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# Minimum Wages, Collectively agreed wages and inequality

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CRIMT: L'avenir syndical : innovations,  
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## Research Questions

How to explain enduring international differences in low-wage work (LWW)

Differences cannot not accounted by universal explanations like skill-biased technological change

Nor by country specific economic structures (industry-mix, productivity etc. (Salverda/Mayhew 2009)

Pay setting institutions especially MW and CB play central role

Embedded in other institutions

Globalisation, technological change etc “filtered” through these institutions

## Earlier Research

MW influence wage distribution in the lower segment

Also impacts on higher segments – “spill-over” or  
“ripple effects”

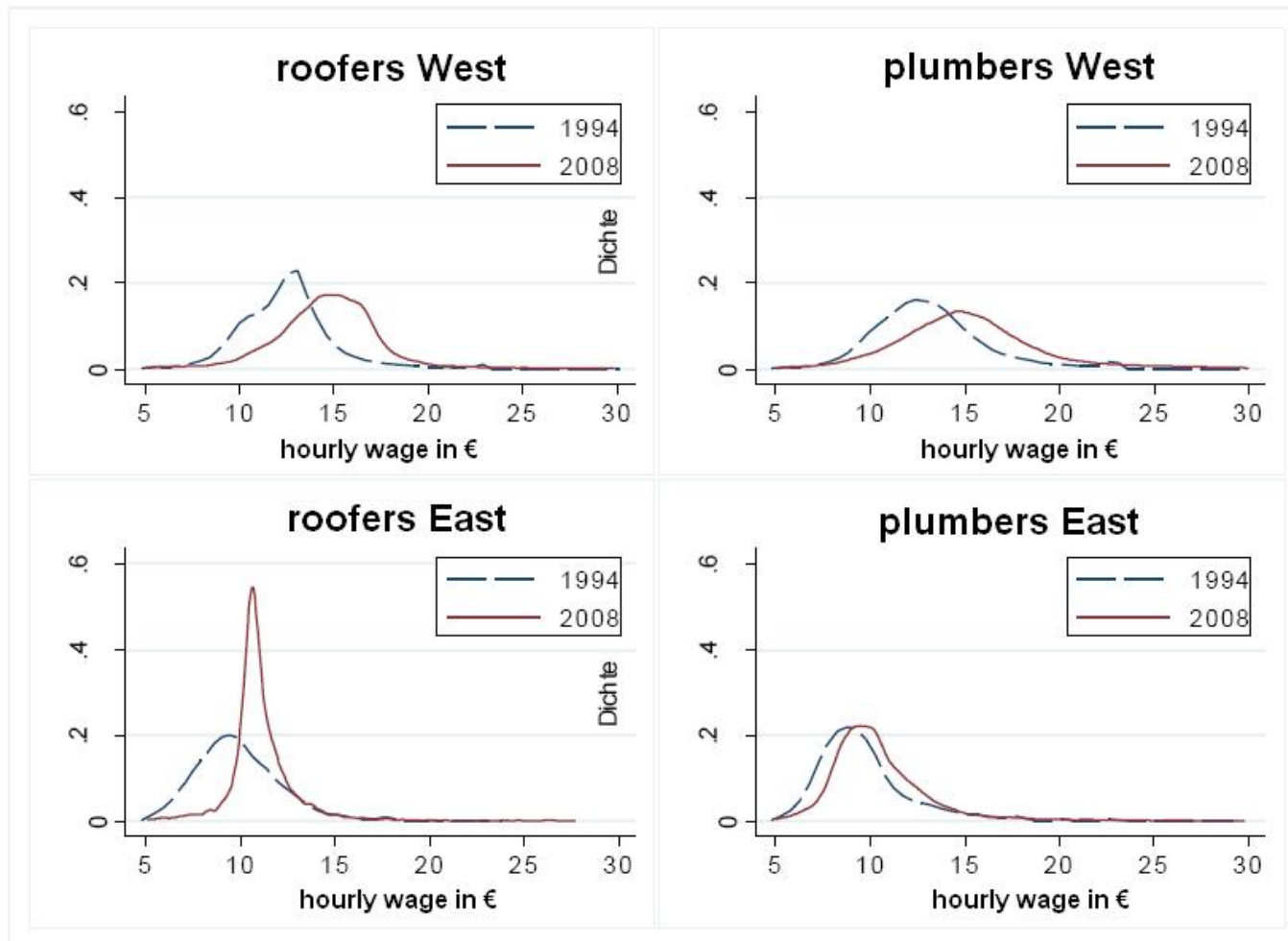
Positive ripple effects measured in the US, FR, West-DE  
– not in UK and East-DE

Reasons mentioned for positive ripple effects:

- Links to CA with fixed pay structures
- Firm decisions to restore pay differentials

Wage theory (Dunlop/Eichner): Key rates in wage  
contours – usually bargaining units – change of key  
rates increases of whole pay structure

