UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

Institut Arbeit und Qualifikation

Gerhard Bosch

Industrial Relations and the Minimum Wage: The introduction of a Minimum Wage in Germany

Wage, Distribution, and Growth: Policy Agenda for Better Future

Korea Labor Institute 27th Anniversary Conference
Seoul, November 12, 2015

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; www.iaq.uni-due.de

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

In 2015 Germany introduced a National Minimum Wage (NMW)

Why the German case might be interesting for an international audience?

1. Creation of new labour standards – not only deregulation and erosion
2. Institutional change from a autonomous to a mixed wage system with state intervention – but some path-dependency
3. Contrary to the US or UK strong links of NMW with Collective Bargaining (CB)

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

Structure of Presentation

1. The erosion of the autonomous German wage system
2. The way to the National Minimum Wage (NMW)
3. The new German NMW
4. Impact of the NMW

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.1 The erosion of the autonomous wage system

Traditional German wage system:

- **Wage setting left to social partners**
- **No state intervention in wage setting – extension of CA only on joint demand of social partners**
- **Until 1990 high coverage by CA (85%) and small low wage sector – no need for a NMW**
- **But vulnerable autonomous wage system – compared to Sweden less based on trade union power – Trade union density *declined from 35% in the 70‘s to 18% 2012***

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.2 The erosion of the autonomous wage system

- Outcome of autonomous wage setting systems depend on power resources of unions *(Korpi 2006)*
- Without employee/union power employers set wages unilateral
- To understand the *architecture of wage systems and the power ressources*
  Sengenbergers (1994) distinction between *protective and participative labour standards is* useful

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

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

	Germany	Sweden	United Kingdom	France	Belgium
Statutory standards					
- protective	X (2015)	-	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: State-imposed standards: - none, X weak, XX moderate, XXX strong

Source: Bosch 2015 (Author's compilation based on ETUI, 2015; Bezzina, 2012 (share of low-wage workers, 2010)

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.4 The erosion of the autonomous system

Membership of employers in employer organizations *Achilles Heel* of the German 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

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.5 The erosion of the voluntarist system

Unions lost this power in some industries and companies – Four main drivers:

1. **Transplantation of West-German IR-System into the fragile East-German economy failed**
2. **Change of employer strategies with mass unemployment: 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**

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.6 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 NMW – therefore high shares of very low wages**

