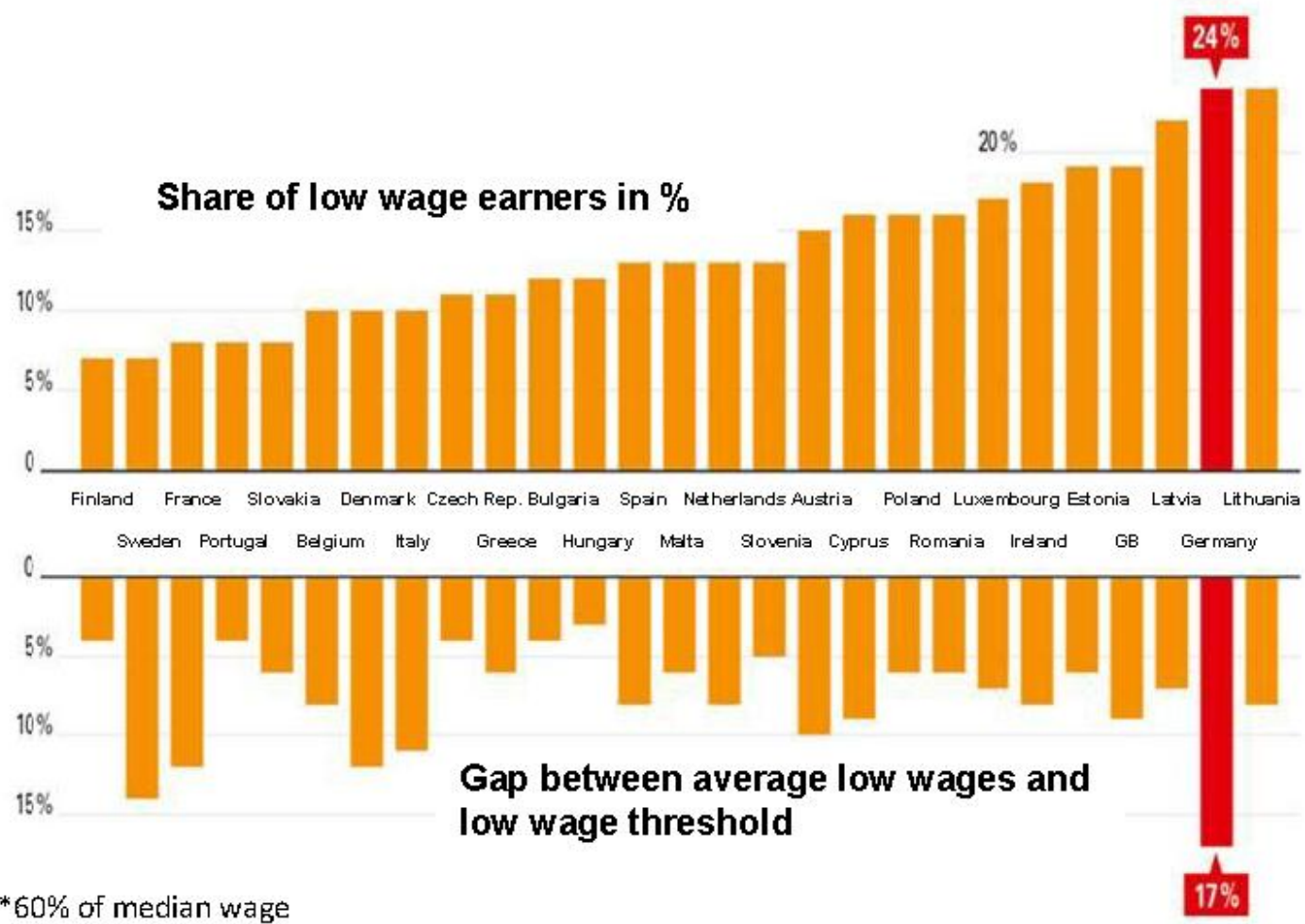
Decrease of coverage by collective agreements from 85% in 1990 to 60% in West and 47% in East-Germany in 2013

Impact on wages

- substantial increase in the share of low wage work
- no minimum wage – therefore increases of very low wages
- low increases of collectively and average agreed wages

Wage restraint compared to other Euro countries - increasing German trade surpluses