# Wage distribution of roofers and plumbers in East and West Germany, 1994 and 2008



Source: Aretz et al. 2011:214

# Hypothesis

**Dunlop 1957: “CB must be taken as the normal case”**

**In many countries**

- Decline of CB**
- Wage contours more informal**

**Considerable scope for firms to decide on their own wage contours and to change it**

**Hypothesis: Interaction between MW and higher wages differ considerable and depend on role of CB in respective country**

## Paper based on

Participation in EU-project on MW and CB coordinated by Damian Grimshaw:

- Book publication: *Grimshaw D. (2013) (ed.) Minimum Wages, Pay Equity and Comparative Industrial Relations,*

Also:

- IAQ Project on wages in the construction industry in 4 countries
- Own data analysis for this paper

## Results (1)

**MW compress wages at the bottom but weak impact on reduction of LW-share**

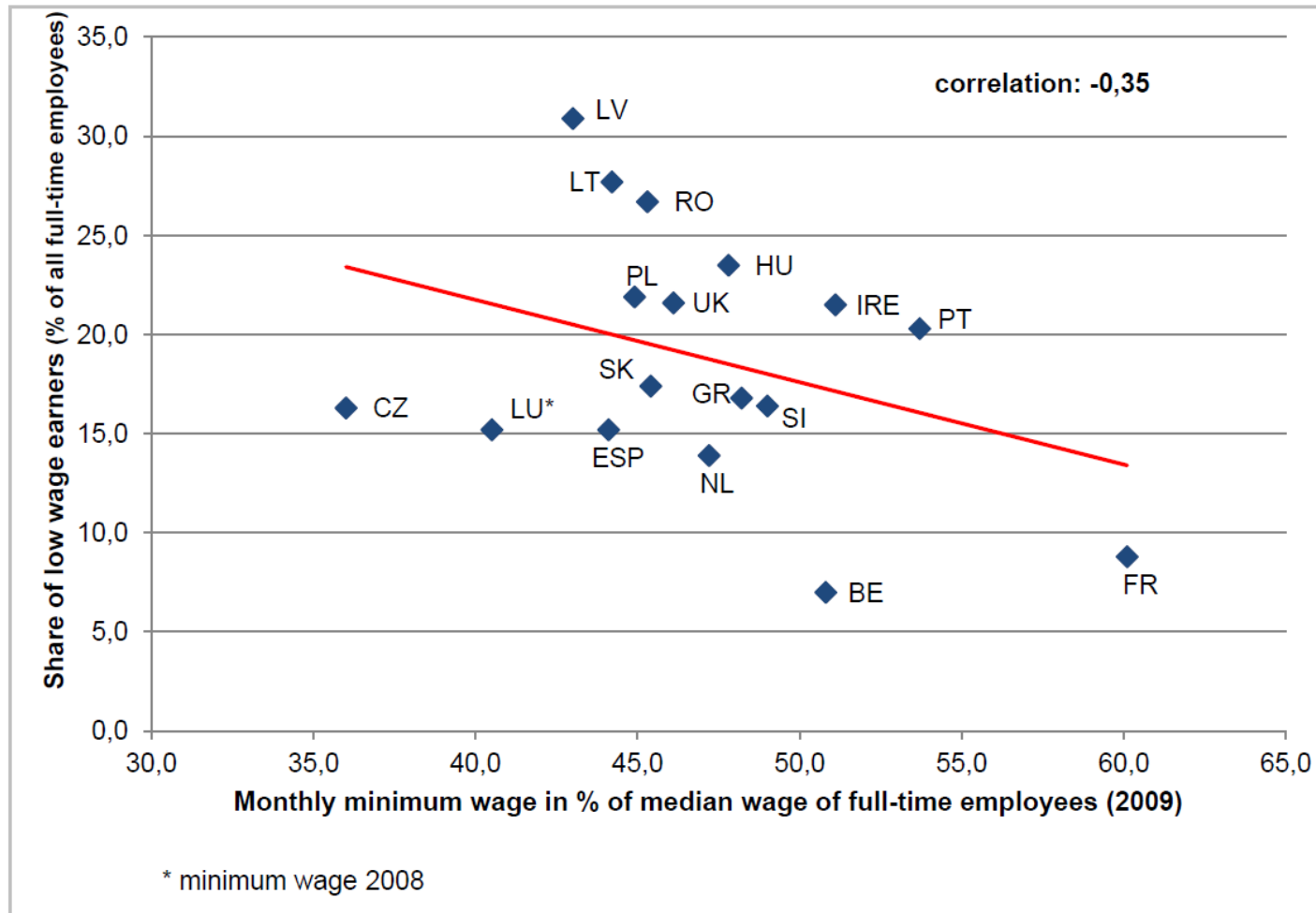
**Stronger impact if Kaitz index is high like in FR**

