

Minimum Wages in Germany

International Seminar „Minimum wage, employment, inequality
and economic growth“,

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Outline

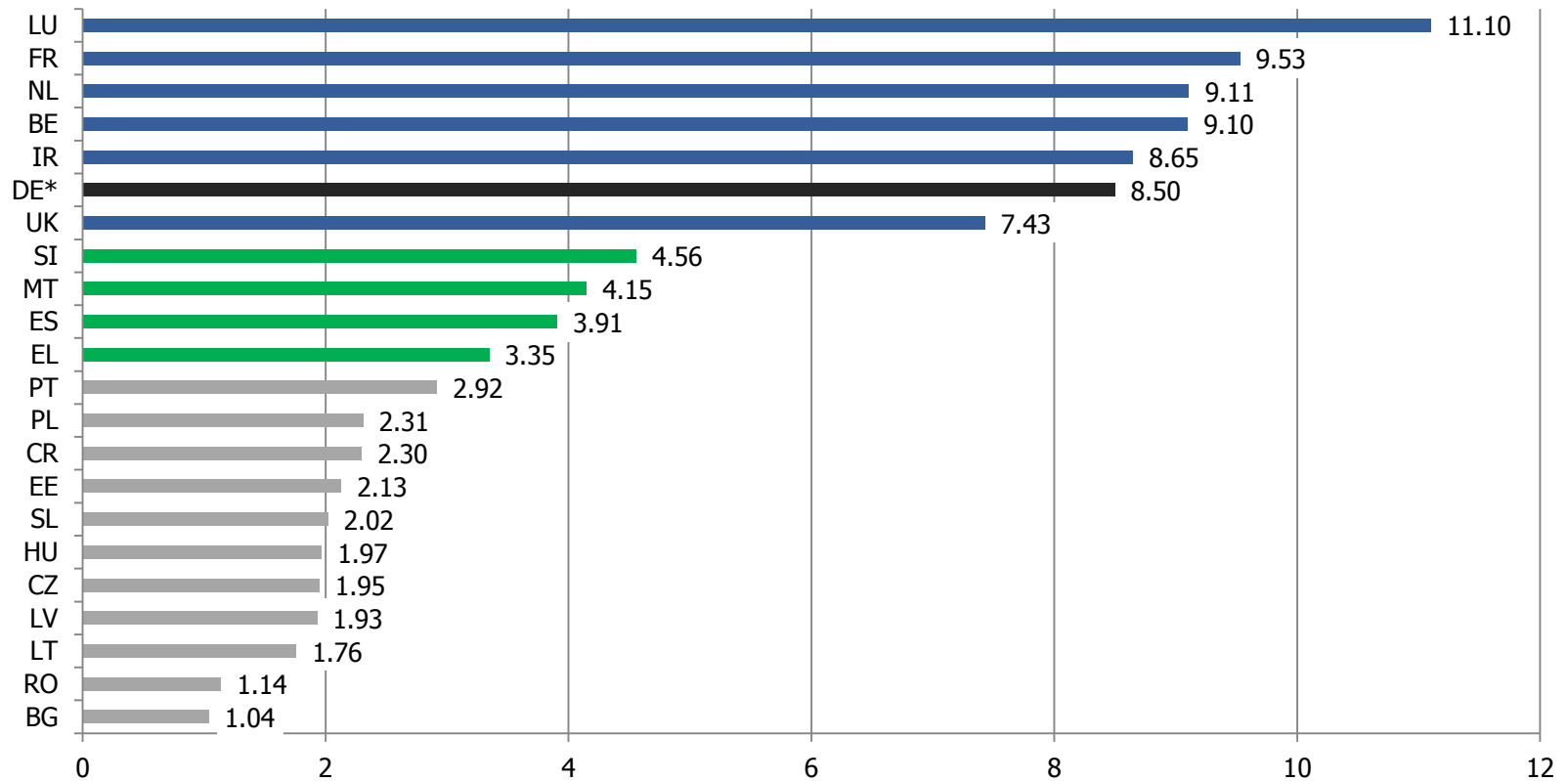
- **Minimum wages in Europe**
- **The German case**
 - The former German model and its (partial) erosion since the 1990s
 - The bumpy road to minimum pay standards
 - The new statutory minimum wage
 - Assessment and challenges
 - Lessons

