

# Wage Stagnation and Reinvigorating Wage Growth: The German experience

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# Outline

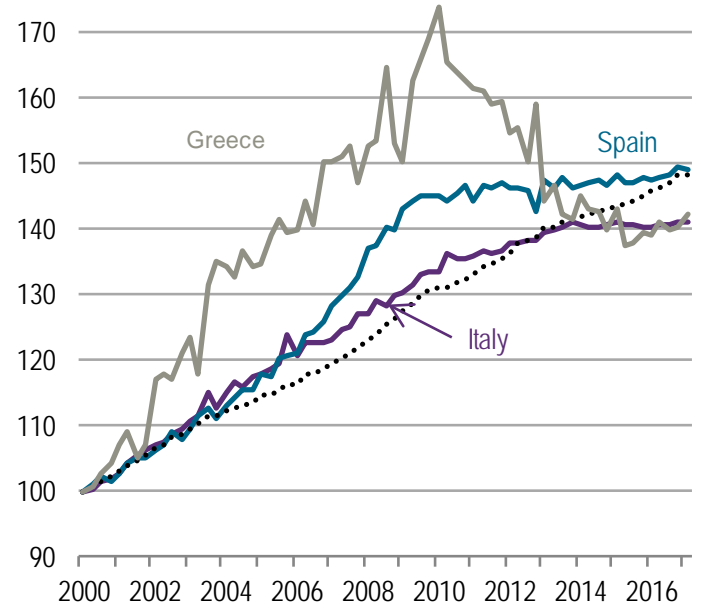
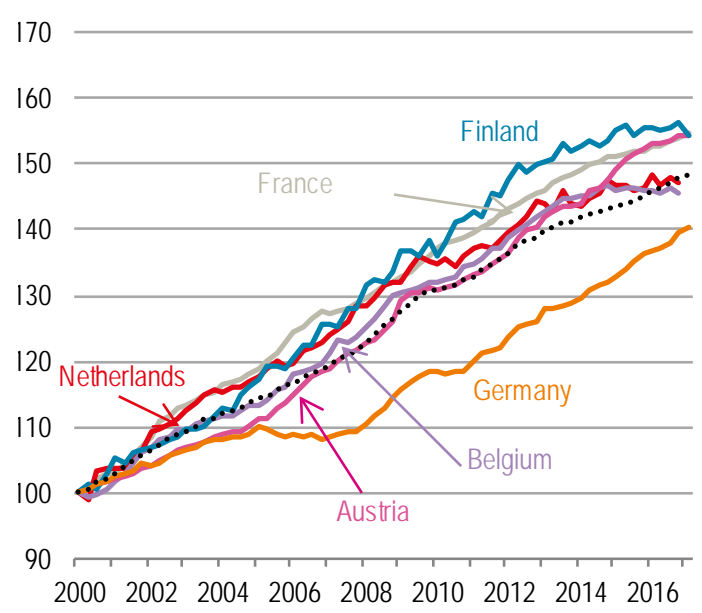
1. German wage moderation – a European problem?
2. Stagnating ordinary living standards and increasing income inequality
3. Main drivers of change
4. Conclusions

## 1.1. German wage moderation – a European problem?

- Below average wage and unit costs increases in Germany
- In combination with declining public investments also below average increase of domestic demand and imports
- Increasing German export surpluses (2017 = 7,6% of GDP) contributing to European imbalances
- But German exports not very price-elastic: *“Overall there is no evidence that wage developments are at the root of the development” (EC 2012: 91)*
- reducing Germany’s current account surplus lies not solely in wages policy but also in an expansive national fiscal policy with an increase in public investment
- *“However, Germany is not yet ready to take its financial policy in this direction” (Horn et al. 2017: 20).*