**Stronger impact on LW share of women and gender pay gap**

**Impact of coverage by CA on LW-share much stronger**

**Equality effect stronger for men and open-ended contracts**

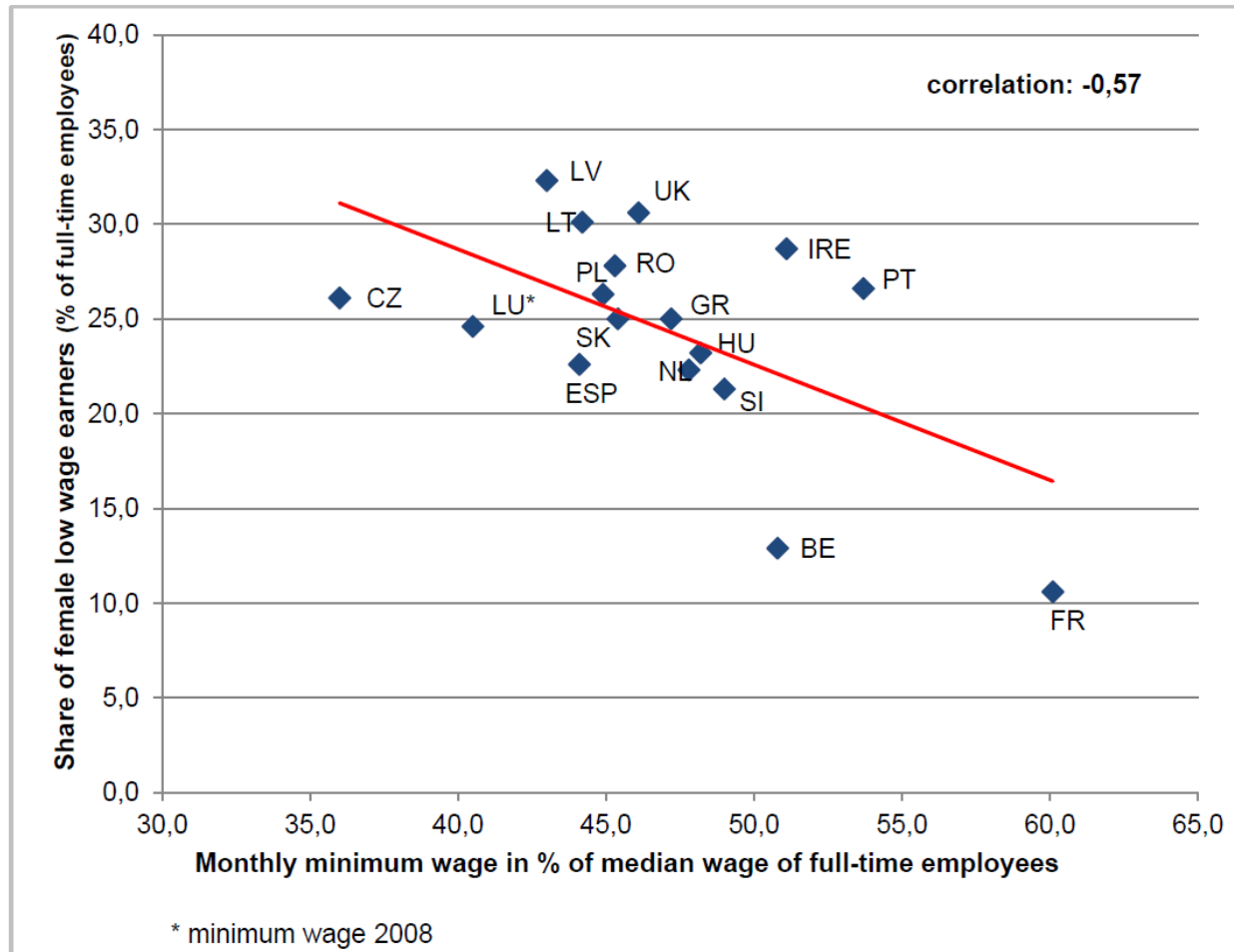
# Monthly minimum wage in % of median wage (2009) and low wage share in % of full-time employees (2006)