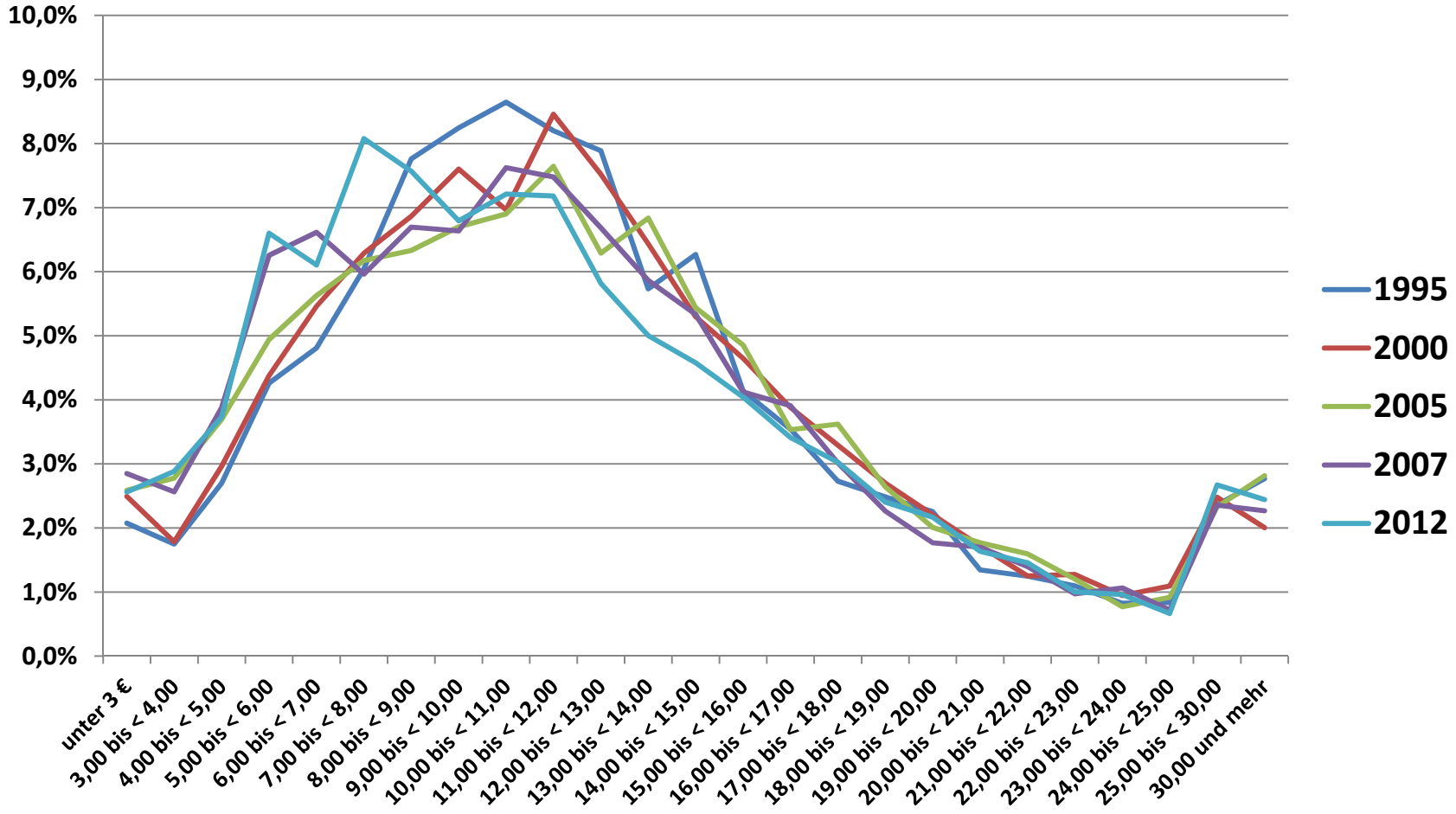
But still strong power of unions and CA in important sectors (manufacturing/public service) - *an important political ressource for political change*