# 1.1 Evolution of employee remuneration in the Eurozone and in selected EU member states 2000 -2017

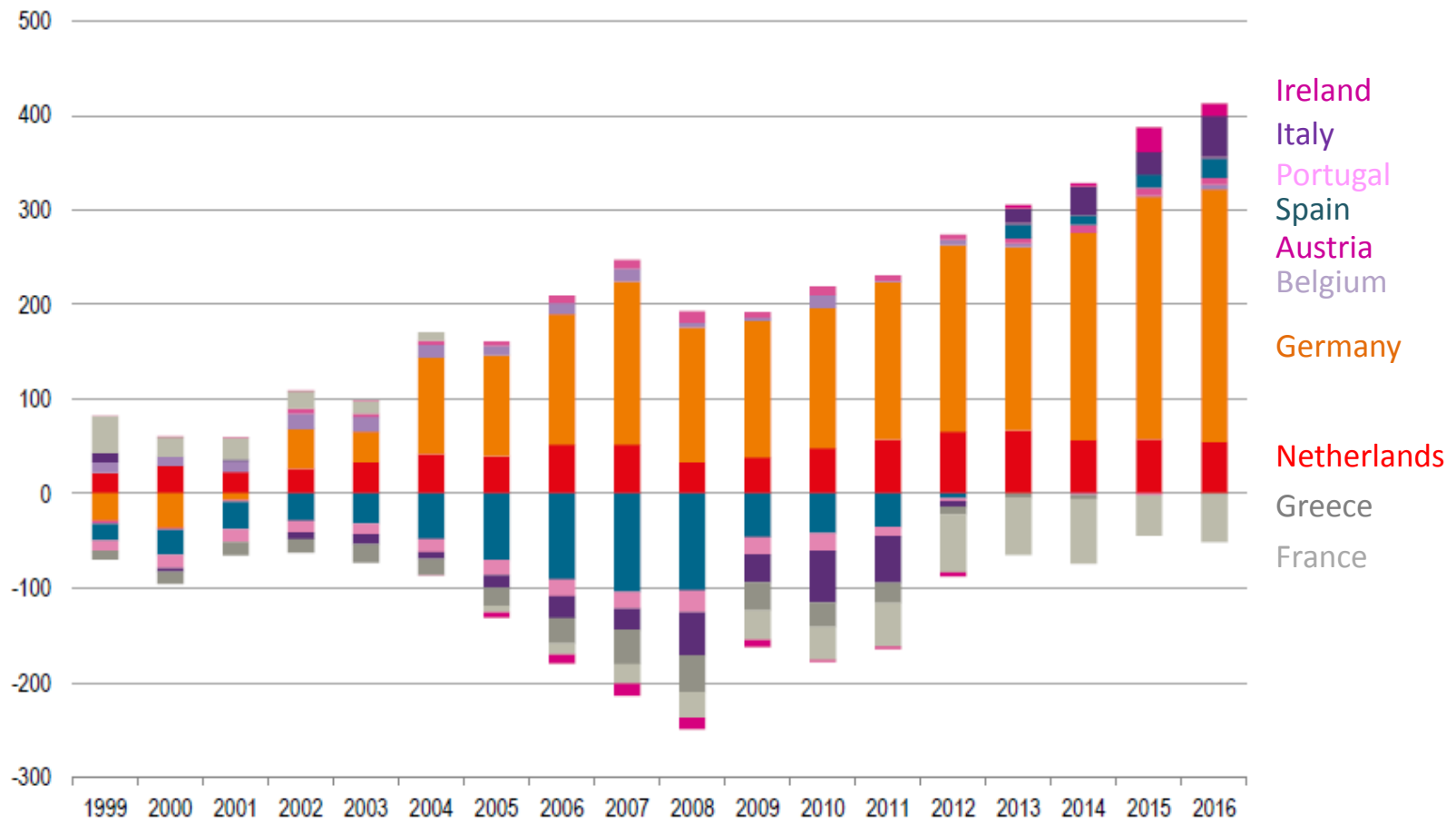
2000q1=100



... Eurozone

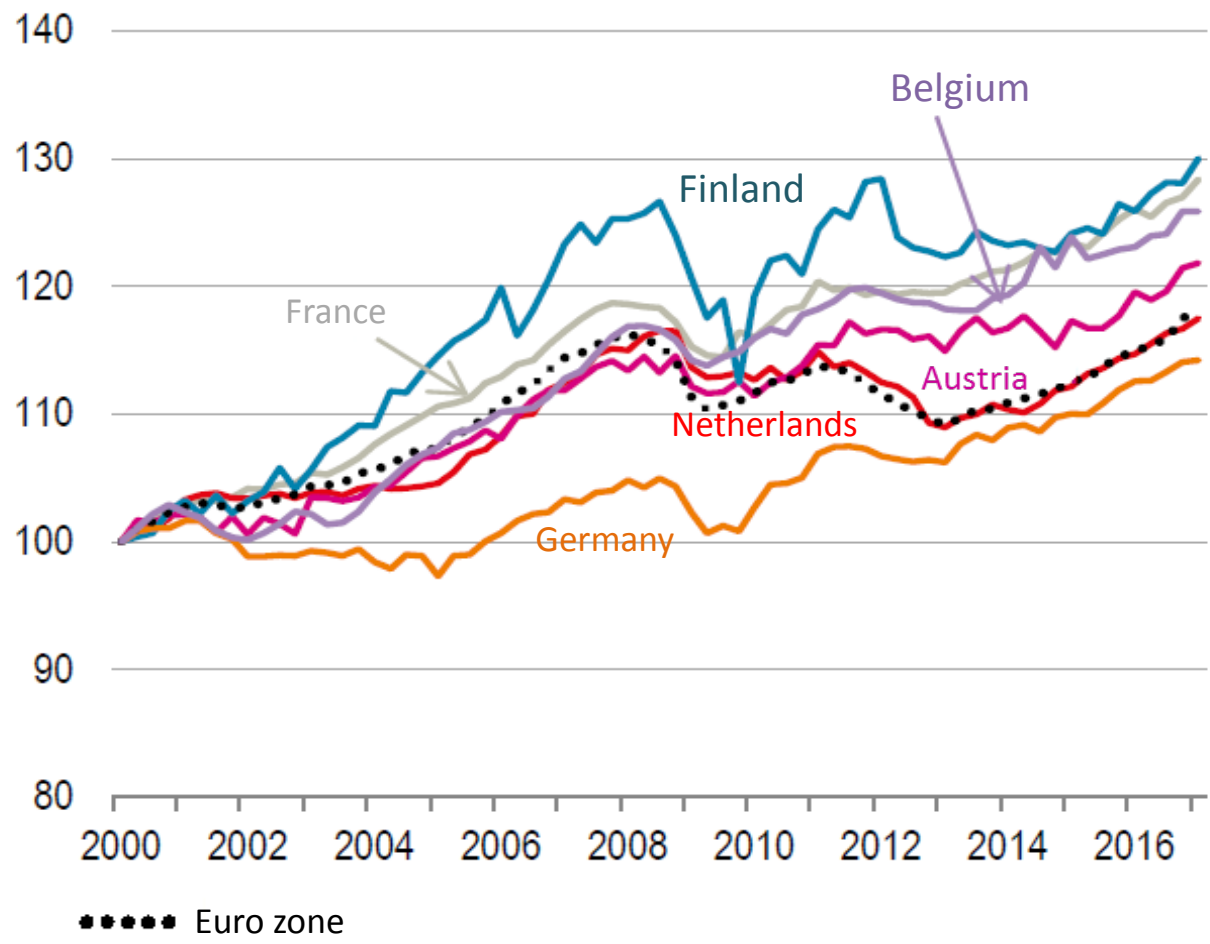
Employee remuneration per hour. Seasonally and working day adjusted. In national currency.

# 1.2 Increasing imbalances of payments in EU (in billion €)



Source: Albu et al. (2017) IMK Report 128.