Minimum wages in Europe

Diverse patterns

- **Universal statutory minimum wage** for all industries (21 EU-countries – Germany will be the 22nd country from January 2015 onwards)
- Collectively agreed **minimum wages at sectoral level** (5-6 countries)
 - With legal extension (*erga omnes*)
 - or (more or less) high coverage without state support
- **Large range of MW-levels** across Europe

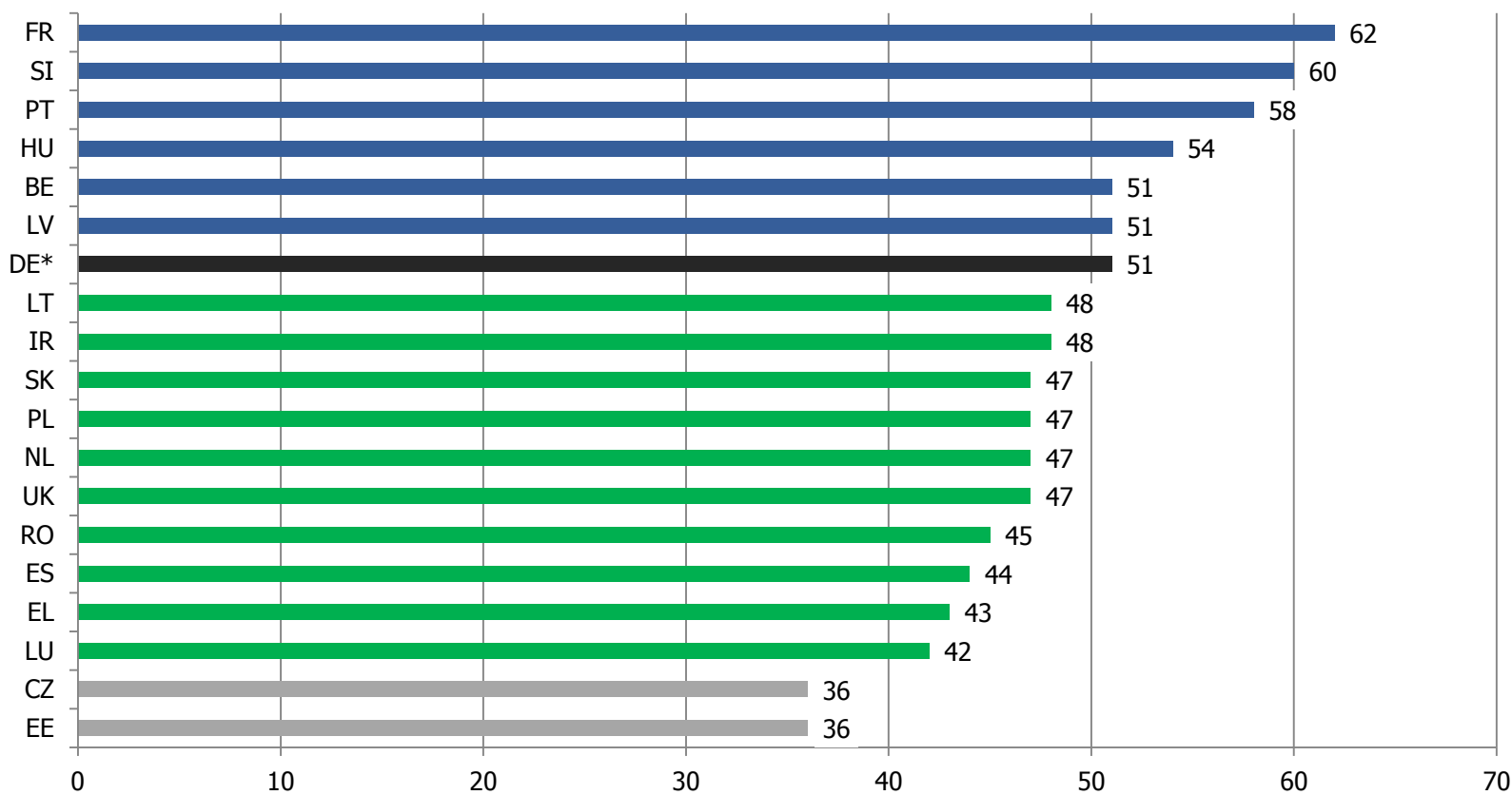
Statutory minimum wages in the EU, 2014 (in € per hour)



