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The bumpy road to a minimum wage in Germany

NEDLAC
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- After a 10 year union campaign for *fair* wages the German Parliament decided the introduction of a National Minimum Wage (MW) in July 2014

-One of the major social reforms in Germany after WWW II
Structure of Presentation

1. The old voluntarist system and ist erosion in Germany
2. The way to the MW
3. The new German MW
4. Possible impacts of the MW
1.1 The old voluntarist system

- Wage setting left to autonomous social partners
- High coverage by collective bargaining (85%) and low share of low paid workers (OECD 1996)

– But low trade union density (declined from 35% in the 70’s to 19% 2012)

Achilles Heel: German wage system highly dependend on membership of employers in their organizations
1.2 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
1.3 The erosion of the voluntarist system

Drivers:

1. Transplantation of West-German IR-System into the fragile East-German economy failed

2. Change of employer strategies: refusal to negotiate in many industries, companies left employers organizations: accumulative effects (outsourcing / pull-effects from low wage sectors)

3. Product market deregulation: EU directives opened up public utilities for private providers

4. Labour market deregulation: Hartz-Laws
1.4 Growth of low wage work

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
1.6 Low wages are especially low in Germany

*60% of median wage
2.1 The way to the minimum wage

Institutional change requires problem awareness and choices of actors

- 10-year time-lag of awareness: Unions demanded MW only in 2004

- Trade union unity decisive: Manufacturing unions hesitating but were increasingly affected by de-eregulation of temp agency work and outsourcing

- Unions main actor in the campaigns for a MW and influencing politics (especially the SPD, the Green and the Left party)

- Demanded 8,50 €: A little bit lower than MW‘s in FR, BE, NL because Germany has borders with East-European countries
2.2 The way to the minimum wage

Introduction of industry-specific MW’s (I-MW) by the Great Coalition in 2007 - *an attempt to avoid a general MW*
- I-MW were negotiated, but enforced by the state - *sympathies of social partners for I-MW*
- Impact:
  - Until 2014 agreements only in 14 industries
  - In many low wage industries no negotiations
  - No reduction of low wage sector
  - But: Evaluation in 8 industries showed no disemployment effects
- Evaluation - *a Waterloo for the German economists* - Political parties did not believe anymore in their horror scenarios with disemployment of up to 4 Million jobs
3.1 The new minimum wage

- Introduction of a MW main demand of SPD in the federal election campaign 2014 and in the coalition negotiation with the CDU/CSU
- New Great coalition agreed on a package of laws with the title „Law to strengthen autonomous collective bargaining“ which includes
  - the „Minimum wage law with a MW of 8,50 €
  - Changes of existing laws to strengthen collective bargaining
    - facilitation of the extension of collective agreements („public interest“)
    - extension of the possibility to negotiate I-MW‘s to all industries
3.2 The new minimum wage

8,50 € for all regions:
- No regional differentiation in spite of very high shares of low wage workers in East-Germany

To avoid negative employment effects in East-Germany government proposed
- Freeze of MW for three years until 12/2017
- Possibility to deviate from the MW by a CA for three years

In the parliamentary hearing employers and unions jointly proposed to freeze MW only for two years (wanted to avoid a too high increase in 2017) – Result:
- Freeze until 12/2016 and deviation by CA until 12/2017 – after 2016 not below 8.50€
- Increases – each two years
3.3 The new minimum wage

Exemptions:
- 1.5 Million Apprentices – instead allowances ageed by social partners
- young workers under 18 years – no subminimum wage – but low numbers
- newspaper delivery until 2017 (2016 8,50 €)
- internship if part of a university of school curriculum
- General consensus to exempt internships and apprentices to protect the well functioning German dual system of vocational training
- The other exemptions highly controversial - compromises
3.4 The new minimum wage

„Minimum Wage Commission “ (MWC) with 9 members:
- employers and unions propose a chairperson, each three members and each one academic
- the two academics in the commission do not have the right to vote
- budget and staff (around 10 employees)

The tasks of the MWC:
- evaluation of MW
- decision on pay increases implemented by Ministry of Labor per decree
- Increases proposed by MWC should follow average increases of collectively agreed wages

Last point: Joint proposal of unions/employers wanted to prevent populist election campaigns
3.5 The new minimum wage

Strong commitment of the state to enforce the MW
- Fines for non-compliance up to 500 000 €
- Fine above 250 000 € temporary exclusion from public procurement
- Liability of general contractors for MW of employees of subcontractors
- Mandatory recordings of start, duration and end of daily working hours for mini-jobs and employees in 9 industries (hotel/restaurants, construction, meat processing, cleaning, public transport, transportation, carney, installation of trade fairs)

Transition period – no controls until end of May 2015
4.1 The impact of the new minimum wage

- Strong bite of MW: 2012 19% of employees < 8,50€ - even 29% in East-Germany
- Exemptions by collective agreements in some industries (meat industry, temp agencies, agriculture, hair cutting etc.)
- No incentives for unions to sign more agreements since employers did not offer a quid pro quo
- No visible impact on employment: Jan-May 2015 strong job growth also in low wage industries –
4.2 Share of employees with an hourly wage < 8,50 € 1995-2012
4.3 Groups most affected by MW 2012

- Minijobber: 68% (FT: 11%)
- Young (below 25 years): 47%
- Low skilled: 37%
- Temporary contract: 32%
- Foreigners: 25%
- Women: 24% (Men: 14%)
- Posted workers: ???
- All: 19.6%

* marginal part-time – earnings per month less than 450 €

4.4 Employment and working hours 2008 - 2016

Source: IMK-Report 04/2015
4.2 The impact of the new minimum wage

*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 two years 2015/2016
5.1 Conclusions

1. Social partners tried to make MW as path-dependent as possible
   - stronger role of social partners in the MWC than in UK or FR
   - increases follow collectively agreed wages
   - Strengthening of collective bargaining

2. Right moment for the MW – economy is growing

3. No visible negative impact on overall employment
5.2 Conclusions

4. Enforcement the big issue in the next years: research shows that MW’s are only accepted by employers if they are enforced (levelled playing field)

5. Low reduction of poverty – much higher with ripple effects on CB - not yet clear if CB will be strengthened

6. Not clear how the MWC will work:
   - szenario 1. regular meetings hearings and evaluation, szenario
   - szenario 2: few meetings, short technical reports, focus only on decision on increases

*Szenario 2 supported by some employers and unions*