# 1.3 Development of domestic demand 2000q1=100 (1)

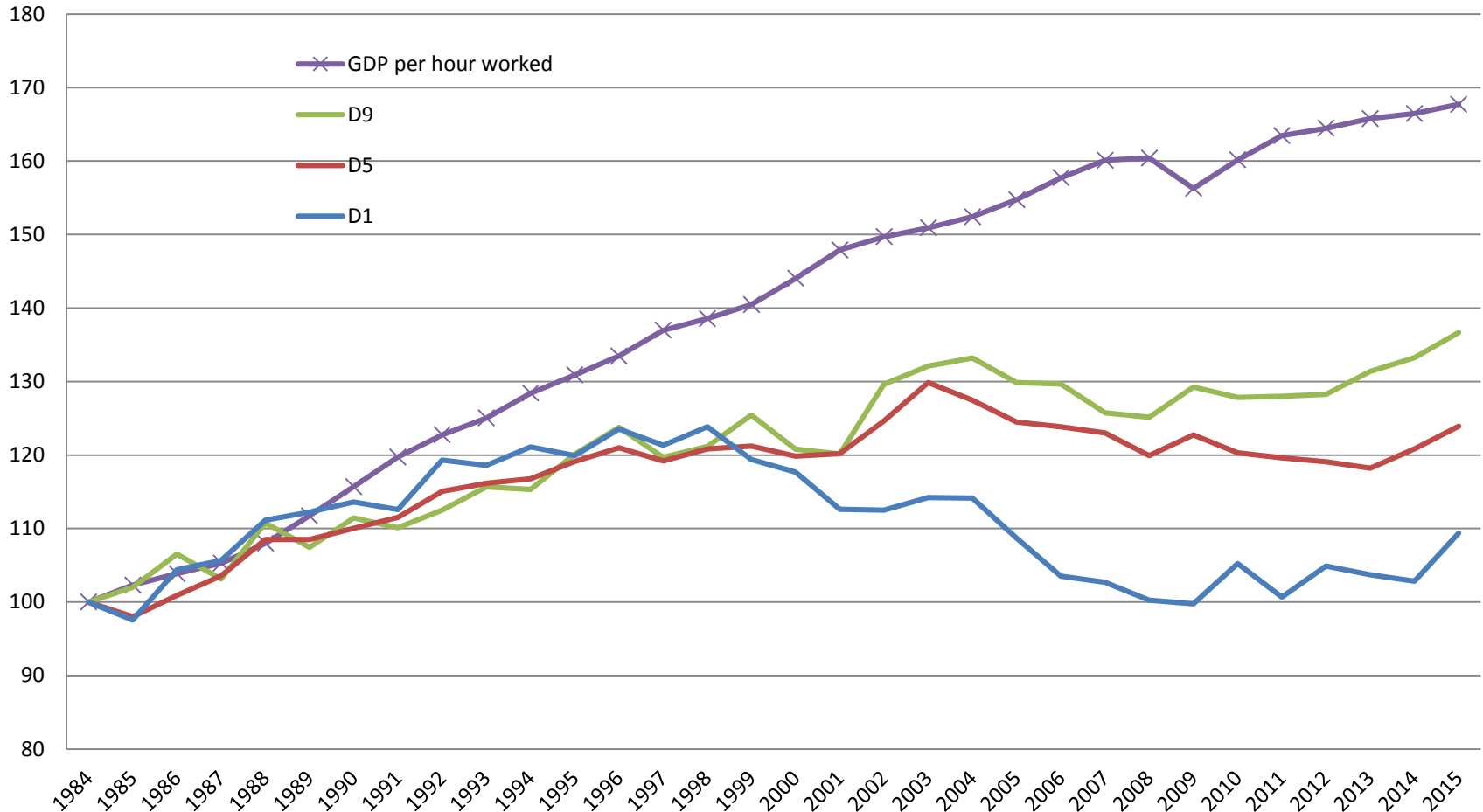


Source: Albu et al. (2017). IMK Report 128.

## **2.1. Stagnating ordinary living standards and increasing income inequality**

- **Until 1990: Wages followed GDP growth – no increase in income inequality**
- **After unification until 1995 strong increase of low East German market incomes and pensions**
- **After 1995**
  - **decoupling of GDP and wages**
  - **increasing inequality of market wages and household incomes**
  - **stagnating living standards up to the 5th decile**
- **low wages important driver of increasing inequality of household incomes**

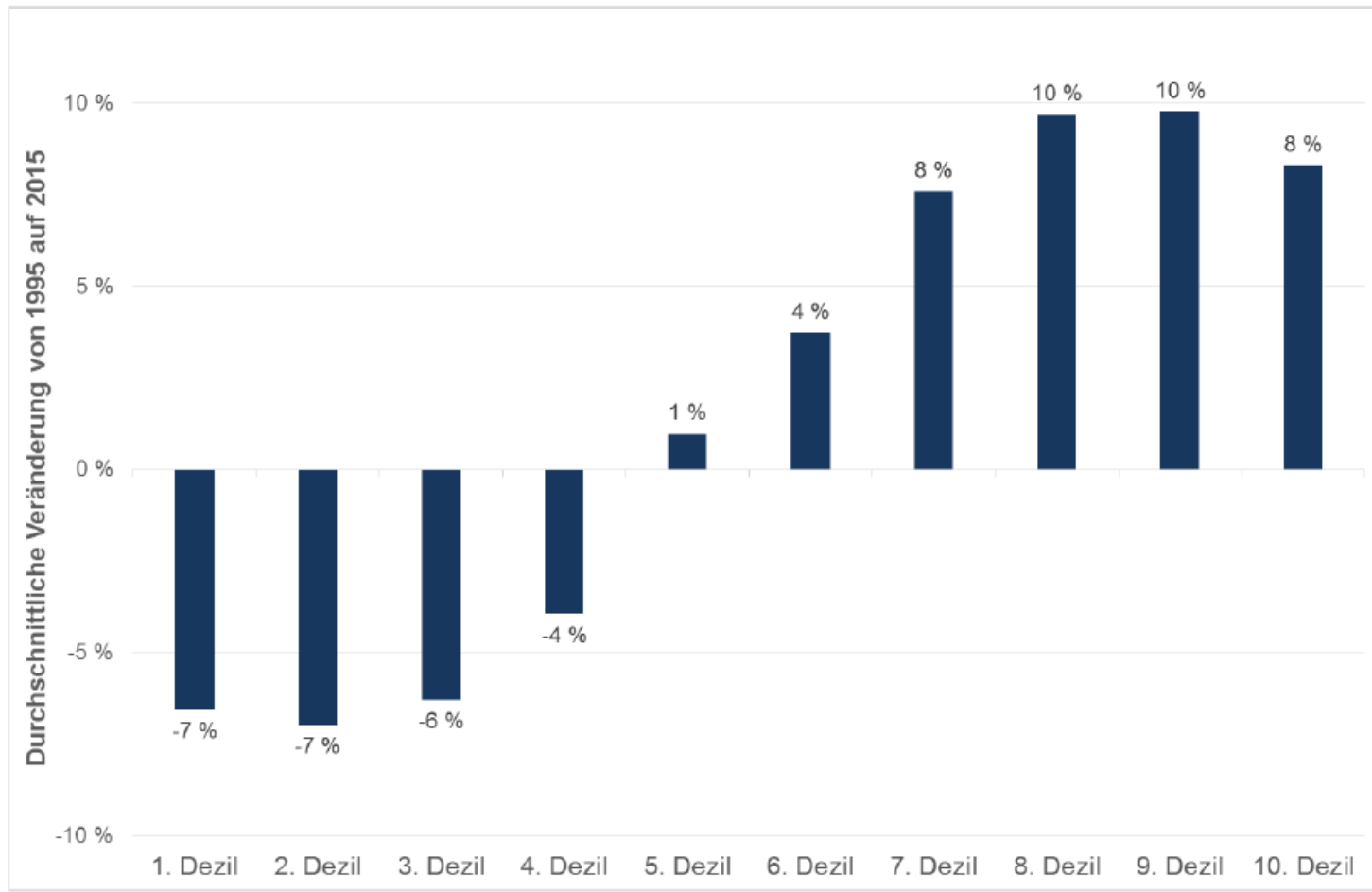
## 2.1 Evolution of real hourly wages by decile in West Germany (all dependent employees) – With GDP per hour worked as comparison