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

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



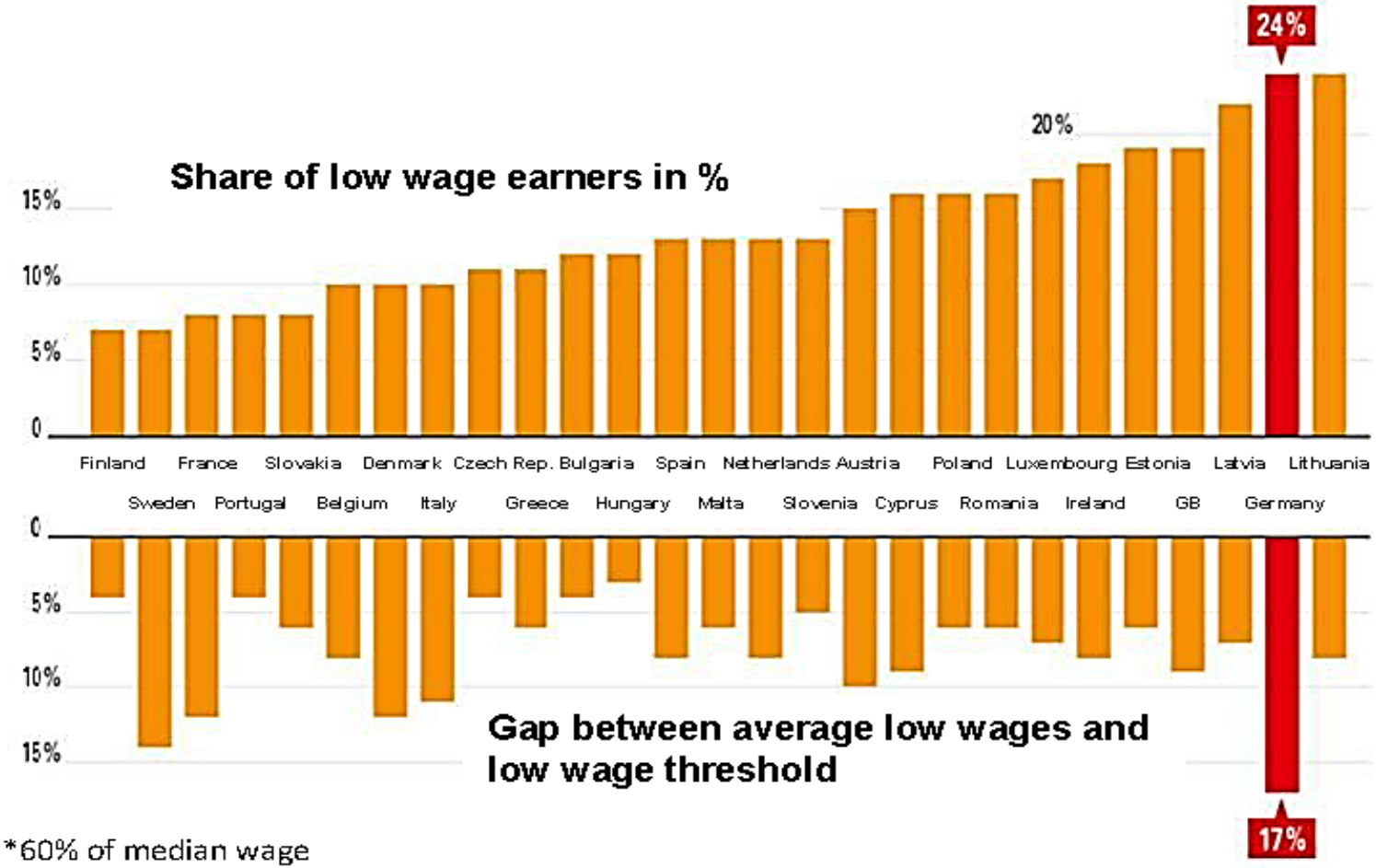
Source: SOEP 2012, own calculations

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

1.8 Low wages in the EU 2010



*60% of median wage

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

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

2.1 The way to the minimum wage

Institutional change requires *problem awareness, choices of actors and mobilisation of power ressources*

- More than 10-year time-lag: Joint union demand for a NMW only in 2006
- Unions main actor in the campaign for a MW - Trade union unity decisive for success: Manufacturing unions hesitating but were increasingly affected by de-regulation of temp agency work and outsourcing
- Unions demanded 8,50 € - lower than in FR, BE, NL because of high share of low wage workers in East-Germany and borders with East-European low wage countries

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

2.2 The way to the minimum wage

Introduction of industry-speficic 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 some unions for I-MW - highly path-dependend***

But impact disappointing:

- **Until 2014 agreements only in 14 industries**
- **In most low wage industries refusal of employers to negotiate**
- **No reduction of share of low wage workers**
- **But: Evaluation in 8 industries with difference-in-difference method showed no disemployment effects. Political parties did not believe anymore in their horror szenarios with job losses up to 4 Million – *loss of moral power of opponents to NMW*)**

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

3.1 The new NMW

- Introduction of a NMW *and* strengthening of CB main demands of SPD in the coalition negotiations 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 NMW of 8,50 €
  - facilitation of the extension of collective agreements („public interest“)
  - extension of the possibility to negotiate I-MW‘s to all industries

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

3.2 The new NMW

Main elements of the *„Minimum Wage Law“*

1. ***No subminimum rates or regional differentiation*** **(was discussed because of high shares of low wage work in East-Germany)**
2. **But *freeze* and *deviations* by a representative CA until the end of 2016 to avoid negative employment effects in East-Germany**
3. ***Few Exemptions*** **(1,5 Million apprentices; young workers under 18 years – no subminimum wage; long-term unemployed; newspaper delivery until 2017; internship if part of a university of school curriculum; volunteers in charity organizations)**

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

3.3 The new NMW

4. *„Minimum Wage Commission “* (MWC) formed according the proposals of the social partners

- **Evaluation and binding recommendations for increases**
- **Increases should follow average increases of collectively agreed wages**
- **9 members (3 from employers and 3 from unions, social partners propose each one academic and jointly a chairperson)**
- **the two academics in the commission have no right to vote**

5. *Strong commitment of the state to enforce the NMW*

- recruitment of 2000 additional labor inspectors / High fines for non-compliance (up to 500 000 €) / liability of general contractors for NMW of employees of subcontractors / Mandatory recording of start, duration and end of daily working hours for mini-jobs and employees in 9 industries

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

4.1 The impact of the new minimum wage

„A minimum wage will lead to serious job losses. In the West they will be extensive. In the East they will be shattering“