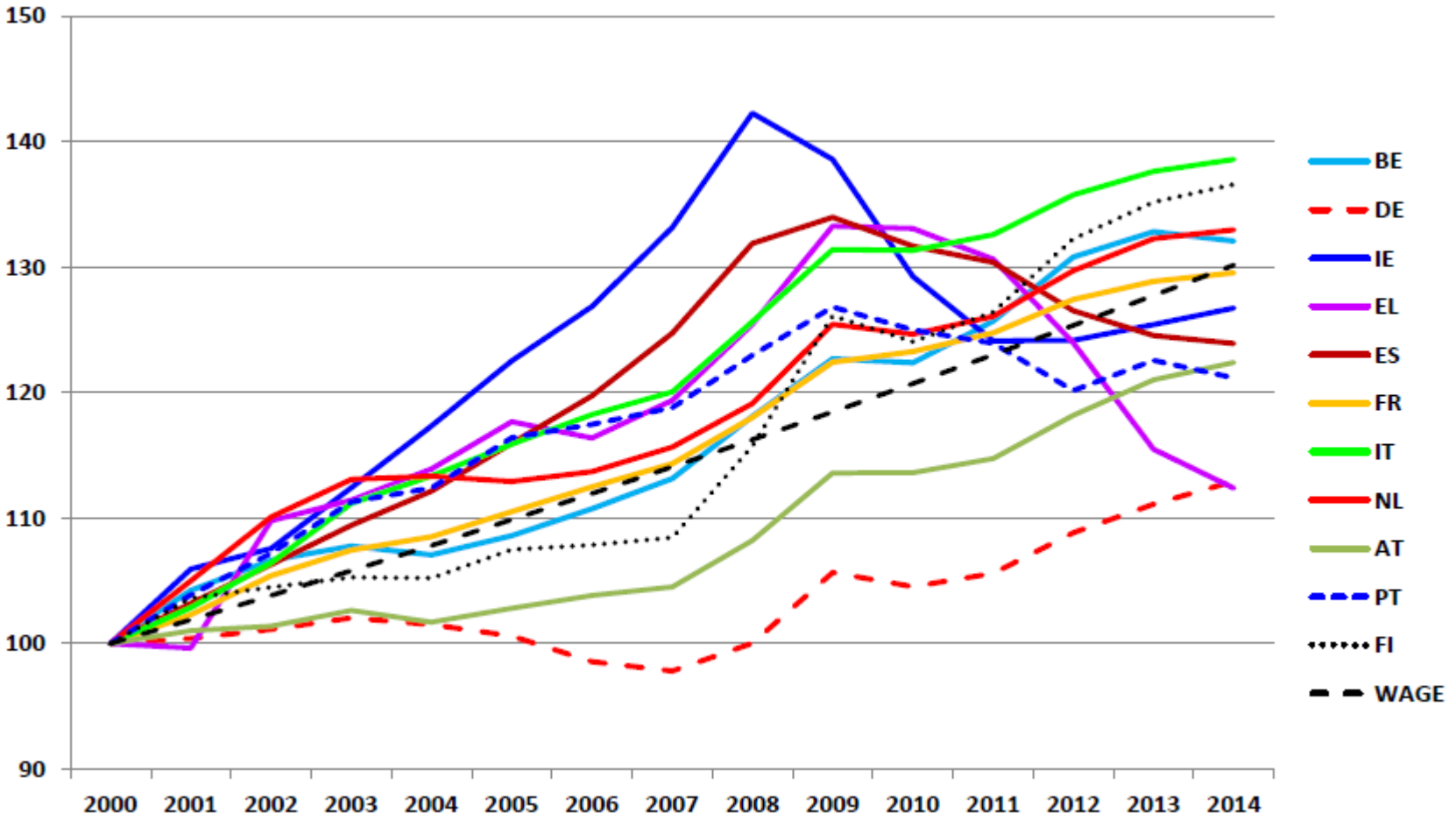
2.5 Low wages are especially low in Germany



*60% of median wage
 Source: Fernandez-Macias 2013, Vacas-Soriano 2013,
 Hans-Böckler-Stiftung 2013

