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Peer Country Comments Paper - Germany

The bumpy road to a National Minimum Wage in Germany

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1. Labour market situation in the peer country

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Germany’s comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

Since the end of the 1990s, German wages have risen less than those in the rest of the EU. The share of low-wage workers (less than 2/3 of the median hourly wage) rose from 19.8% in 1995 to 24.3% of all workers in 2012 (Figure 1). The number of low-wage workers increased from 5.9 million in 1995 to 8.4 million in 2012 (Kalina and Weinkopf, 2014).

The first particularity of the German low-wage sector is its marked downward dispersion, since there is no minimum wage to prevent very low wages. In the year 2012, 6.6 million workers were paid less than the future minimum wage of 8.50 euros, while 4.0 million actually even earned less than 7.00 euros and 2.5 million less than 6.00 euros per hour (Table 1). Virtually all the growth in absolute terms took place in West Germany, i.e. in areas traditionally protected by high levels of adherence to collective agreements. The second particularity is the high regional wage differentiation after the German unification. Although the East-West-pay gap is slowing closing since 1995 it still remains high. In 2012 the low-wage share was in East Germany with 36.5% much higher than in West Germany with 21.6% (Figure 1). The third particularity of the German low-wage sector compared to the US or the UK is the low and since 1995 declining share of employees without a vocational qualification. 75.5% of people in the sector have a vocational or higher education qualification. The political aims of the Hartz-Acts in 2003 to improve the employment chances of low-skill workers by creating a low-wage sector have not been fulfilled.

Low-wage work is not equally distributed among all employees. In 2012, those particularly affected by low wages were younger employees under 25 years (56.7%), those on fixed-term contracts (43.4%), those without vocational training (46.6%), women (30.8%) and foreigners (34.5%) (Table 2). Because of the variable size of these employee categories, a distinction must be made between the impact on individual groups and the composition of the low-wage working population. Thus in 2012, 30.8% of female employees were paid low-wages, but they accounted for almost two thirds (62.6%) of all low-paid workers (Table 2).

The expansion of the low-wage sector began around 10 years before the Hartz Acts. The causes were changes in the behaviour of employers, who took advantage of high unemployment to quit employers’ associations and cease to be bound by collective agreements, and the opening up of many previously public services (post, railways, local transport etc.) to private providers who were not bound by collective agreement and competed with state-owned companies by engaging in wage dumping (Bosch and Weinkopf 2008). The Hartz Acts of 2003 did not set this process in motion but prevented low-wage work from being reduced in the strong upturn from 2005 onwards. The two deregulated employment forms, temporary agency work and mini-jobs, have gained considerably in importance. The number of temporary agency workers rose from 300,000 in 2003 to around 900,000 in 2013, while over the same period the number of people employed in mini-jobs rose from around 5.5 million to 7.5 million mainly because of the growth of mini-jobs as a second job. Among employees in mini-jobs, the share of low-wage workers was 78.6% in 2012 (Table 1); according to another survey, it was around two thirds for temporary agency workers. The high share of low-wage work among mini-jobbers can be explained primarily by the fact that employees in these jobs are generally, and in contravention of the European directive on the equal treatment of part-time workers, paid less and receive less benefits (pro rata) than other part-timers in comparable jobs in the same
company. As far as temporary agency workers are concerned, the equal pay principle of the European directive on temporary work has been abrogated by collective agreements that amount to wage dumping concluded by the employer-friendly Christian trade union that has virtually no members. In the mean time the Federal labour court declared some of these agreements void and in some industries the social partners agreed on industry specific hourly wage supplements which increase with the duration of an assignment to the same companies. In the engineering industry for example the wage supplements starts with 15% after an assignment of more than 6 weeks and increases to 50% after 9 months.