Source: Source: Own calculations using the SOEP v32.1; GDP per hour worked, adjusted for prices, for West Germany up to 1991, for Germany as a whole from 1992 onwards: Statistisches Bundesamt, own calculations

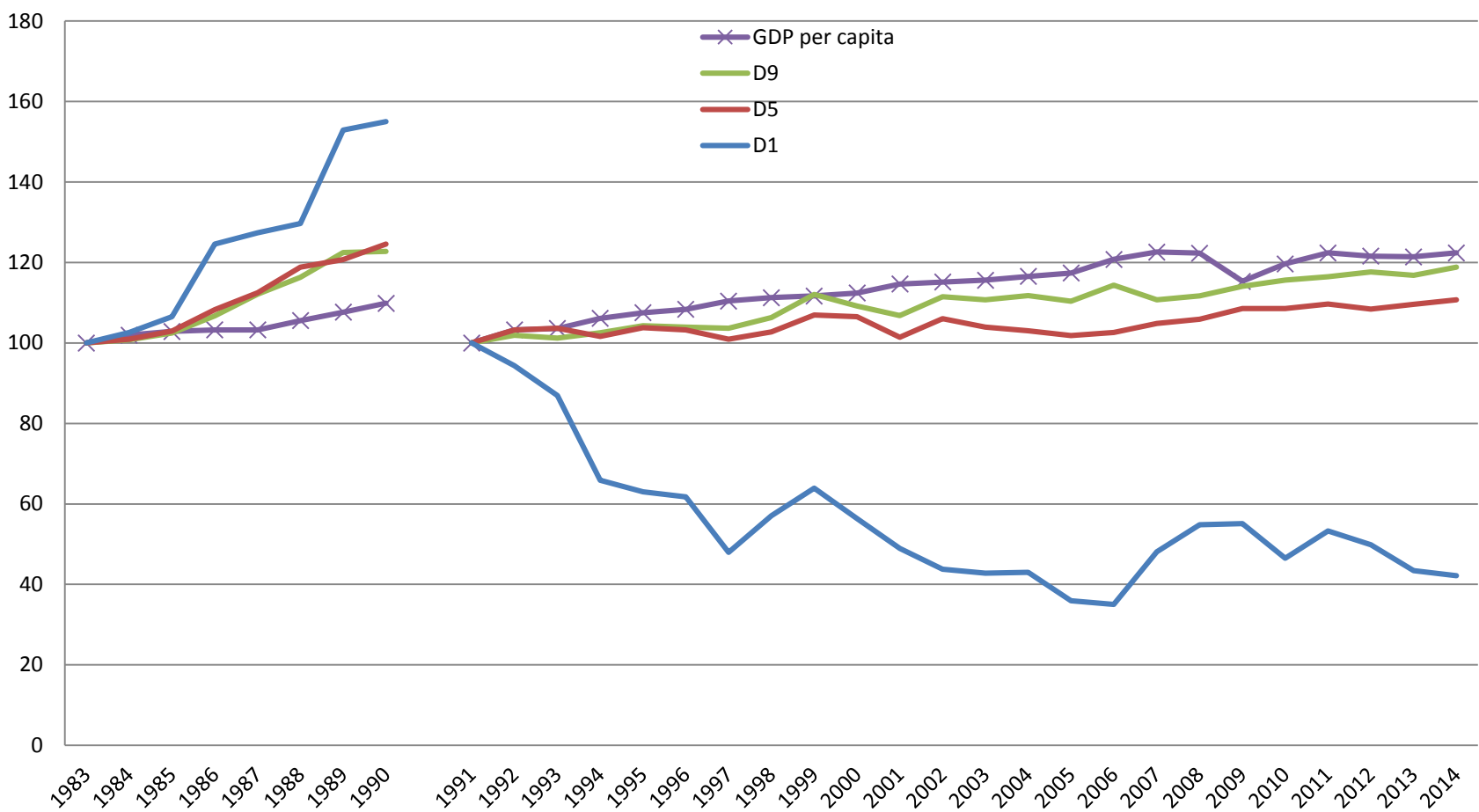


## 2.2 Hourly gross wage of employees by Deciles 1995-2015



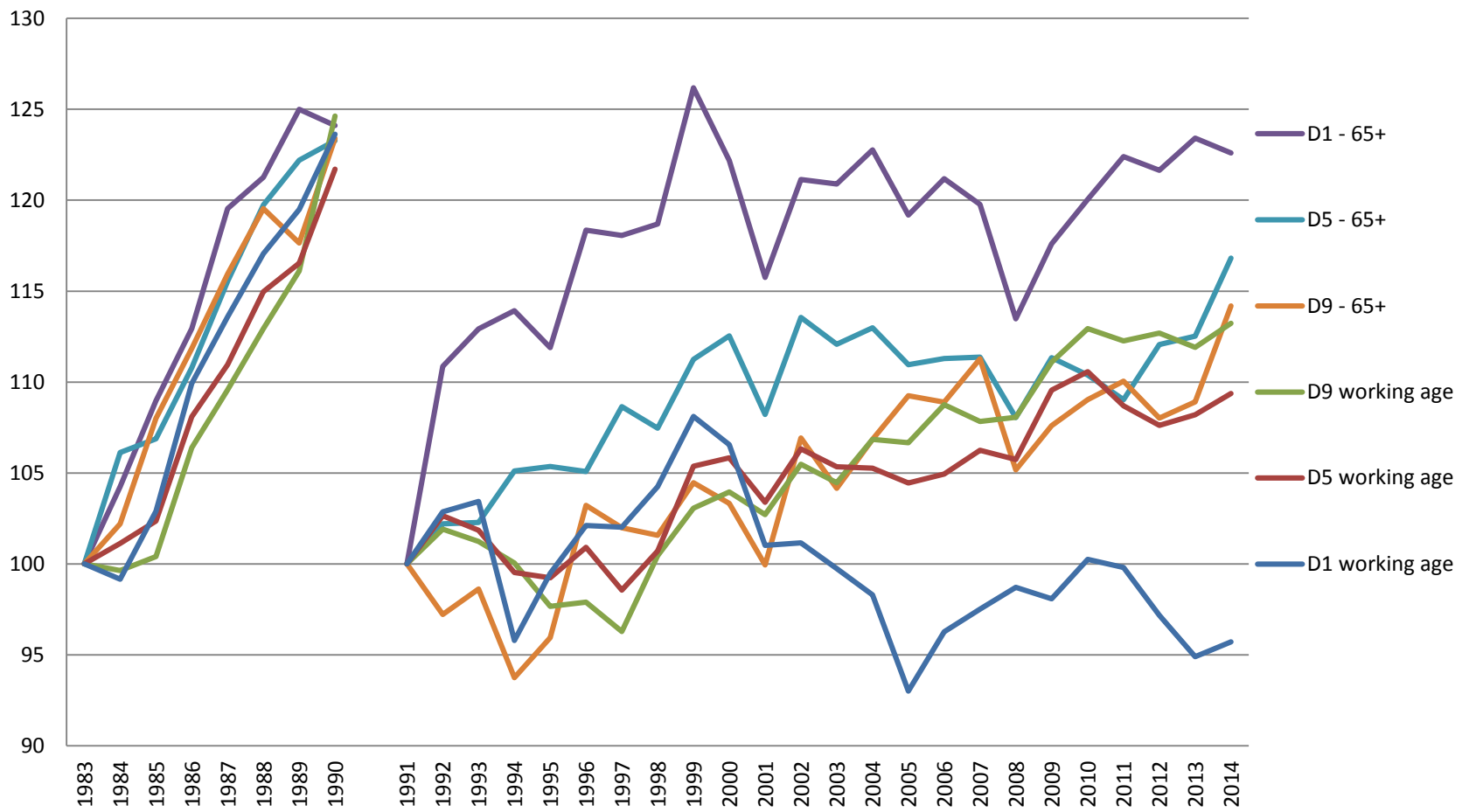
Source: Bundesregierung, Armuts- und Reichtumsbericht 2017 (based on SOEP v32)