Source: Schulten 2010/2011; Casali/Alvarez Gonzalez 2010, own calculations

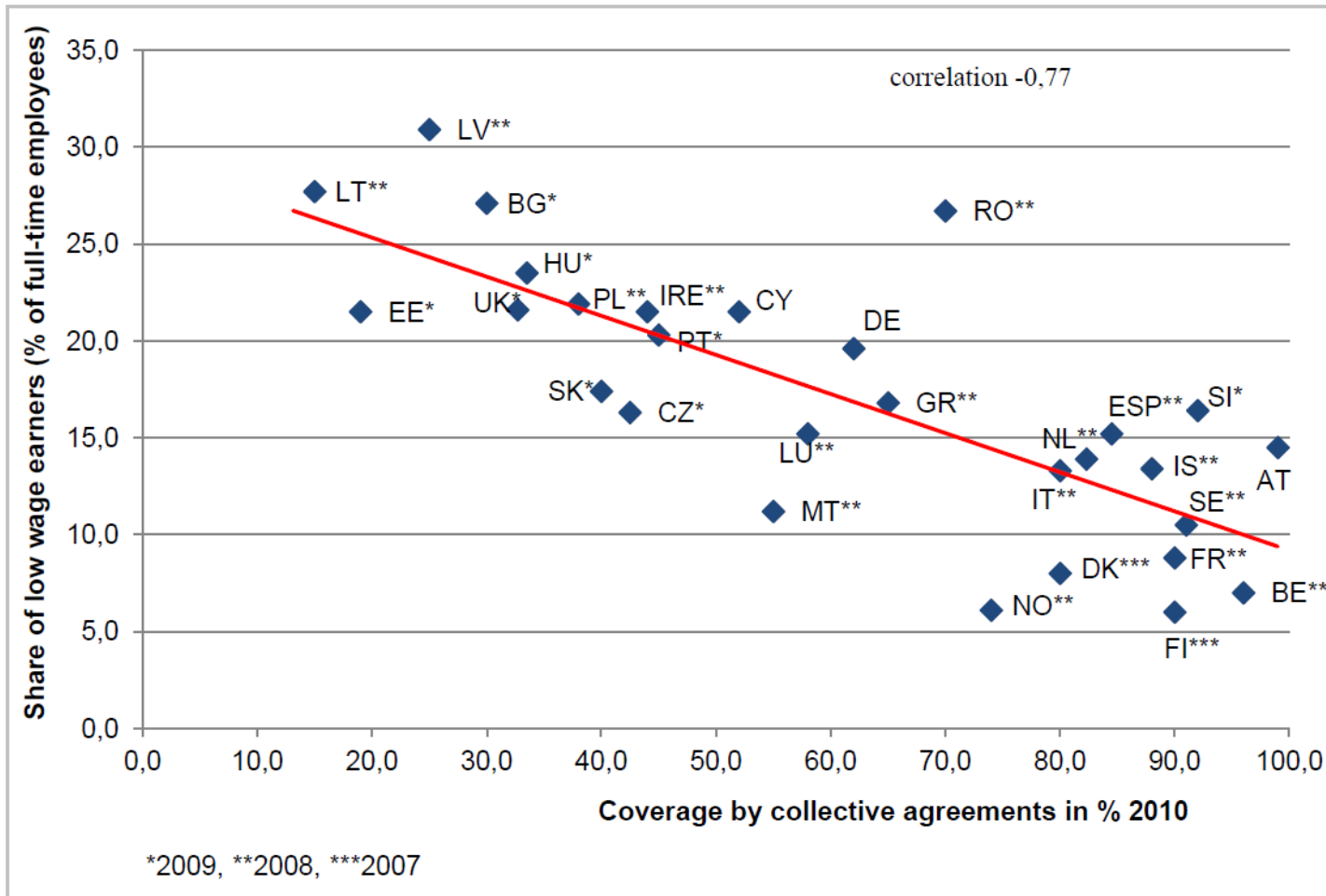


# Monthly minimum wage in % of median wage (2009) and low wage share in % of full-time employees - women



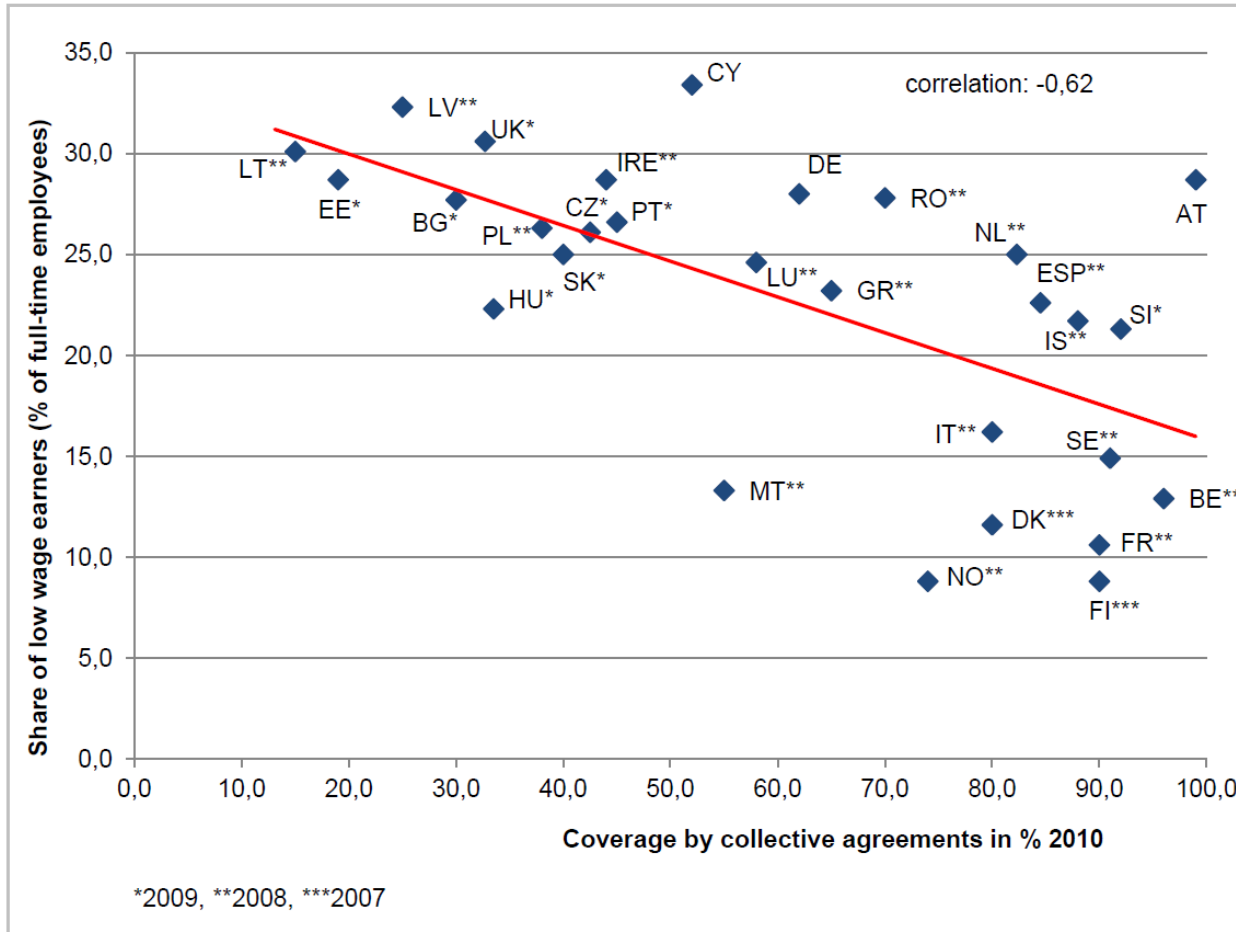
Source: Schulten 2010/2011; Casali/Alvarez Gonzalez 2010, own calculations

