

**Gerhard Bosch**

# **The bumpy road to a minimum wage in Germany**

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**Prof. Dr. Gerhard Bosch**

Universität Duisburg Essen

Institut Arbeit und Qualifikation

Forsthausweg 2, LE, 47057 Duisburg

**Telefon:** +49 (0)203 / 379-1827; **Fax:** +49 (0)203 / 379-1809

Email: [gerhard.bosch@uni-due.de](mailto:gerhard.bosch@uni-due.de); [www.iaq.uni-due.de](http://www.iaq.uni-due.de)

- 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

# Structure of Presentation

- 1. The old voluntarist system and its erosion in Germany**
- 2. The way to the MW**
- 3. The new German MW**
- 4. Possible impacts of the MW**

# 1.1 The old voluntarist system

- Wage setting left to autonomous social partners
  - 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

## 1.2 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**

# 1.3 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: refusal to negotiate in many industries, companies left employers organizations: accumulative effects (outsourcing / pull-effects from low wage sectors)
3. Product market deregulation: EU directives opened up public utilities for private providers
4. Labour market deregulation: Hartz-Laws

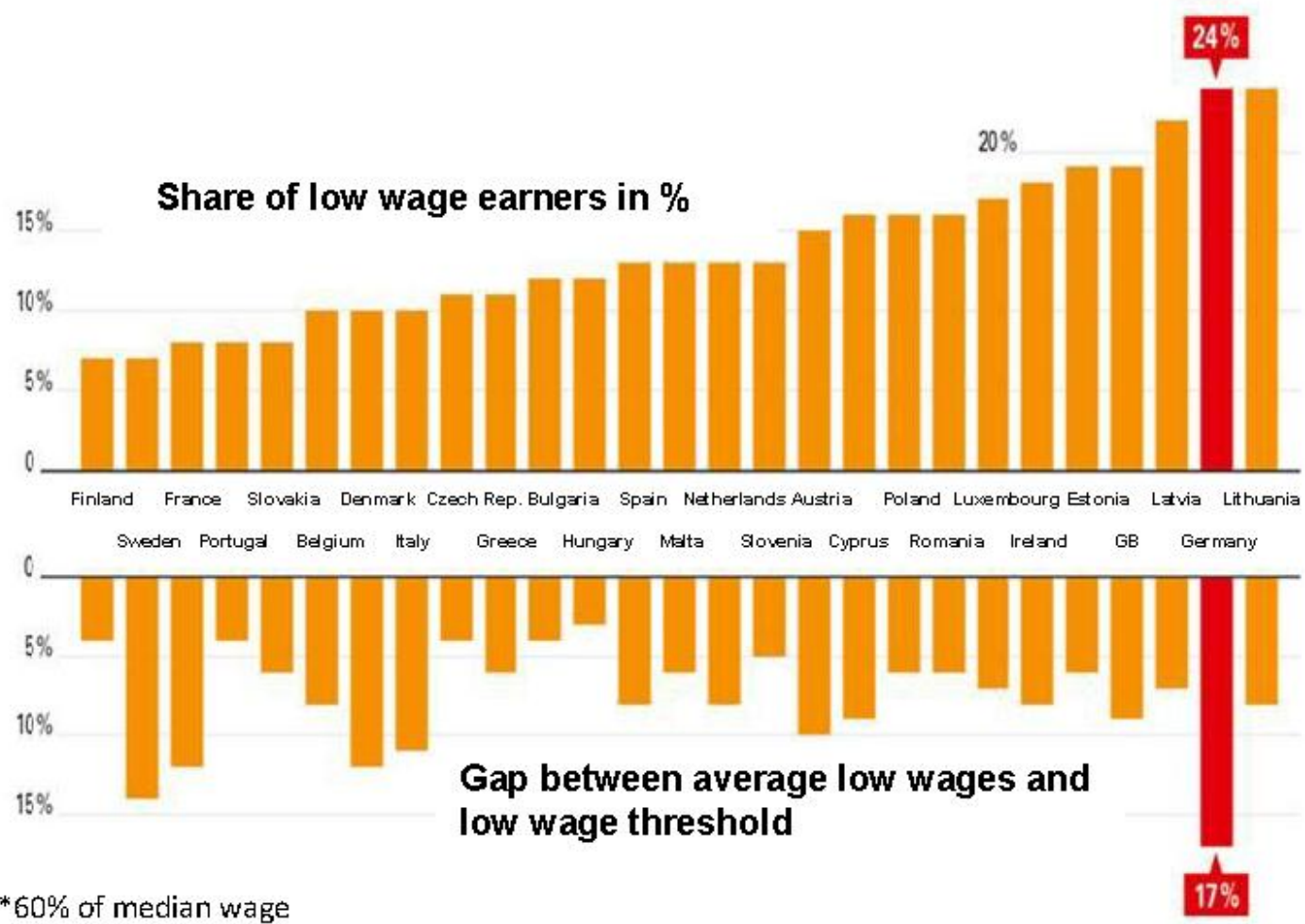
## 1.4 Growth of low wage work

**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**

# 1.6 Low wages are especially low in Germany



\*60% of median wage

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



## 2.1 The way to the minimum wage

**Institutional change requires problem awareness and choices of actors**

- **10-year time-lag of awareness: Unions demanded MW only in 2004**
- **Trade union unity decisive: Manufacturing unions hesitating but were increasingly affected by de-eregulation of temp agency work and outsourcing**
- **Unions main actor in the campaigns for a MW and influencing politics (especially the SPD, the Green and the Left party)**
- **Demanded 8,50 €: A little bit lower than MW's in FR, BE, NL because Germany has borders with East-European countries**

## 2.2 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 - *sympathies of social partners for I-MW*

- Impact:

- Until 2014 agreements only in 14 industries

- In many low wage industries no negotiations

- No reduction of low wage sector

- But: Evaluation in 8 industries showed no disemployment effects

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