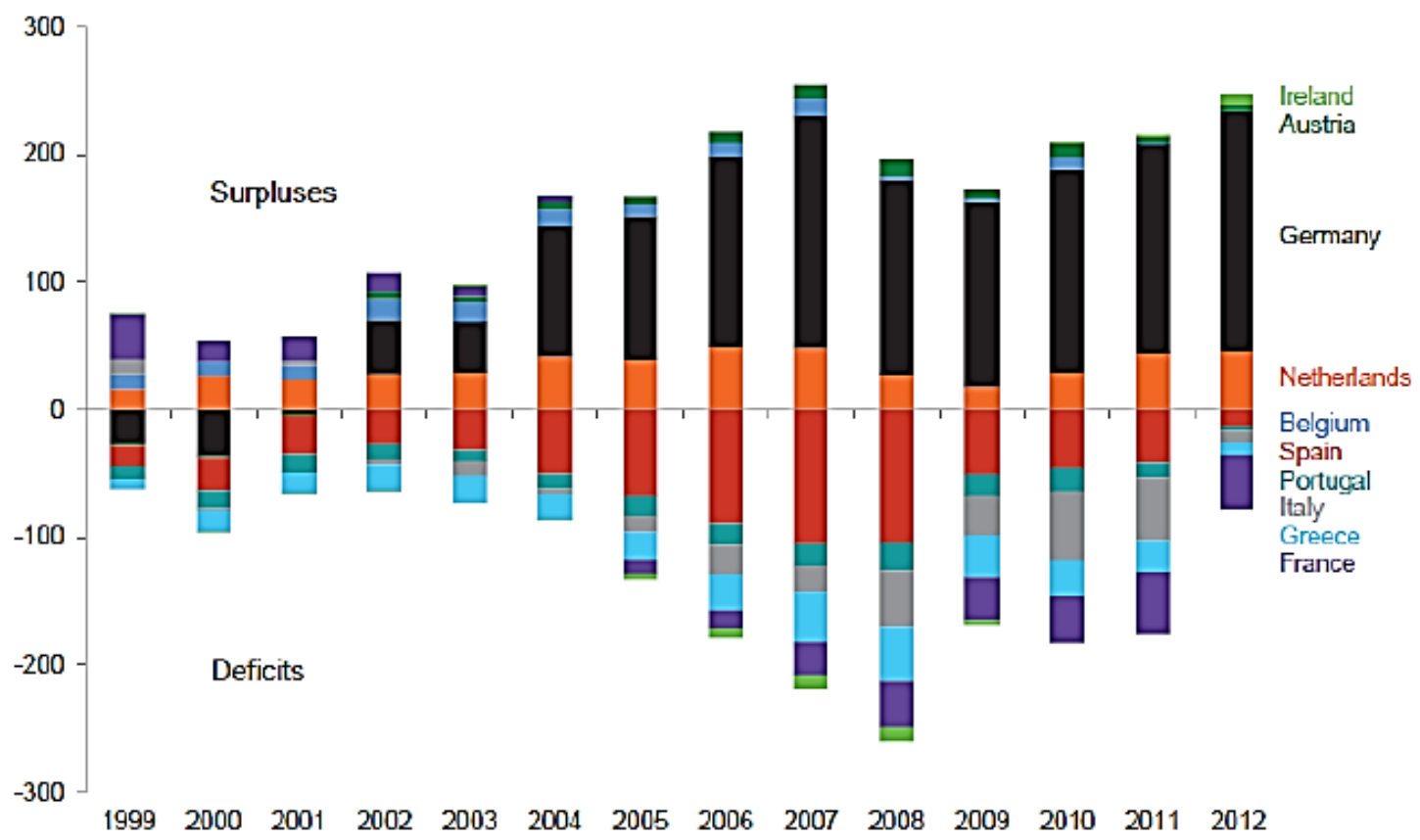
Offen im Denken

2.7 Internal devaluation in the Euro-Zone: Nominal unit labour costs 2000 - 2014



2.8 Internal devaluation in Euro-Zone

Current account balances in the euro area
EUR billion



Source: HBS / IMK 2014, Vortrag A. Watt, 2014-09-17, S. 14

3.1 The way to the minimum wage

Pro-active institutional change requires problem awareness and choices of actors

- 10-year time-lag of awareness: Unions demanded MW only in 2004 - after labour market deregulation**
- Decisive factor for trade union unity: Manufacturing was also affected by deregulation of temp agency work and outsourcing**
- Unions became decisive actor in the campaigns for a MW and influencing politics (especially the SPD, the Green and the Left party)**

3.2 The way to the minimum wage

Introduction of industry-specific MW's (I-MW) by the Great Coalition in 2007 - *an attempt to avoid a general MW*

I-MW were 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
- But: Evaluation in 8 industries showed no disemployment effects

Evaluation - *a Waterloo for the German neo-liberal economists* – Political parties did not believe anymore in their horror szenarios with disemployment of up to 4 Million jobs

3.3 The new minimum wage

- Introduction of a MW main demand of SPD in the federal election campaign 2014 and in the coalition negotiation with the CDU/CSU
- 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 („public interest“)
 - extension of the possibility to negotiate I-MW's to all industries