# Coverage by collective agreements (2010) and low wage share in % of full-time employees (2006)



Source: Visser 2011; Casali/Alvarez Gonzalez 2010, own calculations

# Coverage by collective agreements (2010) and low wage share in % of full-time employees (2006) - women



Source: Visser 2011; Casali/Alvarez Gonzalez 2010, own calculations

## Correlation between coverage by collective agreements and low wage share of different groups of employees

Full-time	-0,77
Only men	-0,68
Only women	-0,62
Permanent contract	-0,77
Temporary contract	-0,41

Source: Visser 2011; Casali/Alvarez Gonzalez 2010, own calculations

## Results (2)

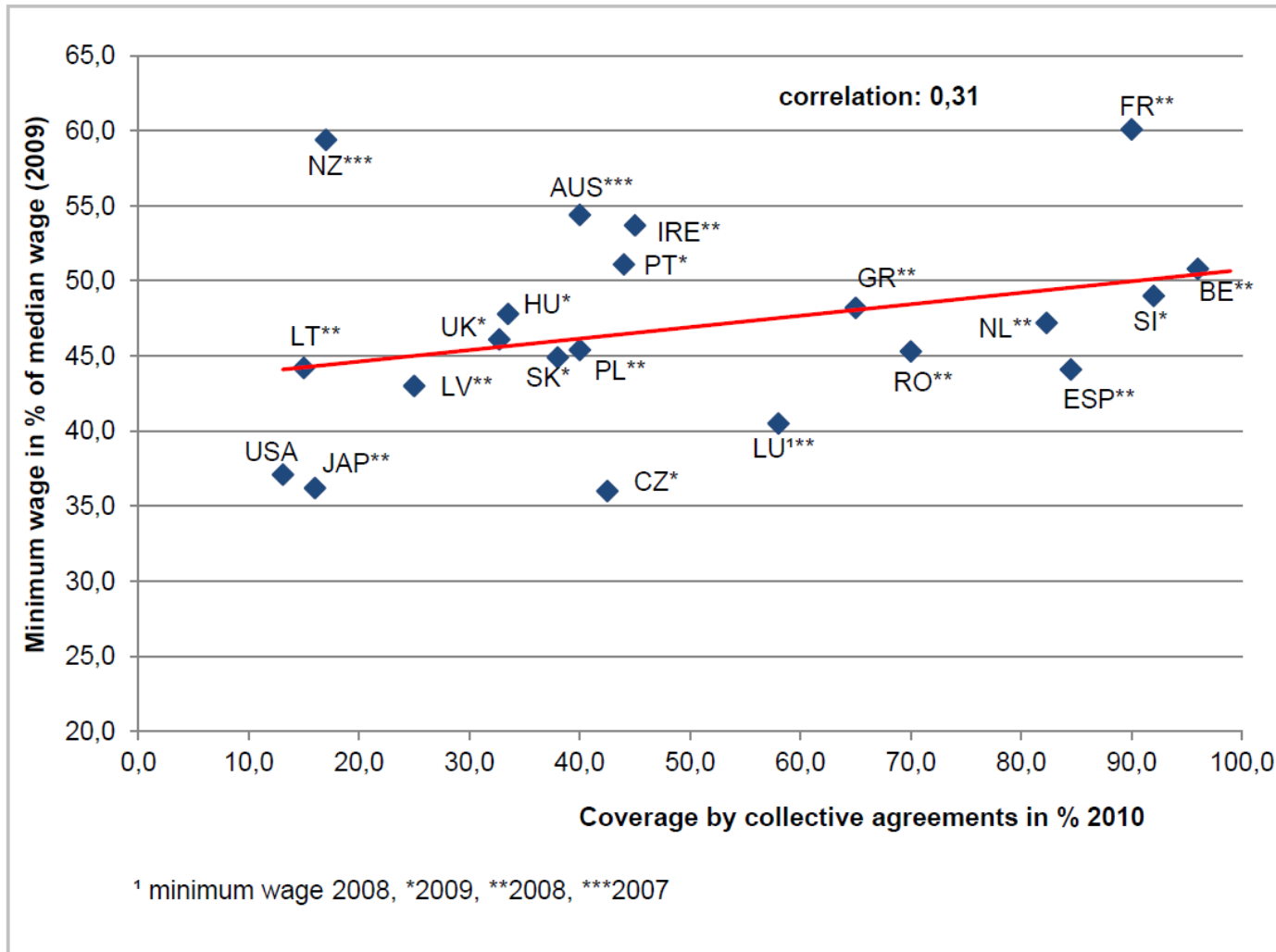