## 2.3 Evolution of household real incomes before state redistribution by decile *(working-age population 25 to 65 years of age)* 1983 – 2014 and per capita GDP *(until 1990 West- Germany, after 1990 Germany)*



Source: Own calculations using SOEP v32.1; GDP: Statistisches Bundesamt, own calculations.

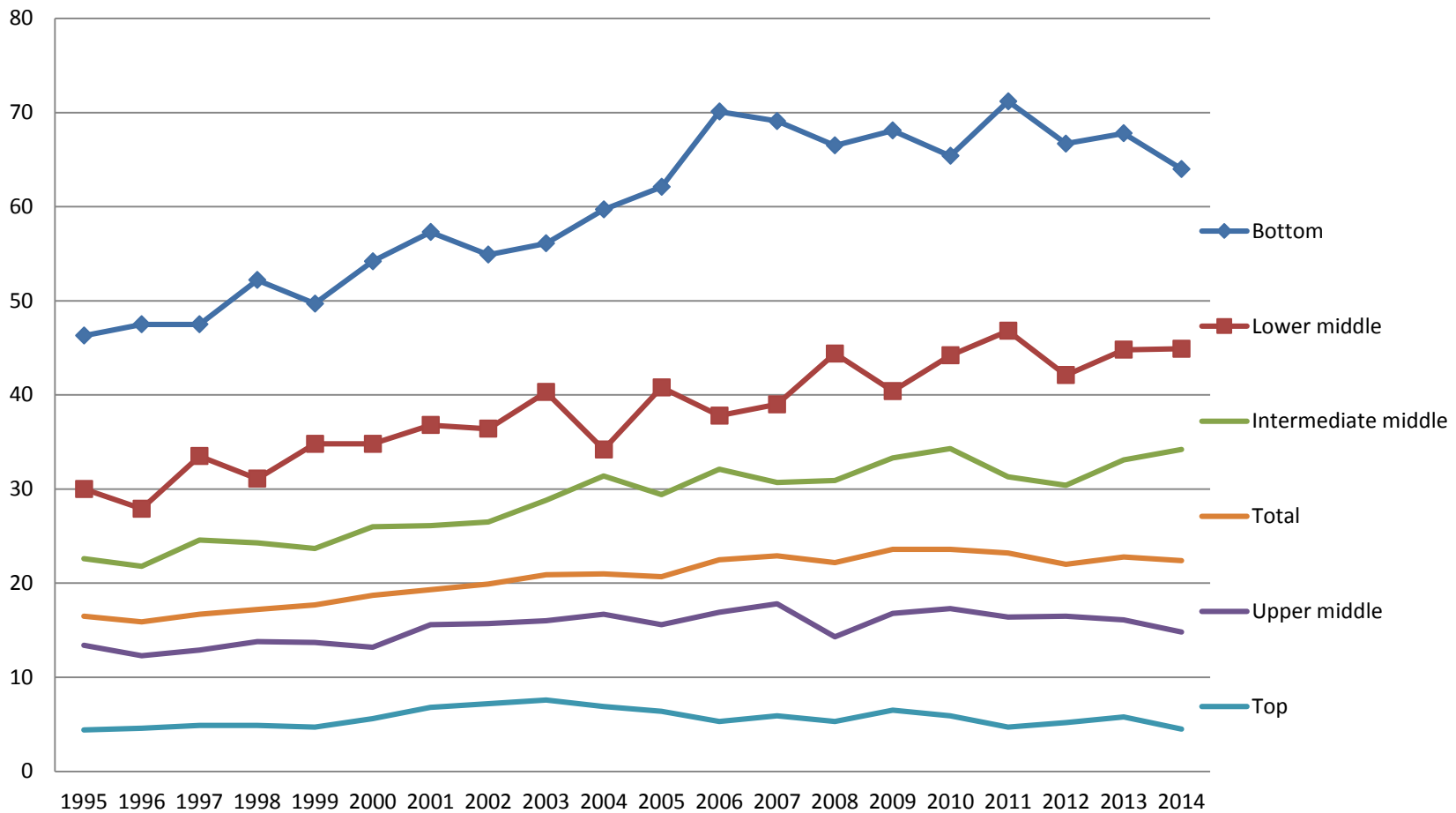
## 2.4 Household incomes after state redistribution – Households of older citizens (65 and over) compared with working-age households (25 to 65) - Deciles