News paper appeal of the Presidents of the 6 biggests German economic research institutes in March 2008

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

4.2 The impact of the new minimum wage

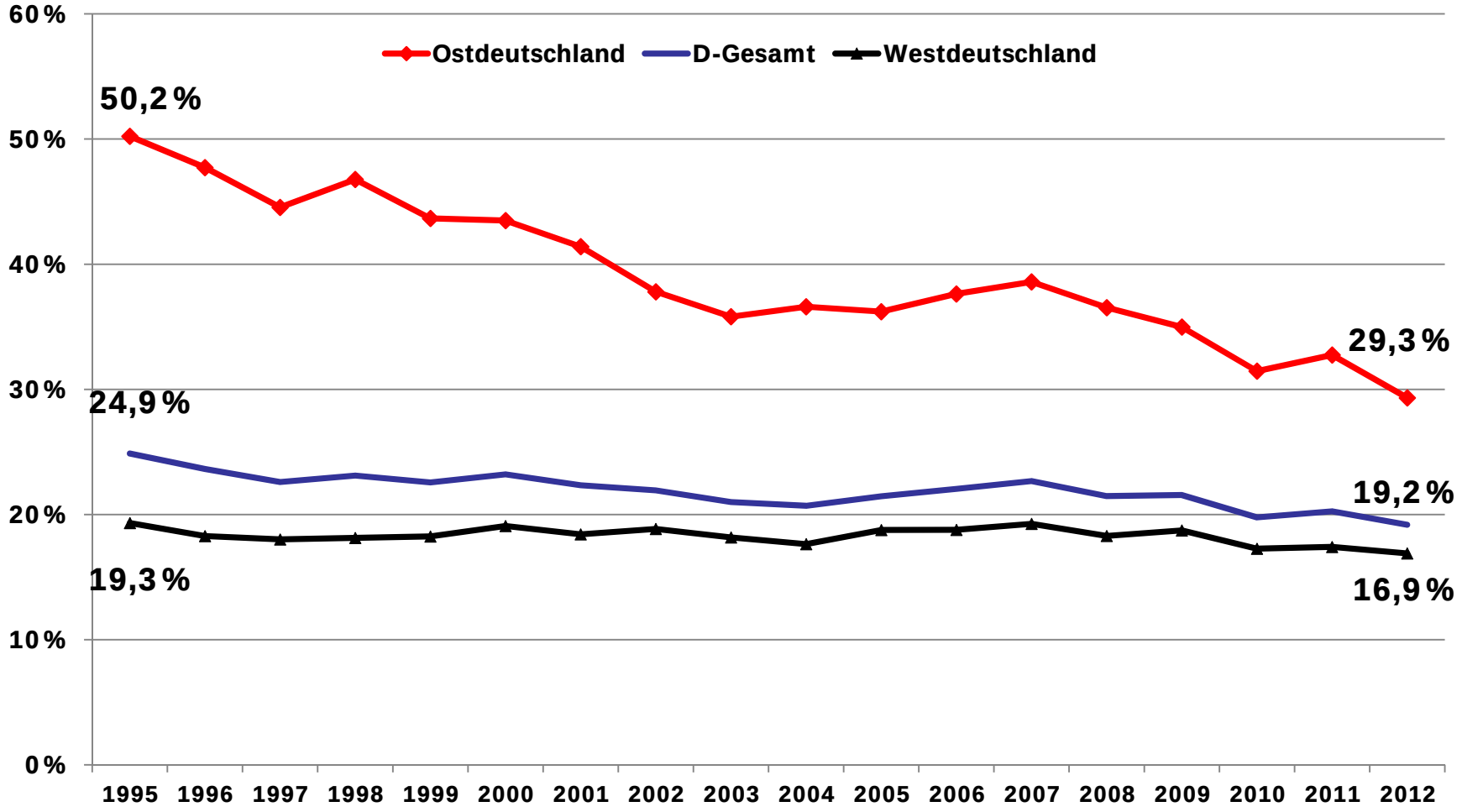
- Strong bite of MW: 2012 19% of employees < 8,50 € - even 29% in East-Germany
- Deviations by CA agreed in some industries (meat industry, temp agencies, agriculture, hair cutting etc.)
  - No incentives for unions to sign more agreements since employers did not offer a quid pro quo
- No visible impact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