### Interaction between MW and CB

- low correlation between Kaitz-Index of MW and coverage by collective agreements
- absence of CA or weak coverage – pressures on MW may be high
- high coverage by CA – may be neglect of MW

But interaction influenced by the architecture of pay setting institutions

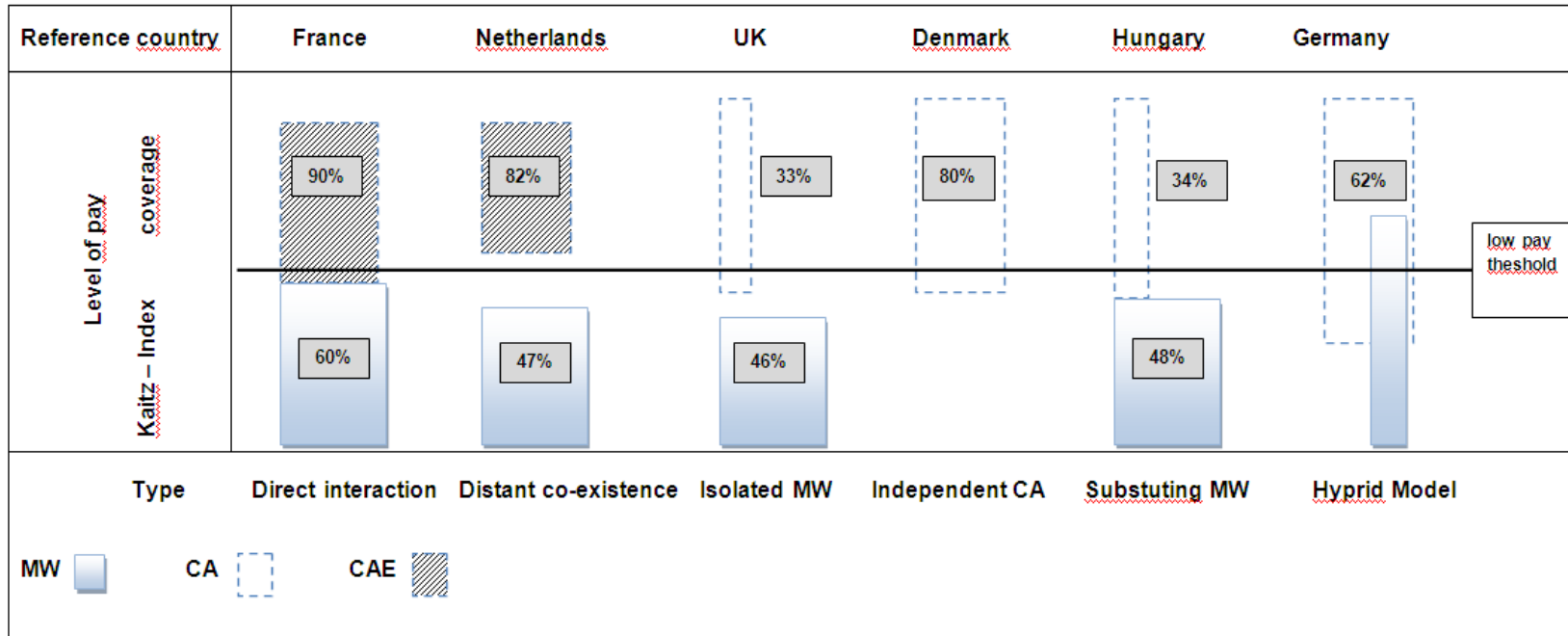
Identified six types of interaction

# Coverage by collective agreements in % (2010) and monthly minimum wage in % of median wage (2009)



Source: Schulten 2010/2011; Visser 2011, own calculations

# Typology of interaction between MW and CA



Source: Grimshaw/Bosch: The intersections between minimum wage and collective bargaining institutions, in: Grimshaw (2013) (ed.)