## 3.1 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 package of laws with the title „Law to strengthen autonomous collective bargaining“ which includes
  - the „Minimum wage law with a MW of 8,50 €
  - Changes of existing laws to strengthen collective bargaining
    - facilitation of the extension of collective agreements („public interest“)
    - extension of the possibility to negotiate I-MW's to all industries

## 3.2 The new minimum wage

**8,50 € for all regions:**

- No regional differentiation in spite of very high shares of low wage workers in East-Germany

**To avoid negative employment effects in East-Germany government proposed**

- Freeze of MW for three years until 12/2017
- Possibility to deviate from the MW by a CA for three years

**In the parliamentary hearing employers and unions jointly proposed to freeze MW only for two years**

**(wanted to avoid a too high increase in 2017) – Result:**

- Freeze until 12/2016 and deviation by CA until 12/2017 – after 2016 not below 8.50€
- Increases – each two years

## 3.3 The new minimum wage

### Exemptions:

- 1,5 Million Apprentices – instead allowances agreed by social partners
- young workers under 18 years – no subminimum wage – but low numbers
- newspaper delivery until 2017 (2016 8,50 €)
- internship if part of a university or school curriculum
- **General consensus to exempt internships and apprentices to protect the well functioning German dual system of vocational training**
- **The other exemptions highly controversial - compromises**

## 3.4 The new minimum wage

„Minimum Wage Commission “ (MWC) with 9 members:

- employers and unions propose a chairperson, each three members and each one academic
- the two academics in the commission do not have the right to vote
- budget and staff (around 10 employees)

The tasks of the MWC:

- evaluation of MW
- decision on pay increases implemented by Ministry of Labor per decree
- Increases proposed by MWC should follow average increases of collectively agreed wages

Last point: Joint proposal of unions/employers wanted to prevent populist election campaigns

## 3.5 The new minimum wage

### 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
- liability of general contractors for MW of employees of subcontractors
- Mandatory recordings of start, duration and end of daily working hours for mini-jobs and employees in 9 industries (*hotel/restaurants, construction, meat processing, cleaning, public transport, transportation, carney, installation of trade fairs*)