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

4.3 Share of employees with an hourly wage < 8,50 Euro 1995-2012



UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

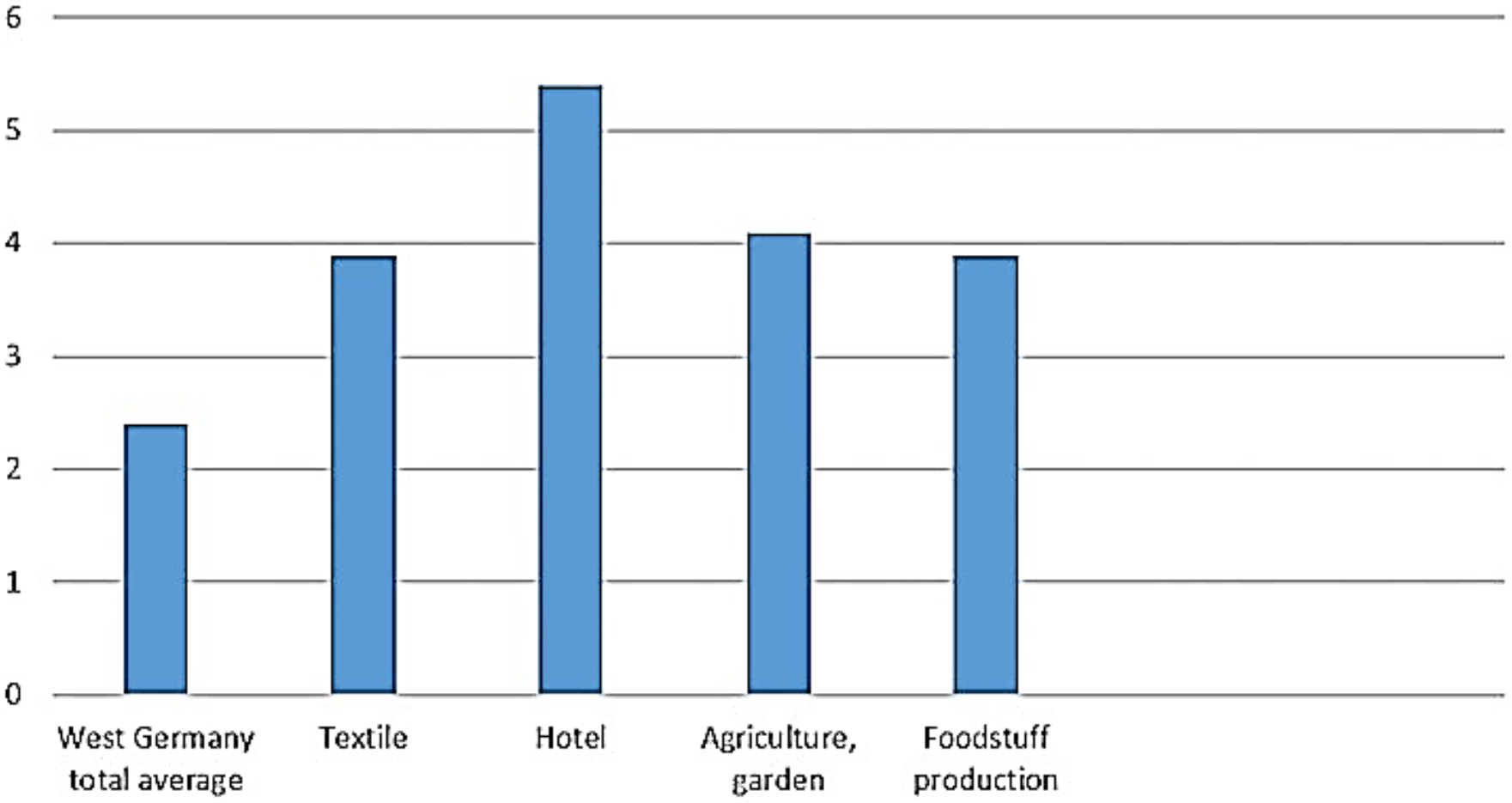
4.4 Groups most affected by MW 2012

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