3.5 The new minimum wage

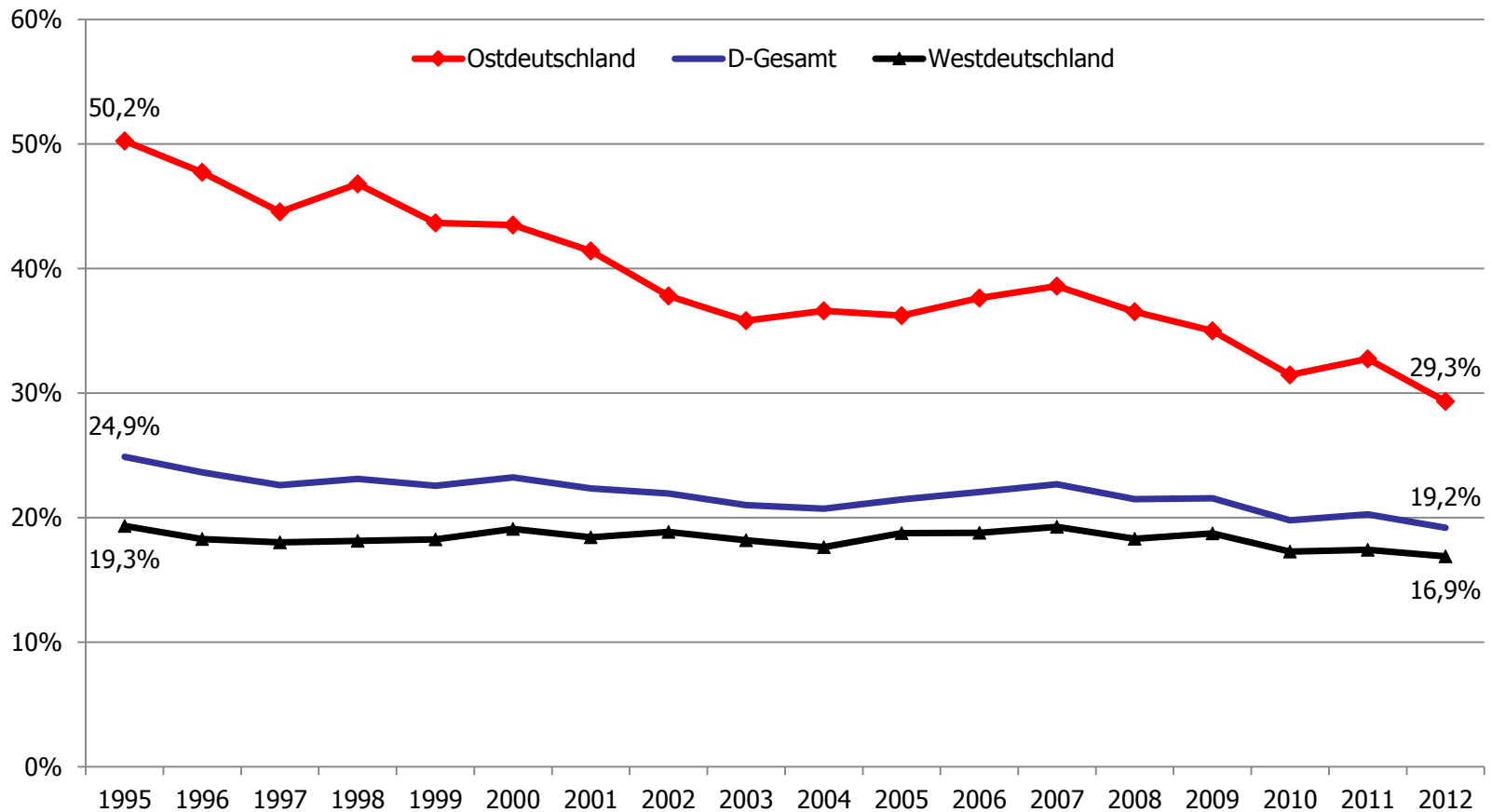
The new Minimum Wage:

- 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
- Freeze of MW until 12/2016
- „Minimum Wage Commission “ (MWC): (1) evaluation of MW ; (2) decision on pay increases – the two academics in the commission do not have the right to vote
- Increases proposed by MWC should follow average increases of collectively agreed wages
- Strong commitment of the state to enforce the MW
- Fines for non-compliance up to 500 000 € / fine above 250 000 € temporary exclusion from public procurement

4.1 The impact of the new minimum wage

- Strong bite of MW: 2012 19% of employees < 8,50€ - even 29% in East-Germany
- for political reasons no East-West-differentiation of MW
- To avoid negative employment effects
 - Exemptions by collective agreements in some industries (used in meat industry, temp agencies, agriculture, hair cutting etc.)
- No visible impact on employment: Jan-May 2015 strong job growth also in low wage industries – *next „Waterloo“ for mainstream economists*

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



4.3 The impact of the new minimum wage

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

5. Conclusions

Model change – but social partners tried to make it as path-dependent as possible

- **Stronger role of social partners in the Minimum Wage Commission than in the UK or in FR**

- **Increases follow collectively agreed wages**

- **Strengthening collective bargaining**

Only small impact on domestic demand and trade balance - *no substitute for European investment programme*