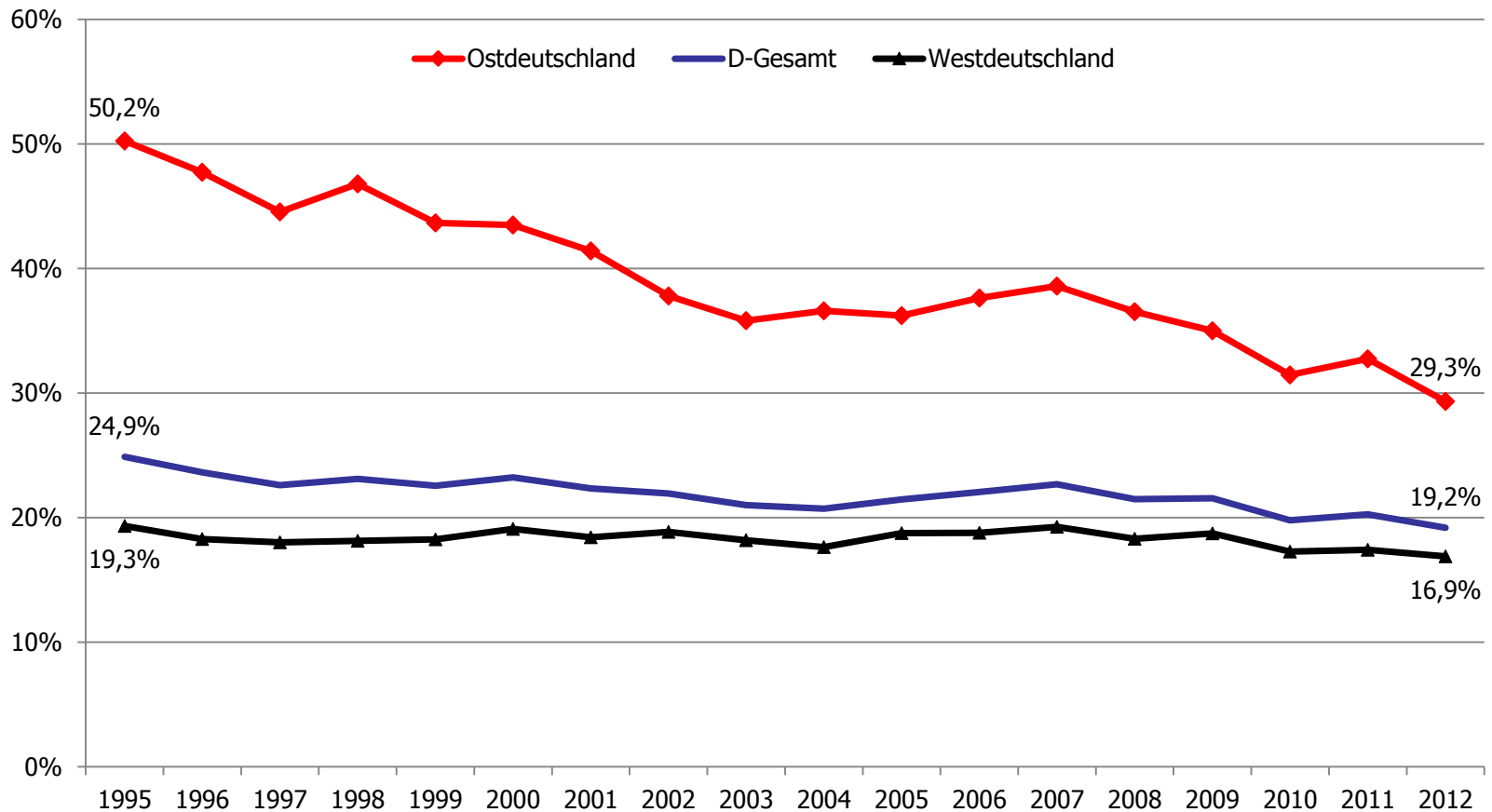
Transition period – no controls until end of May 2015

## 4.1 The impact of the new minimum wage

- Strong bite of MW: 2012 19% of employees < 8,50€ - even 29% in East-Germany
- Exemptions by collective agreements in some industries (meat industry, temp agencies, agriculture, hair cutting etc.)
  - No incentives for unions to sign more agreements since employers did not offer a quid pro quo
- No visible impact on employment: Jan-May 2015 strong job growth also in low wage industries –