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

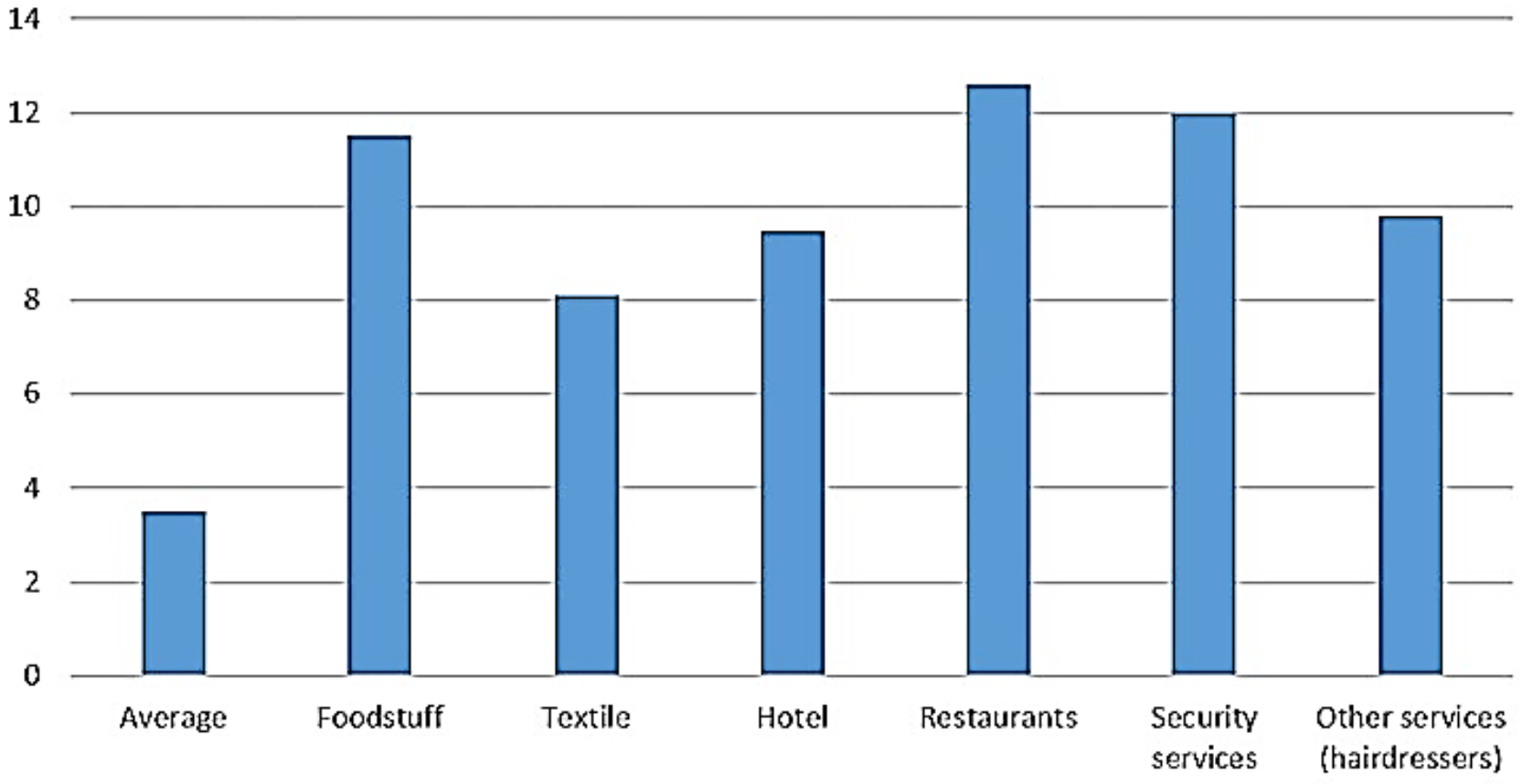
Source: Kalina, T./Weinkopf, C. (2014): Niedriglohnbeschäftigung 2012 und was ein gesetzlicher Mindestlohn von 8,50 € verändern könnte. IAQ-Report 2014-02. Duisburg: Institut Arbeit und Qualifikation