The increase in low-wage work was supposed to make it easier for unemployed individuals to enter the labour market and to improve the employment chances of low-skill workers. In the mid-1990s, the German labour market was still being praised by the OECD for the good opportunities for advancement it offered low earners OECD (1996). That has now fundamentally changed. More recent investigations show that low-wage work is becoming increasingly entrenched. Kalina (2012) shows that the chances of advancement declined over the long period between 1975-76 and 2005-06. Mosthaf et al. (2011) note that only about one in every seven full-time workers who were low paid in 1998-99 was able to leave the low-wage sector by 2007.
2. **Assessment of the policy measure**

In the 1990s, minimum wage policy was a topic of discussion only in the German construction industry. In this industry many companies sourced jobs out to companies from Southern, Central, and Eastern Europe who posted their workforce in Germany at the lower wages of their home countries. In the year 1996 unions and employers in construction then agreed on industry-wide minimum wages which also applied to posted workers from other EU countries working on construction sites in Germany.

For a long time, the construction industry was considered an exception to the rule. Unions, employers’ associations, and political parties agreed that wages for other industries should be negotiated exclusively by the respective partners and that the state should not intervene. This consensus fell apart when it became clear that the collective wage system was no longer in a position to set effective minimum standards for the various industries. One major factor in changing attitudes towards the idea of a minimum wage has been a shift of opinion in the German trade union movement. In 2006 the unions affiliated to the German Trade Union Confederation (DGB) mobilised themselves to make a joint demand for a statutory minimum wage. Since May 2010, the recommended level stands at 8.50 euros per hour.

Still promoting the expansion of the low-wage sector by means of the Hartz reforms in 2003, the social-democratic and green parties began, in 2005, at the end of their shared term and prior to the Bundestag elections, to demand minimum wages. In 2007 the former grand coalition agreed upon a choice of two mechanisms:

- **Industry-specific minimum wages based on collective agreements:** If these agreements are concluded at the national level and can be regarded as “representative” for the sector, the government can declare them as generally applicable and binding on the basis of the Law on the Posting of Workers.

- **Industry Minimum Wages in industries with no or weak collective bargaining:** Minimum standards can be determined, on demand from employer associations, unions or the governments of the federal states by a commission (composed of two representatives each from unions, employers’ associations, and science as well as one independent chairperson) and then be declared generally applicable.

The second mechanism was never applied. Industry minimum wages have now been agreed with employers’ associations in 2014 in 12 industries and have been declared generally binding by the Ministry of Labour. The industry minimum wages did not have aggregate effects and did not help reducing the low-wage share because in many industries with high shares of low-wage workers (like hotels and restaurants) (Figure 2) there was no willingness of employer’s associations to negotiate industry minimum wages.

Industry minimum wages in Germany have been very slow in their realisation and a patchwork of different minimum wages together with large unregulated zones of wage-setting without binding minimum standards was the result. Therefore the core demand of the Social Democratic Party in the election campaign 2013 was a national minimum wage (NWM) of 8.50 euros.

In December 2013 the new grand coalition agreed to introduce a NMW of 8.50 euros in January 2015 and to strengthen collective bargaining. The main controversial points in the social dialogue at national and industry level on the new law between January and March 2014 was the coverage of the NMW. The employers wanted to water down the NMW by excluding certain industries, pensioners, students and the more than 7 million marginal part-timers (so-called “mini-jobbers”). The European and German antidiscrimination legislation, however, allows exceptions only with a just reason. Age, non-standard work contracts and work in certain industries are not just reasons which are accepted by the Federal Labour Court.
The draft of the new law from March 2014 only provides the exemption of apprentices, young workers under 18 years and long term unemployed (more than one year unemployed) for the first 6 months of their employment. The around 1.5 million apprentices are by far the biggest group which is exempted. They receive so called “training allowances” which are agreed by the social partners in collective agreements. Until the end of 2016 the social partners should have the possibilities to deviate from the NMW by a collective agreement on industry minimum wages. This is meant to encourage collective bargaining in low wage industries. The draft also stipulates additional measures to strengthen collective bargaining. The possibility to negotiate higher industry minimum wages should be extended to all industries and the procedure to extend collective agreements should be facilitated by adding a “public interest in avoiding the distortion of competition” in the law. A “Commission of the Social Partners” should regularly reappraise the level of the NMW. The Commission should consist of nine members. Eight members are to be selected by the social partners (three delegates of the trade unions, and three of the employers association plus two academics also proposed by the social partners). The social partners should agree on an independent chairperson. The academics should do not have the right to vote. The Commission should decide on June 10, 2017 the first increase of the NMW in January 2018. Then, the NMW should be increased yearly according to the average of the increases of collectively agreed wages. The three year freeze of the NMW was part of the compromise between the political partners. Customs should be strengthened by increasing its staff.