# Collective agreement coverage, membership of employers' associations and trade unions and share of low-wage workers among all employees in six countries, 2007

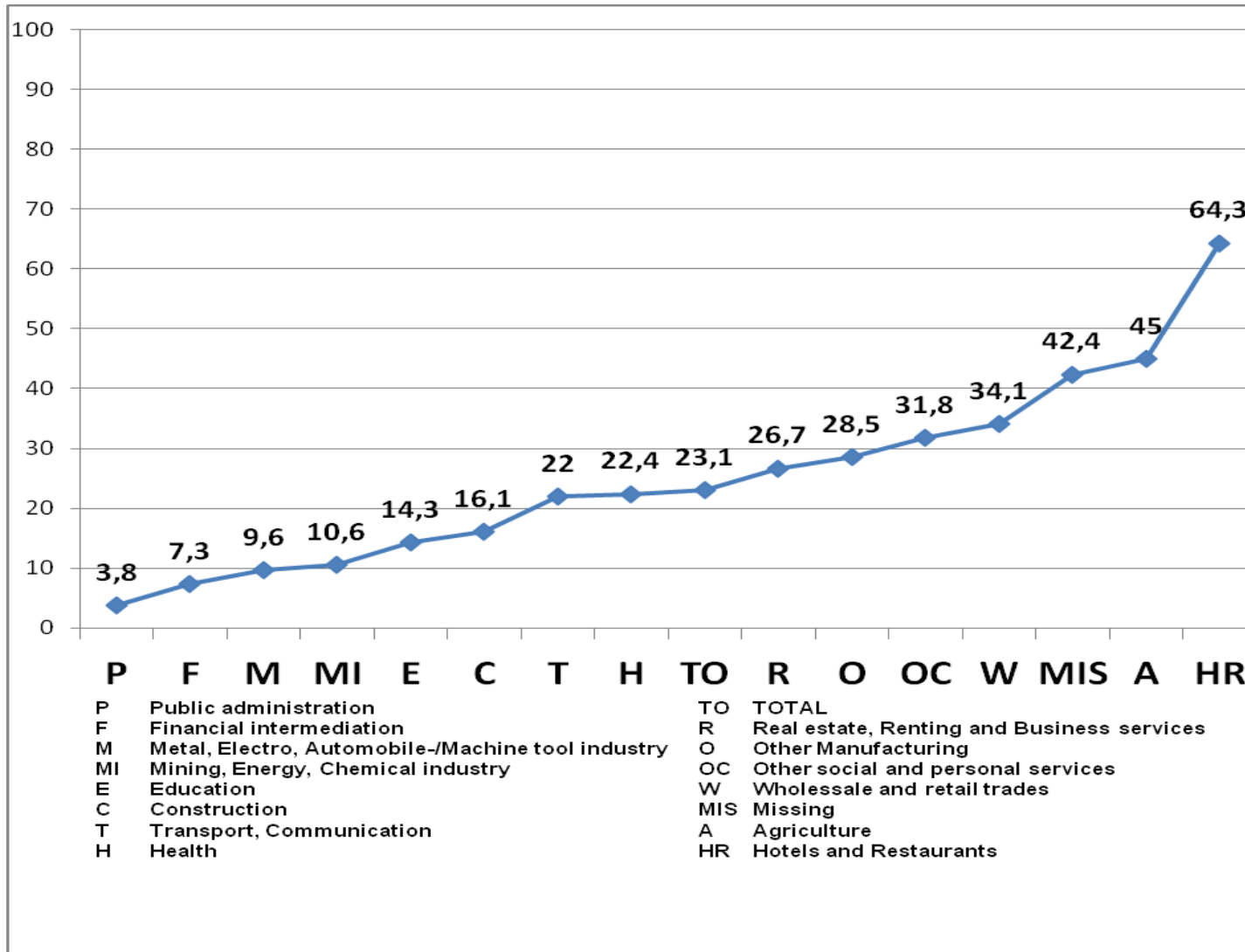
	1-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100	Share of low-wage workers in % (2005)
<b>Denmark</b>						E		T	C		8.5
<b>France</b>	T							E		C (G)	11.1
<b>Netherlands</b>			T					E	C (G)		17.6
<b>UK</b>			T	E, C							21.7
<b>Germany</b>			T				E, C				22.7
<b>USA</b>	E	T, C									25.0

- C = Collective agreement coverage  
 E = Membership of employers' associations, measured by the percentage of companies that are members of an employers' association  
 T = Trade union density, measured as the percentage of employees who are members of a trade union  
 G = Most industry-wide collective agreements are declared generally binding