Source: SOEP v32.1, own calculations

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# 2.5 The low wage risk of dependent employees in households by income bracket (pre state redistribution) 1995 to 2014



Source: SOEP v32.1, own calculations. Low wage risk and household income in the various income brackets relate to the years as listed, not the previous years.

## 3.1 Main drivers of falling income standards

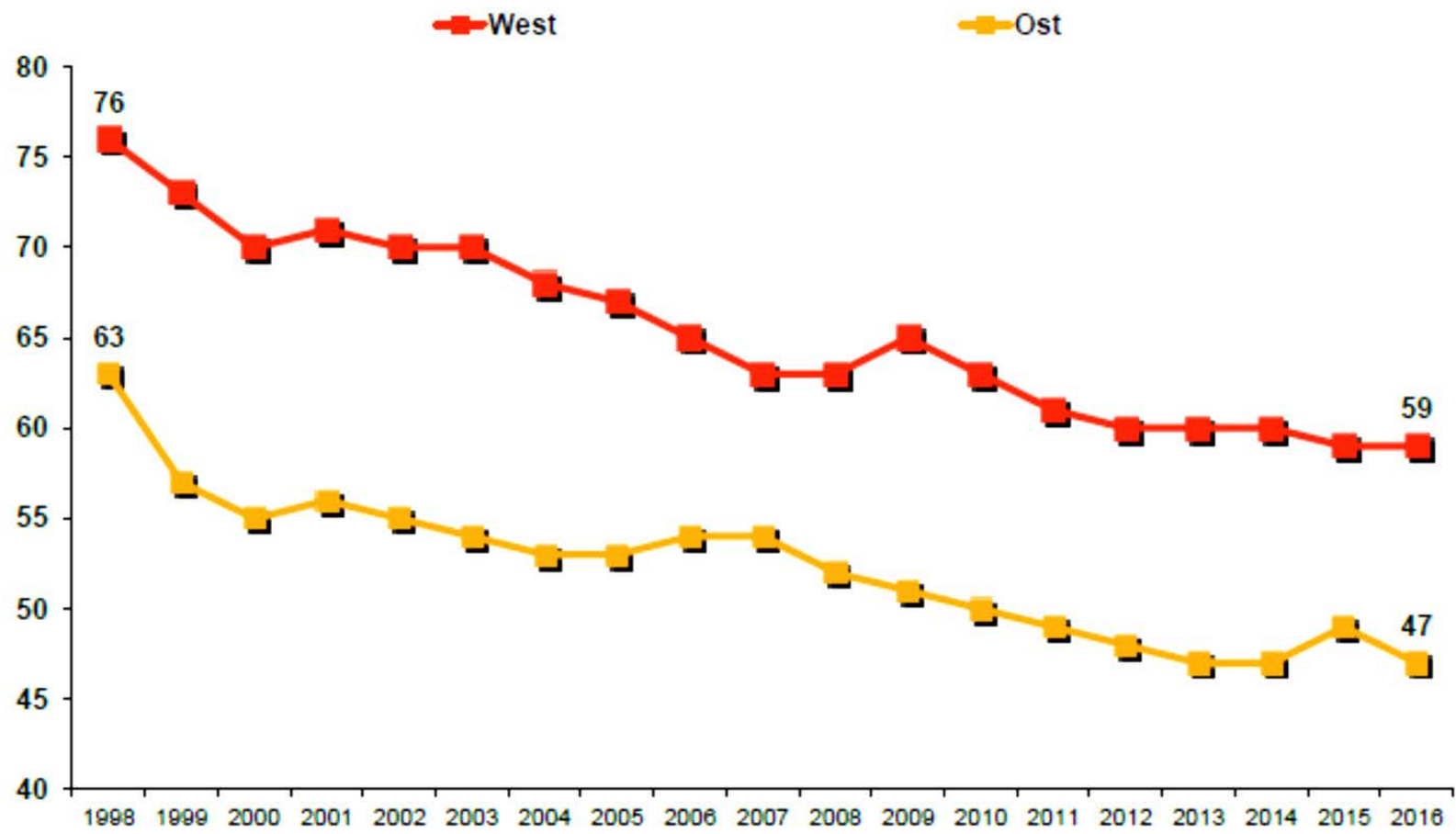
- **Erosion of the inclusive wage system:**
  - *Privatization of public services (e.g. public transport, telecommunication)*
  - *Growth of atypical employment*
  - *Erosion of autonomous system of collective bargaining*
  - *Deregulation of labor law (Hartz-laws)*
- **Increasing inequality of working hours**
- **Strengthening of old family model: strong financial incentives to work short hours**
- **Reduction of progressive income and corporate taxes: increased financial pressures on the welfare state**
- **Reduction of pension levels (effects will show up over the next 40 years)**