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

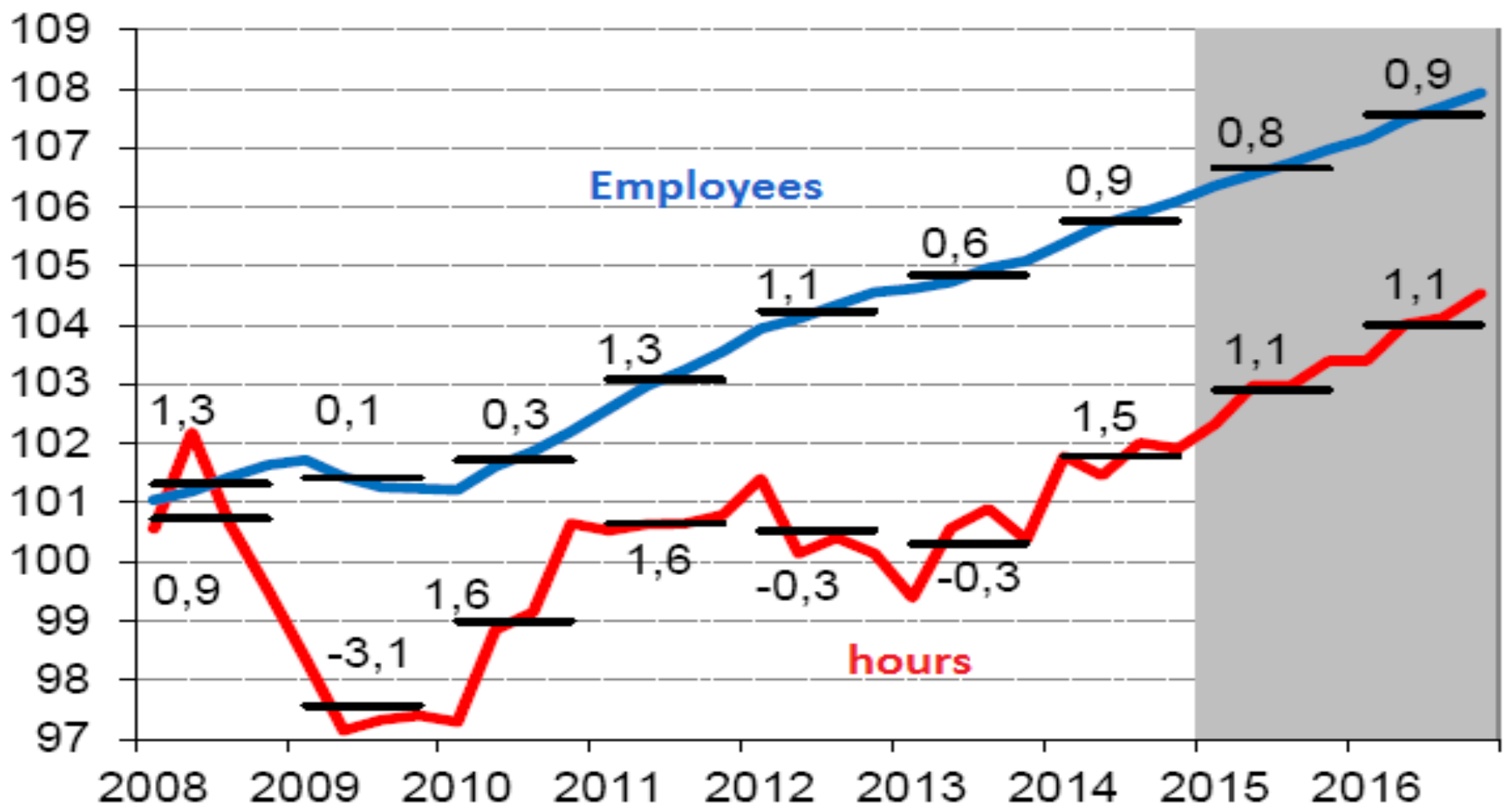


## 4.3 Groups most affected by MW 2012

<b>Minijobber *</b>	<b>68 % (FT 11 %)</b>
<b>Young (below 25 years)</b>	<b>47 %</b>
<b>Low skilled</b>	<b>37 %</b>
<b>Temporary contract</b>	<b>32 %</b>
<b>Foreigners:</b>	<b>25 %</b>
<b>Women</b>	<b>24 % (Men: 14 %)</b>
<b>Posted workers</b>	<b>????</b>
<b>All</b>	<b>19,6%</b>

\*marginal part-time – earnings per month less than 450 €

# 4.4 Employment and working hours 2008 - 2016



Source: IMK-Report 04/2015

## 4.2 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 two years 2015/2016

# 5.1 Conclusions

- 1. Social partners tried to make MW as path-dependent as possible**
  - stronger role of social partners in the MWC than in UK or FR
  - increases follow collectively agreed wages
  - Strengthening of collective bargaining
- 2. Right moment for the MW – economy is growing**
- 3. No visible negative impact on overall employment**

## 5.2 Conclusions

4. Enforcement the big issue in the next years: research shows that MW's are only accepted by employers if they are enforced (levelled playing field)
5. Low reduction of poverty – much higher with ripple effects on CB - not yet clear if CB will be strengthened
6. Not clear how the MWC will work:
  - szenario 1. regular meetings hearings and evaluation, szenario
  - szenario 2: few meetings, short technical reports, focus only on decision on increases

*Szenario 2 supported by some employers and unions*