4.5 Gross wage increase Western Germany (Q1 2015/Q4 2014)



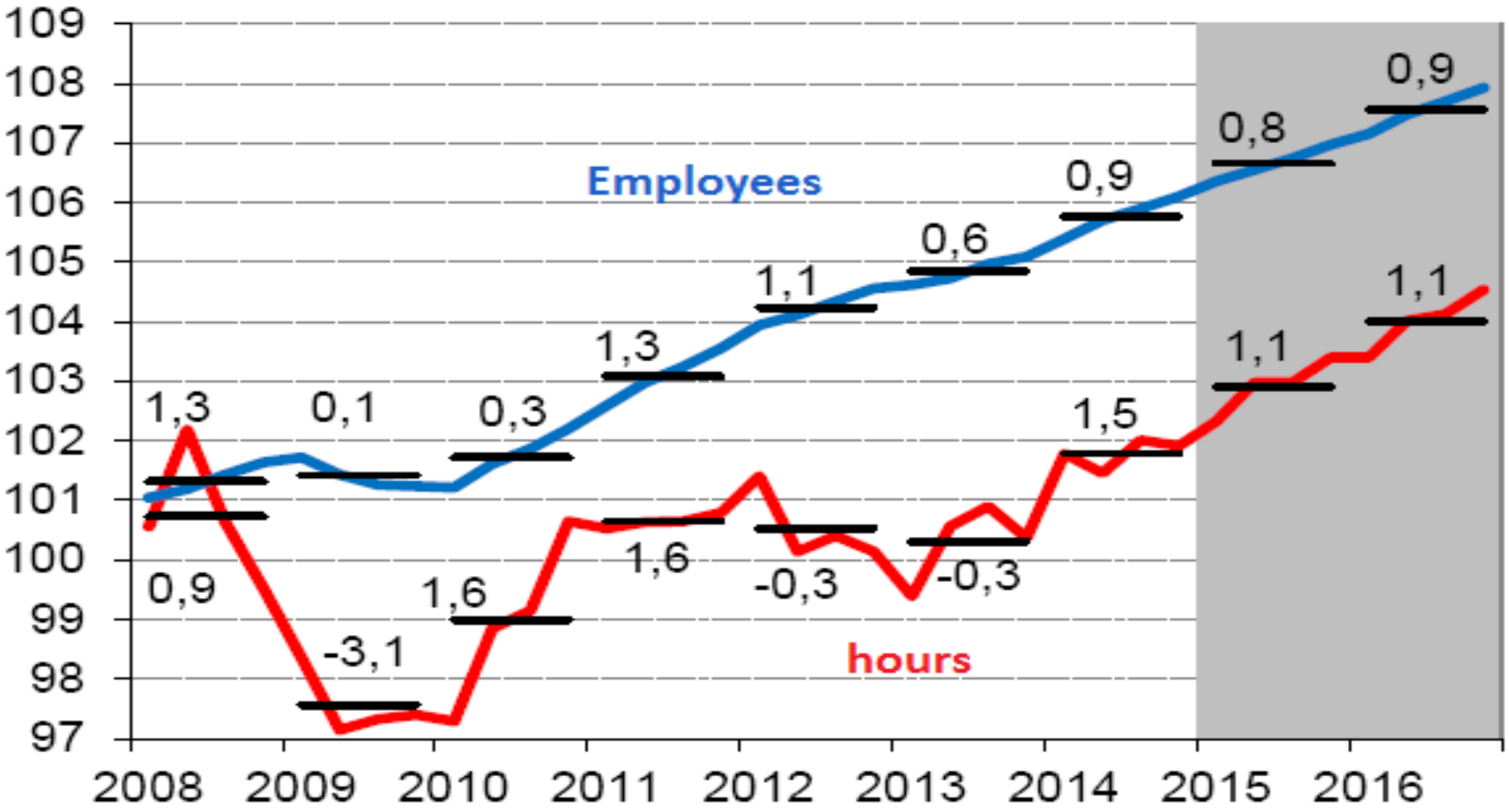
Source: Bundesbank Monatsbericht August 8, 2015

4.6 Gross wage increase Eastern Germany (Q1 2015/Q4 2014)



Source: Bundesbank Monatsbericht August 8, 2015

4.7 Employment and working hours 2008 - 2016



Source: IMK-Report 04/2015

UNIVERSITÄT DUISBURG ESSEN

Offen im Denken

IAQ

5 Conclusions

1. High acceptance of MW – also by private companies
2. Social partners jointly tried to make change as path-dependent as possible - increases of NMW follow negotiated wages
3. Revitalization of CB in some industries – some ripple-effects
4. Until now no disemployment effects
5. Enforcement the big issue in the next years:
   research shows that MW's are only accepted by employers if they are enforced and create a levelled playing field