### 3.1 End of pattern agreements



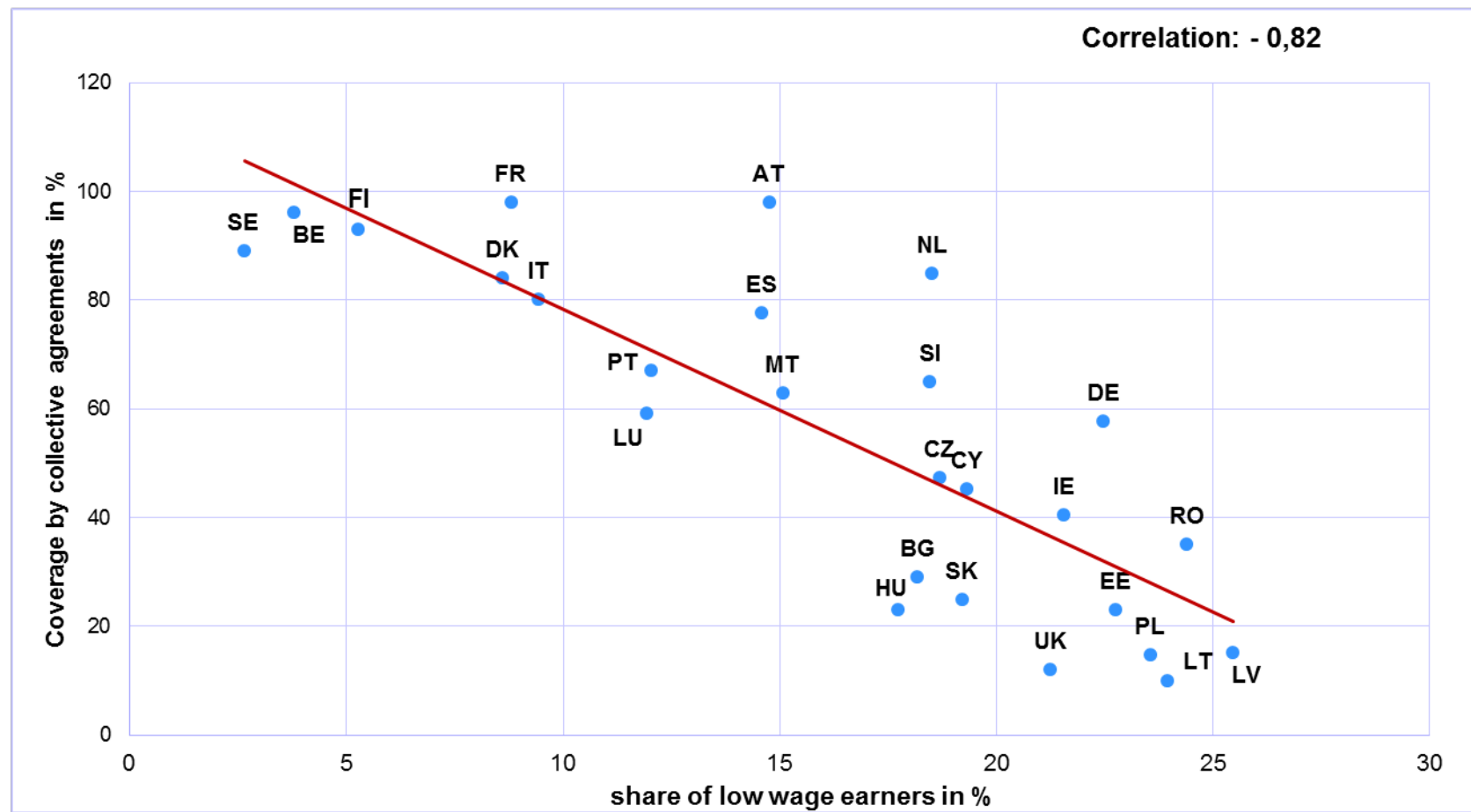
Quelle: Statistisches Bundesamt, WSI-Tarifarchiv 2015 | © Hans-Böckler-Stiftung 2015

### 3.2 Declining coverage by collective agreements



Source: Source: WSI Tarifarchiv (based on IAB Establishment Panel data)