* From 1/2015

Source: Schulten 2014

Relative level of statutory minimum wages, 2012 (in % of median hourly pay of full-time employees)



Source: Schulten 2014

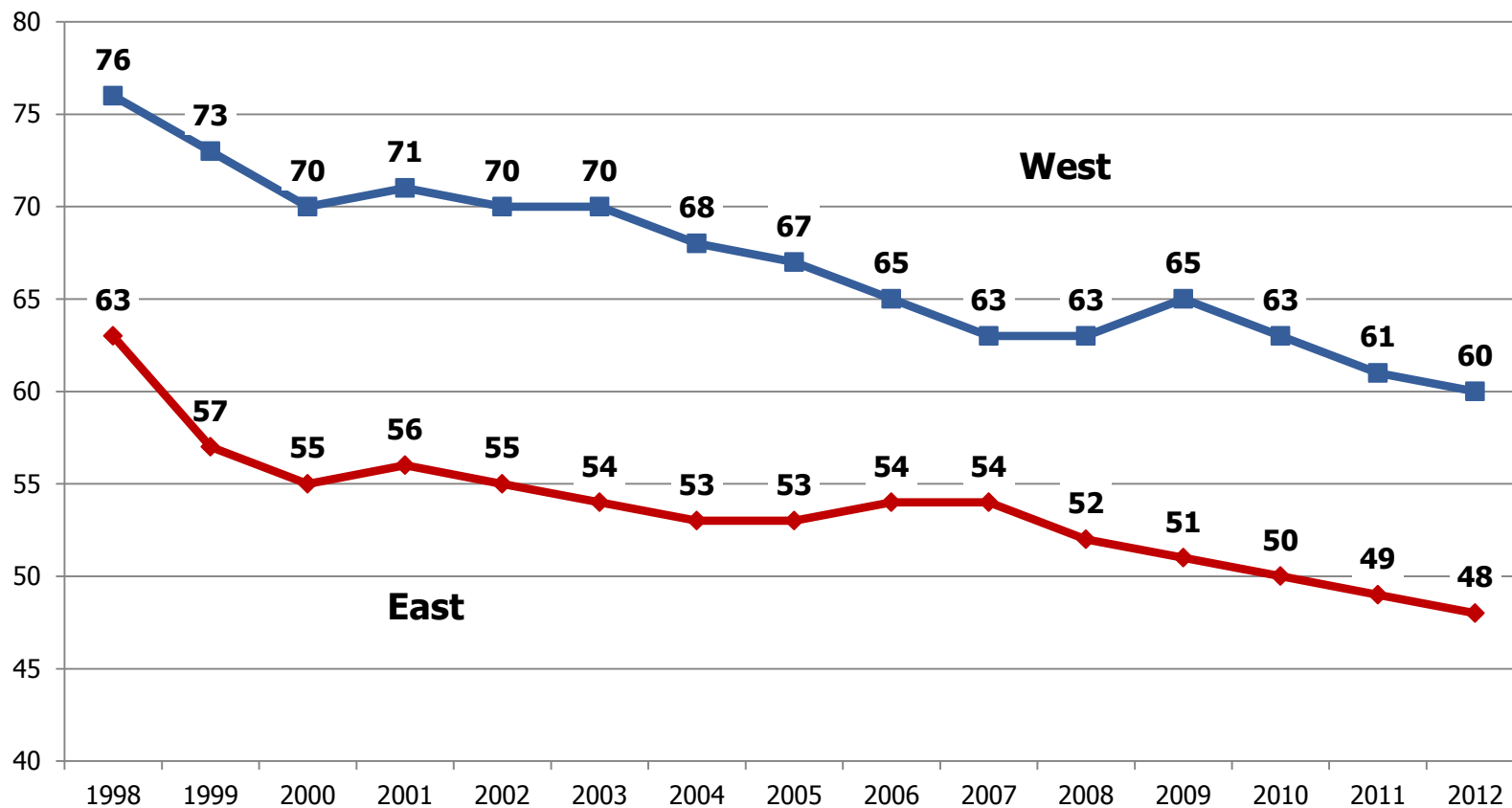
Summary: Minimum wages in Europe

- Variety of universal and sectoral minimum wage systems
- Diverse interrelations between MW and collective bargaining systems
 - Substitutes, complements (or almost no interrelation at all)
- Impact on the proportion of low-paid employees even more complex
 - Statutory MW can reduce wage-differentiation to the bottom but not automatically reduces low-pay incidence
 - collective bargaining coverage is crucial to limit the risk that the MW becomes the “going rate” for too many employees

The former German model

- **Tradition of autonomous wage setting** by employer associations and unions at sectoral level **without interference of the state**
 - Enshrined as a constitutional principle
- Until 1990: **80% collective bargaining coverage** and comparatively **limited wage-inequality**
 - No need for a statutory minimum wage
 - Exception: constructing industry with a sectoral MW since 1997 based on the Posted Workers Directive
 - A few other sectors followed (mainly construction-related crafts)

Collective bargaining coverage (employees), 1998-2012



Drivers behind the increase of low-paid jobs

- **New strategies of employers**
 - Not entering employers' associations
 - Refusal to declare wage agreements generally binding
 - Increase of wage-driven outsourcing
- **Weakness of unions**
 - Decreasing union density
 - Downward wage competition by small employer-friendly unions
- **Deregulation of product markets (EU-directives)**