Because of the strong focus on the links between the NMW and collective bargaining the new laws were named “Laws to strengthen collective bargaining” which includes the new “Minimum Wage Law”. Until now the social partners agreed in five industries (hair-cutters, meat industry, temp agencies, cleaning, laundries) to use the opening clause. They signed agreements in which wages are increase to 8.50 euros stage to stage until the end of 2016.

The German government and the social partners carefully studied the UK experiences with the NMW since 1998. The positive evaluations of the UK experiences encouraged them to introduce a NMW in Germany. There are important similarities and differences between the NMW in Germany and the UK.

The most important similarities are:

- setting an uniform rate in spite of strong regional wage differences to increase the self-enforcing effect of the NMW
- the strong focus on enforcement to increase compliance and avoid distortions of the competition between employers.

The main differences are:

- the much stronger influence of the trade unions and employers organizations in the “Commission of the Social Partners” in Germany and the smaller influence of the government and the academics than in the “Low Pay Commission”
- the combination of a NMW with negotiated industry MW’s in Germany and much stronger links of both MW’s with collective bargaining than in the UK where collective bargaining in the private industry has been marginalized
- the stronger role of apprenticeship training in Germany with lower remuneration of apprentices than in the UK (in engineering around 29% of the wage of a skilled workers in Germany compared to 41% in England Ryan et al., 2013).
3. Assessment of the success factors and transferability

In 2010/11 the compliance and the effects of the industry minimum wages on employment, competition and working conditions were evaluated in eight industries by order of the Ministry of Labour and Social Affairs. The results of these studies can be summarized as follows (Bosch and Weinkopf, 2012; Möller, 2012):

- The industry minimum wages were negotiated between the social partners and for the most part equated to the lower pay grades in a more comprehensive pay structure.
- The minimum wages in eastern Germany were considerably higher relative to the median wage than in western Germany (Figure 3). Furthermore, unemployment in eastern Germany was higher than in western Germany. Thus it was far easier for East German employers than for their West German counterparts to retain skilled workers and not jeopardise workforce motivation, even if they paid them only the minimum wage or just slightly more.
- A considerably higher share of workers in eastern Germany were paid the minimum wage than in western Germany, where only for a small minority of workers did wages have to be increased following the introduction or raising of the minimum wages.
- The compliance was high due to the controls of the customs and the joint effort of the social partners to enforce the industry minimum wage. There were, however, in some industries problems with unpaid overtime.
- In eastern Germany, the minimum wages led to a compression of wages around the minimum wage. In some cases, there were negative ripple effects as a result of relatively slight increases in wages above the minimum wage.
- In western Germany, on the other hand, the introduction of and the increase in the industry minimum wages resulted in the entire pay structure in most industries being shifted upwards. The minimum wages had a strong ripple-effect (Grimshaw and Bosch, 2013).
- In some industries, the introduction of minimum wages has revitalised collective bargaining (e.g. for electricians and painters and decorators).
- Using difference in differences estimations in seven industry studies no disemployment effects were observed at industry level. In some industries, however, companies with a high share of low wage earners did not adjust their business model to the higher wages. They closed down and the employment was shifted to other companies in the same industry.

