Workshop on Collective Wage Bargaining with Labor Unions – The Case of Germany

IMF, December 14, 2015 Washington, DC
The traditional autonomous wage system in DE

Wage setting left to social partners
- No protective wage standards (Sengenberger 1994) like NMW – extension of CA only on joint demand of social partners
- Empowerment of unions through strong participative standards (works councils, supervisory boards, VET etc.)
- Until 1990 high coverage by CA (85%) and a small low wage sector – no need for a NMW
- But vulnerable autonomous wage system – compared to Sweden less based on trade union power – Trade union density declined in DE from 35% in the 70’s to 18% 2012
Membership of employers in employer organizations *Achilles Heel* of the German 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
Former President of the IG Metall
The erosion of the autonomous system

Five main drivers:

1. Failure of transplantation of West-German IR-System into the fragile East-German economy
2. Change of employer strategies with mass unemployment: 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. Opening clauses in CA
5. Labour market deregulation: Hartz-Laws

Drivers 1-4 strong impact since 1995
Driver 5 re-enforcing erosion since 2003
Overestimation of impact of 4 and 5 in the literature
Strong impact of the erosion of CB

Decrease of coverage by CA‘s from 85% in 1990 to 60% in West- and 47% in East-Germany in 2013

Impact on wages

• abolition of pattern agreements – decoupling of industries with low or no coverage by CA‘s
• substantial increase in the share of low wage work (no NMW – therefore high shares of very low wages)
• wage moderation in the „German Manufacturing Powerhouse“ increased EU- trade imbalances – one cause of €-crisis

But still strong power of unions and CA in important industries (manufacturing/public service) - important political ressource for modernization of CA and political change
Coverage by collective agreements in % of employees

Source: WSI – Tarifarchiv (IAB Betriebspanel)
Coverage by sector

Collective bargaining coverage by employees and firms 2013 in %

- Public administration, social...
- Energy, Water, Mining
- Financial services
- Construction
- Manufacturing
- Health, education
- Non profit organisations
- Transport and warehousing
- Economic, scientific, professional...
- Retail trade
- Wholesale, automotive trade
- Agriculture et al
- Hotels and restaurants, other...
- Information and communication

Source: IAB
End of pattern agreements – negative wage drift
DE has one of the biggest low wage sectors in the EU

*60% of median wage
Coverage by collective agreements (2008) and low wage share (2010)

Source: Bosch/Weinkopf 2013; Visser 2011; Bezzina 2012, own calculations
Nominal unit labour costs in EU countries 2000 - 2014

IMF 2006 “Share of employees covered by collective bargaining is still pervasive, limiting wage dispersion”

Source: Eurostat
Major reforms of CA since 1990 (I)

1. *Working time flexibility* - flexible distribution of w-hours over the year and longer – linked with introduction of working-time accounts (since the early 90’s)
2. *Temporary wt-reductions* without wage compensation to safeguard jobs (since the early 90’s)
3. Promotion of further training (entitlements to an annual personal talk on further training, unpaid study leaves etc.) (since late 90’s)
4. *Joint pay scales for blue and white collar workers* in engeneering industry (early 2000’s)
5. *Abolition or reduction of seniority pay* in engeneering and public services (early 2000’s) (reduces mobility costs and total wage bill for ageing work-force)
Collective agreements on possible temporary working-time reduction in different industries DE

