The bumpy road to a Minimum Wage in Germany

CRIMT
- After a 10 years with a union campaign for fair wages the German Parliament decided the introduction of a National Minimum Wage (MW) in 7/2014

- Many reasons why this change is interesting
  - Improvement of job quality in Germany
  - Increase of domestic demand – important for European cohesion
  - Example of creation of new labour standards – not only deregulation and erosion
  - Institutional change from a voluntarist wage system to a mixed system with state intervention
Structure of Presentation

1. The old voluntarist system in DE
2. The erosion of the voluntarist system
3. The new German MW
4. Impacts of the MW
1. The old voluntarist system

- Wage setting left to autonomous social partners
- No direct state intervention – extension of representative collective agreements only on demand of social partners
- High coverage by collective bargaining (85%) and low share of low paid workers (OECD 1996) – but low trade union density (18.6% 2012, never above 35%)
- German wage system highly dependent on voluntary membership of employers in their organizations
- With low unemployment before 1989 high employer density was sure
2.1 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
2.2 The erosion of the voluntarist system

Reasons:

1. Transplantation of West-German IR-System into the fragile East-German economy failed
2. Product market deregulation: public utilities etc.
3. Change of employer strategies with accumulative effects (outsourcing / pull-effects from low wage sectors)
3. Labour market deregulation – Hartz-laws 2003
4. Traditional male breadwinner model – channelling women into marginal part-time - Unions locked-in in manufacturing and public services – could not compensate member losses by structural change from manufacturing to services like in SE

- DE Trade Union Density 1980 to 2009: Men from 50,7% to 24,7%; Women from 21,4% to 12,9%
- SE between 1963 and 2008 Men from 74% to 68%,
2.3 The erosion of the voluntarist system

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

Wage restraint compared to other Euro countries - increasing German trade surpluses
2.4 Low wages are especially low in Germany

Share of low wage earners in %

Gap between average low wages and low wage threshold

*60% of median wage

Source: Fernandez-Macias 2013, Vacas-Soriano 2013,
Hans-Böckler-Stiftung 2013
2.5 Increase of low wages: Distribution of hourly pay, Germany, adjusted for inflation (base = 1995)

Source: SOEP 2012, own calculations
3.1 The way to the minimum wage

Pro-active institutional change requires problem awareness and choices of actors
- 10-year time-lag of awareness: Unions demanded MW only in 2004 - after labour market deregulation
- Decisive factor for trade union unity: Manufacturing was also affected by deregulation of temp agency work and outsourcing
- Unions became decisive actor in the campaigns for a MW and influencing politics (especially the SPD and the Green party)
3.2 The way to the minimum wage

Introduction of industry-specific MW’s (I-MW) by the Great Coalition in 2007

- If employers and unions agreed on a I-MW - the government extended this agreement

I-MW were negotiated, but enforced by the state - *path-dependent reform* - *sympathies of social partners for I-MW*

Impact:

- Until 2014 agreements only in 14 industries
- In many low wage industries no negotiations
- No aggregate effects: no reduction of low wage sector
- But: Evaluation in 8 industries showed no disemployment effects

Evaluation - *a Waterloo for the German neo-liberal economists* – Political parties did not believe anymore in their horror szenarios with disemployment of up to 4 Million jobs
3.3 The new minimum wage

- Introduction of a MW main demand of SPD in the federal election campaign 2013 and in the coalition negotiation with the CDU/CSU
- New Great coalition agreed on a „law to strengthen autonomous collective bargaining“ (Tarifautonomie-verstärkungsgesetz)
  - Introduction of a MW of 8.50 € in January 2015
- Strengthening of collective bargaining
  - facilitation of the extension of collective agreements
  - extension of the possibility to negotiate I-MW‘s to all industries
3.5 The new minimum wage

The new Minimum Wage:
- Exemptions: Apprentices, young workers under 18 years, long term unemployed, newspaper delivery, traineeships
- Possibility to deviate from the MW by a collective agreement until the end of 2017
- „Minimum Wage Commission“ should evaluate MW and decide each two years on pay increases – the two academics in the commission do not have the right to vote
- Increases each two years - should follow average increases of collectively agreed wages
- Fines for non-compliance up to 500,000 € / fine above 250,000 € temporary exclusion from public tenders

Model change – but social partners tried to make it as path-dependent as possible: stronger role of social partners than in the UK or in FR
4.1 The impact of the new minimum wage

- Strong bite of MW: 2012 19% of employees < 8,50€ - even 29% in East-Germany
- for political reasons no East-West-differentiation of MW
- To avoid negative employment effects
  - wage increases until 2015 will reduce bite
  - freeze of MW until 1/2017
  - Exemptions by collective agreements in some industries (used in meat industry, temp agencies, agriculture, hair cutting etc.)
- No visible impact on employment: Jan-May 2015 strong job growth also in low wage industries – next „Waterloo“ for mainstream economists
4.2 Share of employees with an hourly wage < 8,50 € 1995-2012
4.3 The impact of the new minimum wage

2. Impact on collective bargaining:

Important for ripple-effects - Four scenarios:

1. UK-Model: MW = going rate in low wage industries – replacement of I-MW (probably in security)
2. French Model: MW = lowest wage in collectively negotiated wage grids (temp agencies)
3. Higher I-MW = lowest wage in collectively negotiated wage grids (construction)
4. Belgian Model: Lowest wage in collective agreements above MW (most manufacturing industries, public service)

To avoid expansion of model 1 unions need to use MW as platform for collective bargaining – only then reduction of inequality
4.4 The impact of the new minimum wage

4. 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 three years 2015 – 17
- Only small impact on domestic demand and trade balance - no substitute for European investment programme
4.6 Coverage by collective agreements (2008) and low wage share (2010)

Source:: Bosch/Weinkopf 2013 (Visser 2011 Bezzina 2012)
5. Conclusions

- MW – change from a voluntarist to a mixed wage setting system with stronger state influence
- But: pathdependent reform: strong influence of social partners
- Enforcement of MW - not easy – especially in SME’s and for mini-jobbers
- MW and also living wages are basic not *Fair* wages
- *Fair* wages mean
  - skills and responsibilities are rewarded
  - „distutilities“ are compensated

*Fair wages you only get with multi-employer CB*