Figure 4 shows the differential evolution of the pay structure in western and eastern Germany, taking the example of the roofing trade and comparing it with a control industry without a minimum wage. Between 1994 and 2008, as a result of the introduction of a minimum wage in 1997, wages in the eastern German industry became heavily compressed compared with the roofing trade in western Germany and the East German control industry.

The different interaction between a NMW and industry minimum wages on the one hand and collective agreements on the other hand may become the most important difference between Germany and the UK (Grimshaw and Bosch, 2013; Grimshaw et al., 2013). In the isolated minimum wage type (example: UK), in which the minimum wage is not combined with inclusive collective agreements, the ripple effects depend on decisions taken by firms and vary in accordance with the employee skill structure and labour market situation. In the direct interaction type (France), policymakers and trade unions concentrate on raising the minimum wage, which impacts on the entire pay structure through the mechanism of generally binding collective agreements. In the distanced coexistence type (Belgium and the Netherlands), the interconnection is
not so close, since collectively agreed rates of pay are higher than the minimum wage in many industries.

In the *hybrid model* (Germany), the absence of one dominant model means that various models are combined within the same economy. In some industries (like manufacturing, banking, assurances, public service) the high level of collective agreement coverage means that the social partners are able to set effective lower limits on pay without the help of a NMW. In other industries the NMW is stabilizing the whole wage grid of collective agreements (like in the construction industry). In industries without collective agreements or high unemployment like in East Germany we find an isolated minimum wage type like in the UK (cleaning, laundries, construction, care in East-Germany).
4. Questions

- What are the experiences with lower minimum wages for apprentices and young workers?
- Are long-term unemployed and workers participating in Job centres programmes exempted from the NMW and if yes what are the experiences?
- Are there attempts to link the NMW with collective bargaining?
- Is there the intention to introduce a higher MW in areas with high living costs like in London?
Annex 1: Summary table

**Labour market situation in the Peer Country**

- The number of low wage workers increased from 5,9 million in 1995 to 8,4 million in 2012.
- A characteristic of the German low-wage sector is its marked downward dispersion since Germany does not yet have a national minimum wage.
- Contrary to the US or the UK the share of skilled workers in the low wage sector is with 75.5 % very high.
- The share of low workers is much higher in East-Germany (36.5%) than in West-Germany (21.6%).

**Assessment of the policy measure**

- Industry minimum wages have been agreed between unions and employers in 12 industries and have been declared as general binding by the government.
- The new grand coalition decided to introduce a National Minimum Wage of 8.50 euros on 1 January 2015.
- Until the end of 2016 the social partners have the possibilities to deviate from the NMW by agreements on industry minimum wages.
- Collective bargaining will be strengthened by facilitating the extension of collective agreements and extending the possibility to negotiate industry minimum wages to all industries.
- The peak organizations of the social partners have a strong influence in the new “Commission of the Social Partners” which reappraises the National Minimum Wage.

**Assessment of success factors and transferability**

- The compliance with the industry minimum wages was high and wages of low wage earners improved.
- The evaluation did not find disemployment effects at industry level.
- In eastern Germany the industry minimum wages led to a compression of wages.
- In western Germany the industry minimum wages resulted in the entire pay structure lifted upwards.

**Questions**

- What are the experiences with lower minimum wages for apprentices and young workers?
- Are long-term unemployed and workers participating in Job centre programmes exempted from the NMW and if yes what are the experiences?
- Are there attempts to link the NMW with collective bargaining?
- Is there the intention to introduce a higher MW in areas with high living costs like in London?
Bibliographies:


Grimshaw, D., Bosch, G., Rubery, J., *Minimum wages and collective bargaining: What types of pay bargaining can foster positive pay equity outcomes?*, British Journal of Industrial Relations, article first published online: 8 April 2013.