Source: Bosch 2009; Visser 2008, European Commission 2006



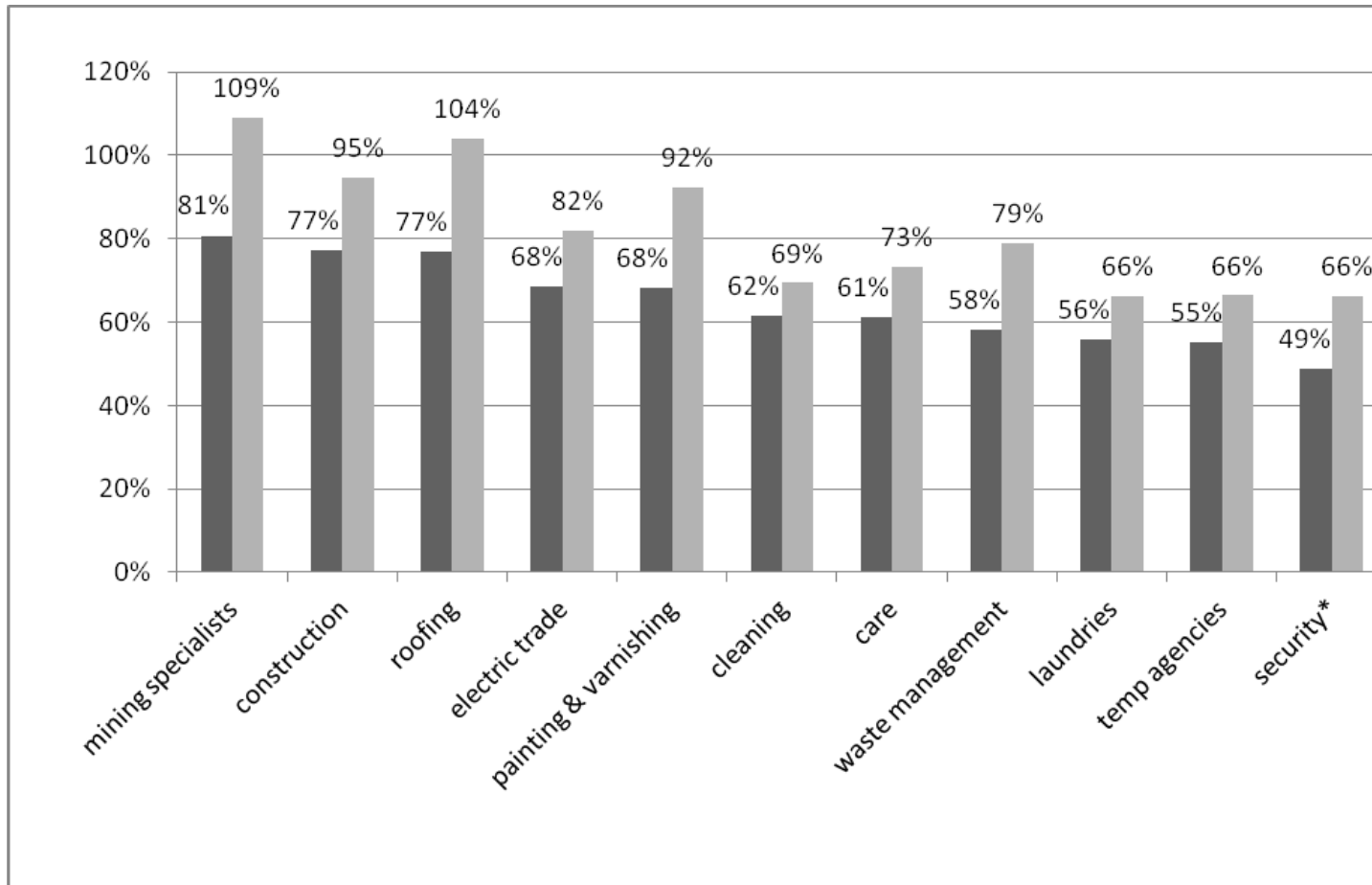
# Low pay incidence in various industries, 2010



- P Public administration
- F Financial intermediation
- M Metal, Electro, Automobile-/Machine tool industry
- MI Mining, Energy, Chemical industry
- E Education
- C Construction
- T Transport, Communication
- H Health
- TO TOTAL
- R Real estate, Renting and Business services
- O Other Manufacturing
- OC Other social and personal services
- W Wholesale and retail trades
- MIS Missing
- A Agriculture
- HR Hotels and Restaurants

Source: SOEP 2010, own calculations

# Relative level of hourly minimum wages 2012, in % of the median (East-West-differentiated, 2010)<sup>3</sup>



\*The hourly minimum wage rates in the West German security services differ by federal states between 7.00 and 8.75€

<sup>3</sup>East Germany: 10.56€, West Germany: 14.31€

Source: own calculations

## Some Conclusions

MW and CA exert their own separate effects

Combined effects depends on the architecture of national pay systems – not only on formal systems also on enforcement

Absence of MW in the type “Independent CB” not by accident – fear of weakening CB

Ripple effects strongest in the type “direct interaction” – MW is the driver

Ripple effects in the type of isolated MW depends mainly on firm decisions – influenced by labour supply, skill structure, work organization

Types are static – may change

Lot of information on erosion – but lack of knowledge how to strengthen inclusive pay system