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Minimum Wages, Collectively agreed wages and inequality

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CRIMT: L'avenir syndical : innovations, transformations, strategies
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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 considerably and depend on role of CB in respective country
Paper based on

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


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

<table>
<thead>
<tr>
<th></th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>-0.77</td>
</tr>
<tr>
<td>Only men</td>
<td>-0.68</td>
</tr>
<tr>
<td>Only women</td>
<td>-0.62</td>
</tr>
<tr>
<td>Permanent contract</td>
<td>-0.77</td>
</tr>
<tr>
<td>Temporary contract</td>
<td>-0.41</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Reference country</th>
<th>France</th>
<th>Netherlands</th>
<th>UK</th>
<th>Denmark</th>
<th>Hungary</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of pay coverage</td>
<td>90%</td>
<td>82%</td>
<td>33%</td>
<td>80%</td>
<td>34%</td>
<td>62%</td>
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<tr>
<td>Koiz - Index</td>
<td>60%</td>
<td>47%</td>
<td>46%</td>
<td>48%</td>
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<tr>
<td>Type</td>
<td>Direct interaction</td>
<td>Distant co-existence</td>
<td>Isolated MW</td>
<td>Independent CA</td>
<td>Substituting MW</td>
<td>Hybrid Model</td>
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<tr>
<td>MW</td>
<td>CA</td>
<td>CAE</td>
<td></td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>1-10</th>
<th>11-20</th>
<th>21-30</th>
<th>31-40</th>
<th>41-50</th>
<th>51-60</th>
<th>61-70</th>
<th>71-80</th>
<th>81-90</th>
<th>91-100</th>
<th>Share of low-wage workers in % (2005)</th>
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<tbody>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E</td>
<td>T</td>
<td>C</td>
<td></td>
<td>8.5</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>T</td>
<td></td>
<td>E</td>
<td>C (G)</td>
<td>11.1</td>
</tr>
<tr>
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<td>T</td>
<td></td>
<td>E</td>
<td>C (G)</td>
<td>17.6</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>T</td>
<td>E, C</td>
<td></td>
<td></td>
<td>21.7</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>T</td>
<td></td>
<td>E, C</td>
<td></td>
<td>22.7</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E</td>
<td>T, C</td>
<td></td>
<td></td>
<td>25.0</td>
</tr>
</tbody>
</table>

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

Low pay incidence in various industries, 2010

Source: SOEP 2010, own calculations
Relative level of hourly minimum wages 2012, in % of the median (East-West-differentiated, 2010)³

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

³East Germany: 10.56€, West Germany: 14.31€  

Source: own calculations
Some Conclusions

MW and CA exert their own separate effects

Combined effects depend 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