Tables and Graphics

Table 1: Number and share of employees by different hourly wages in Germany 2012 (apprentices excluded)

<table>
<thead>
<tr>
<th>Hourly gross wage</th>
<th>Germany</th>
<th></th>
<th></th>
<th>West-Germany</th>
<th></th>
<th></th>
<th>East-Germany</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in millions</td>
<td>share</td>
<td>in millions</td>
<td>share</td>
<td>in millions</td>
<td>share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 5 €</td>
<td>1,731</td>
<td>5.0 %</td>
<td>1,304</td>
<td>4.6 %</td>
<td>0,427</td>
<td>6.7 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 6 €</td>
<td>2,532</td>
<td>7.4 %</td>
<td>1,829</td>
<td>6.5 %</td>
<td>0,702</td>
<td>11.1 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 7 €</td>
<td>4,011</td>
<td>11.7 %</td>
<td>2,864</td>
<td>10.2 %</td>
<td>1,147</td>
<td>18.1 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 8 €</td>
<td>5,771</td>
<td>16.8 %</td>
<td>4,123</td>
<td>14.7 %</td>
<td>1,648</td>
<td>26.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 8,50 €</td>
<td>6,604</td>
<td>19.2 %</td>
<td>4,746</td>
<td>16.9 %</td>
<td>1,858</td>
<td>29.3 %</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SOEP 2012, IAQ calculations.

Table 2: Share of low-wage work and share of low-wage sector by employee category, in % 2012 (apprentices excluded)

<table>
<thead>
<tr>
<th>Category</th>
<th>Share of LW workers in category</th>
<th>Share in LW sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualification</td>
<td>No vocational qualification</td>
<td>46.6</td>
</tr>
<tr>
<td></td>
<td>Vocational qualification</td>
<td>24.3</td>
</tr>
<tr>
<td></td>
<td>HE qualification</td>
<td>8.6</td>
</tr>
<tr>
<td>Gender</td>
<td>Men</td>
<td>18.0</td>
</tr>
<tr>
<td></td>
<td>Women</td>
<td>30.8</td>
</tr>
<tr>
<td>Age</td>
<td>Under 25</td>
<td>56.7</td>
</tr>
<tr>
<td></td>
<td>25 – 34</td>
<td>23.5</td>
</tr>
<tr>
<td></td>
<td>35 – 44</td>
<td>20.1</td>
</tr>
<tr>
<td></td>
<td>45 – 54</td>
<td>17.3</td>
</tr>
<tr>
<td></td>
<td>55 +</td>
<td>28.3</td>
</tr>
<tr>
<td>Nationality</td>
<td>German</td>
<td>23.3</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>34.5</td>
</tr>
<tr>
<td>Employment contract</td>
<td>Fixed-term</td>
<td>43.4</td>
</tr>
<tr>
<td></td>
<td>Open-ended</td>
<td>19.4</td>
</tr>
<tr>
<td>Working time</td>
<td>Full-time</td>
<td>14.7</td>
</tr>
<tr>
<td></td>
<td>Part-time (liable for social insurance contributions)</td>
<td>24.5</td>
</tr>
<tr>
<td></td>
<td>Mini-job</td>
<td>78.6</td>
</tr>
<tr>
<td>Total economy</td>
<td></td>
<td>24.3</td>
</tr>
</tbody>
</table>

Figure 1: Share of low wage workers 1995 – 2012 in Germany (East and West) (apprentices excluded)


Figure 2: Low pay incidence in various industries, 2010

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

* The hourly minimum wage rates in the West German security industry ranged between 7.00 and 8.75 €, depending on the federal state.

Note: Median Wage 2010: East Germany: 10.56 €, West Germany: 14.31 €

Source: Own compilation.
Figure 4: Wage distribution in the roofing and plumbing trades in Western and Eastern Germany, 1994 and 2008

Source: Aretz et al., 2011: 214.