### 3.3 Rate of coverage by collective agreements and share of low-wage work (2014)

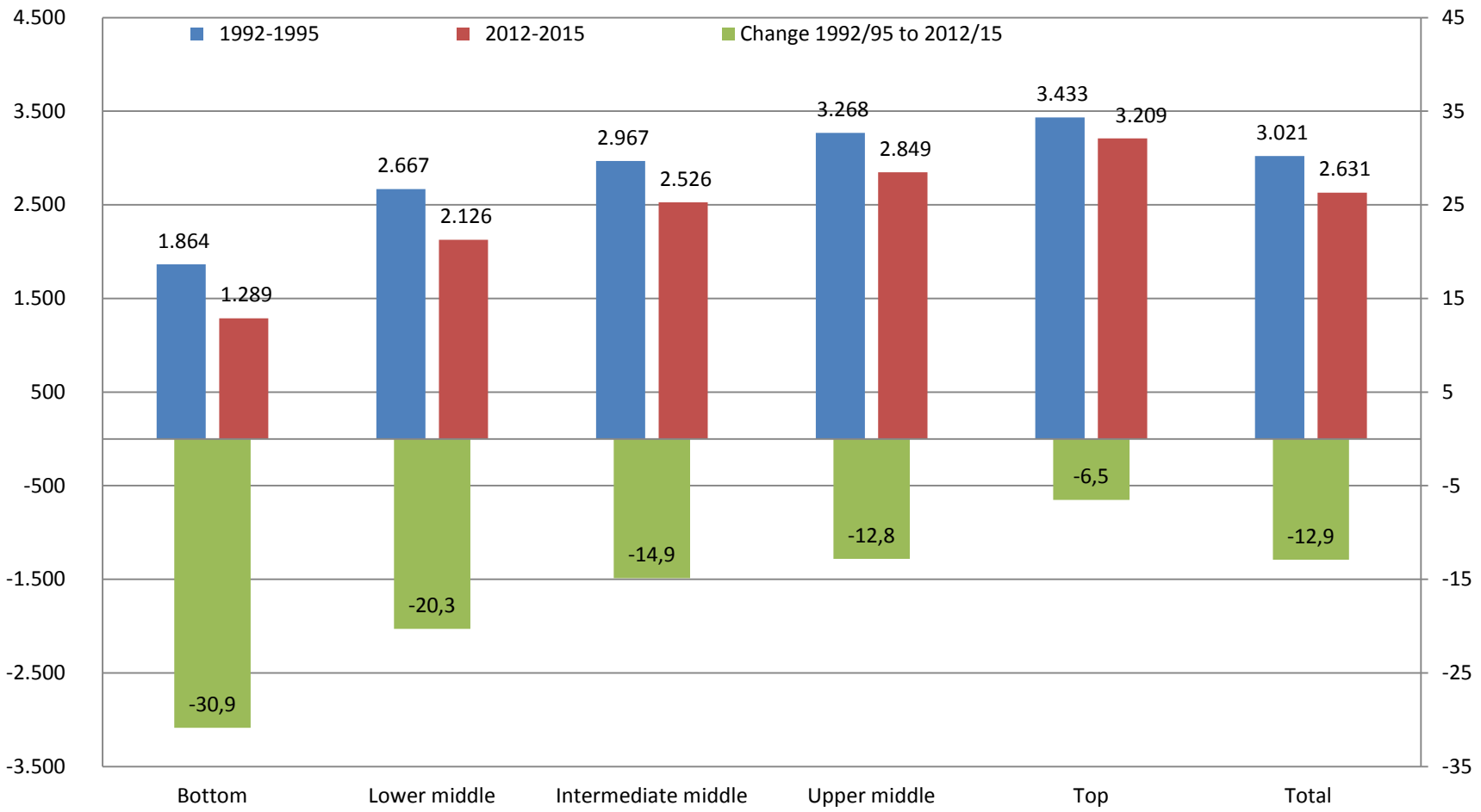


Source: Visser 2015, Eurostat, own calculations



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# 3.5 Annual gross working time volumes by income bracket (pre-state-redistribution) – percentage change (working households – Germany as a whole)

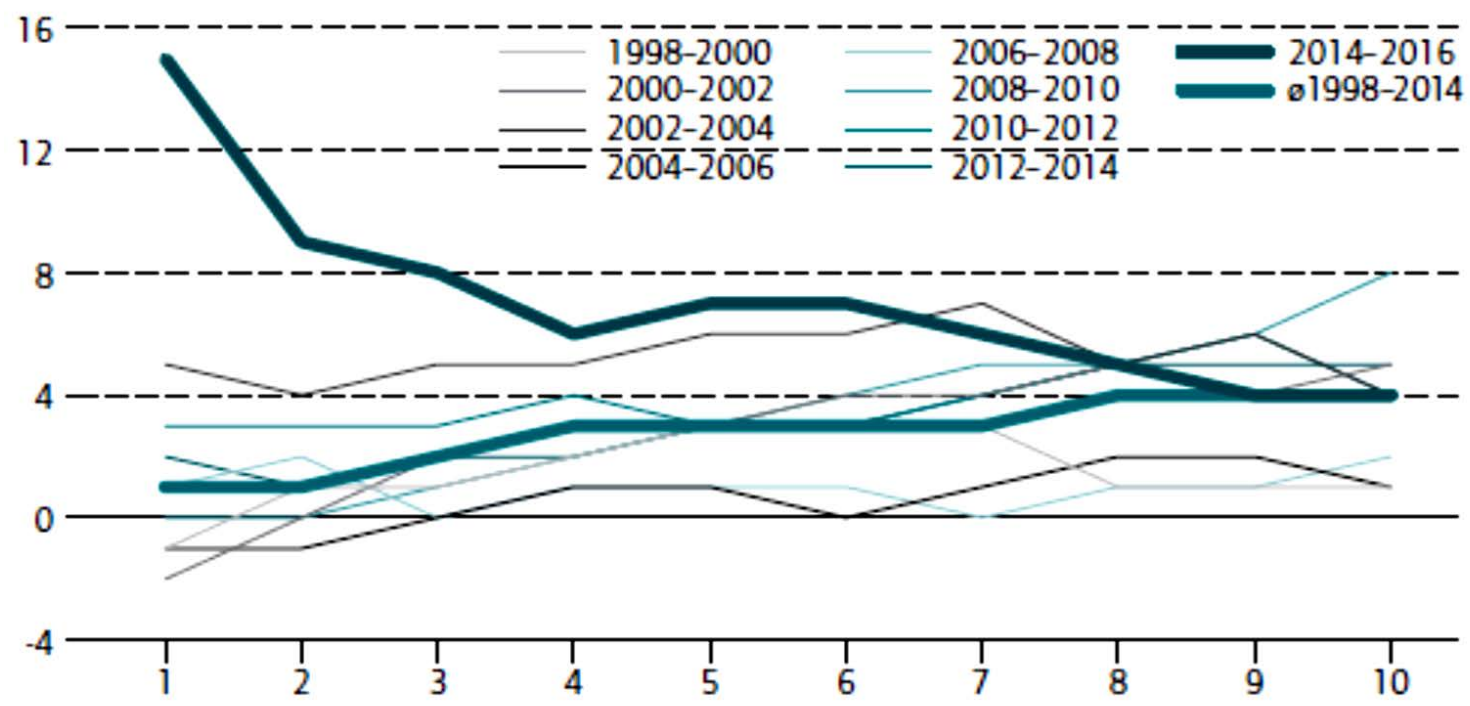


Source: Own calculations using the SOEP v32.1. Working households have a head of household between 25 and 65 years of age and income from gainful employment.

## 3.7 Main drivers of improving income standards

- Introduction of **care insurance** in the late 1990's
- **New family model**: Expansion of child care and all-day schools, paid parental leave, new working time options (from FT to PT and vice versa) – less part-time penalties – longer hours
- **Job miracle in the financial crisis**: reduction of working hours not of jobs, recruitment of apprentices even in the crisis
- Introduction of **Minimum wage** and facilitation of extending collective agreements
- **Strong job growth since 2004**, especially skilled service jobs

# Nominal growth in contractual hourly pay over two years by deciles 1998 - 2016



## Conclusions

- **Growing inequality of market and household incomes**
- **Main drivers:**
  - **Erosion of the inclusive wage system**
  - **Increasing inequality in the distribution of working hours**

## Main policy changes

- Reduction of **inequality in the primary distribution** by increasing coverage by collective agreements
- More equal distribution of **working hours** across income classes (also skill question!!)
- Abolition of incentives to work short hours linked with **traditional family model**
- **Higher taxation of top earners**