<table>
<thead>
<tr>
<th>Industry</th>
<th>Standard working time</th>
<th>Working-time reductions</th>
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<tbody>
<tr>
<td></td>
<td>In hours</td>
<td>To ... hours</td>
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<tr>
<td>Banking</td>
<td>39</td>
<td>31</td>
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<tr>
<td>Printing industry</td>
<td>35</td>
<td>30</td>
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<tr>
<td>Iron and steel industry</td>
<td>35</td>
<td>28</td>
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<tr>
<td>Wood and plastics Westphalia/Saxony</td>
<td>35/38</td>
<td>32/30</td>
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<tr>
<td>Motor trade and repairs Lower Saxony</td>
<td>36</td>
<td>30</td>
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<tr>
<td>Metalworking industry Baden-Württemberg/Saxony</td>
<td>35/38</td>
<td>30/33</td>
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<tr>
<td>Local government East</td>
<td>40</td>
<td>80-75% of standard working time</td>
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<tr>
<td>Paper processing</td>
<td>35/37</td>
<td>30/32</td>
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<td>Travel agencies</td>
<td>38.5</td>
<td>30</td>
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<tr>
<td>Textile cleaning services</td>
<td>38.5/40</td>
<td>33.5/35</td>
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<tr>
<td>Insurance</td>
<td>38</td>
<td>30</td>
</tr>
<tr>
<td>Clothing West</td>
<td>37</td>
<td>6.75</td>
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<tr>
<td>Textile industry Westphalia/East</td>
<td>37/40</td>
<td>6.75</td>
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<tr>
<td>German old-age insurance</td>
<td>39</td>
<td>x</td>
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<tr>
<td>Energy NRW (GWE)/Used(AVEU)</td>
<td>38</td>
<td>x</td>
</tr>
<tr>
<td>Confectionery industry West/Used</td>
<td>38/39</td>
<td>x</td>
</tr>
<tr>
<td>Transport industry NRW</td>
<td>39</td>
<td>x</td>
</tr>
</tbody>
</table>

*Source: WSI-Tarifarchiv as at April 2009*
Major reforms of CA since 1990 (II)

6. Improving work-life balance (right to part-time or tele-work, adjustment of schedules to kindergarten/school hours etc.)

7. Use of the whole tool box of wt-reductions in the financial crisis (short-time, use of w-time accounts, temporary reductions of agreed hours, sabbatical etc.)

8. Recruitment of apprentices: since the 90’s but especially in the financial crisis


In addition:
- Agreement on fast track in modernization of occupational profiles of dual system of VET
- Successful lobbying of unions for MW and re-regulation of temp agency work
Impact of modernized CA‘s and VET

Modernization in consensus with low transaction costs across industries
- Strengthening of internal LM‘s with high numerical and functional flexibility (increased tenure, increasing share of skilled employees, higher internal mobility, less hierarchical work organization)
- Internal restructuring of German companies secret of high competiveness

Avoidance of high youth unemployment – power resources of insiders used to help outsiders

No disemployment effects of I-MW‘s and MW – against the apocalyptic prognosis of mainstream economists
The impact of the new minimum wage

„A minimum wage will lead to serious job losses. In the West they will be extensive. In the East they will be shattering“

News paper appeal of the Presidents of the 6 big German economic research institutes in March 2008

also

IMF staff warned that the “remarkable turnaround on the labor market was jeopardized by a misplaced focus on minimum wages to pursue social objectives.”

Increase of youth and overall unemployment rates in pct. points 2008-2014

Source: Eurostat 2015
Employment and working hours 2008 - 2016

Source: IMK-Report 04/2015
Conclusion

- Erosion of coverage by CA‘s main driver for growing wage inequality
- Re-regulation possible without disemployment effects – and is good for the stability of the Euro-Zone
- CB still strong in many industries: Important source of innovative work practices
- Many institutional linkages (between CB, codetermination, VET, work organization, labor market policy etc.)

Weaking of industry-wide CB has many negative side-effects – Social partnership needs stability to negotiate innovations -

Bosch, Gerhard 2015: The German welfare state: From an inclusive to an exclusive Bismarckian model. In: Vaughan-Whitehead, Daniel (ed.): The European Social Model in Crisis: Is Europe losing its soul? Cheltenham [u.a.]: Elgar, pp. 175-229


Bosch, Gerhard / Weinkopf, Claudia 2008: (eds.): Low-wage work in Germany. New York: Russell Sage Foundation,