 - Telecommunication, utilities, local public transports etc.
- **Labour market reforms in 2003/2004**
 - Deregulation of temporary agency work and mini-jobs
 - Abolition of income-related unemployment benefits for long-term unemployed and obligation to take up almost each job (regardless of earnings)

Low-wage employment in Germany, 2012

- **24.3%** of German employees with hourly wage below the low-pay threshold (2/3 of the median of all employees) (9.30 €)
 - 1995: 18.8%
 - Pronounced **wage differentiation to the bottom**
 - Average wage of the low-paid: **6.71 €** per hour
 - **Highest risk of low pay** for
 - mini-jobbers: 78.6%
 - under 25 years: 56.7%
 - fix-term contracts: 43.4%
 - low-skilled: 46.6%
 - non-nationals: 34.5%
 - women: 30.8%
- But among the low-paid are**
- 40.3% full-time employees
 - 58.7% between 25 and 54
 - 77.4% with permanent contract
 - only 24.5% low-skilled
 - 87.1% German
 - 62.6% women

Unions' change of mind since 2002

- Unions in the hospitality sector and in services were the first to see a need for a statutory minimum wage
 - Increasing difficulties to negotiate proper wage levels in these sectors and low coverage
- Unions in well-organized manufacturing sectors with higher pay levels were much more critical
 - afraid that a statutory MW will exert pressure on their wage levels
- After several years of controversial debates unions decide to demand for a statutory MW of 7.50 € in May 2006 (since 2010: 8.50 €)
 - And started broad and appealing public campaigns for the minimum wage in December 2007

Start of the union campaign in 2007



**Germany needs
the minimum
wage**

**Each truth needs
someone to
speak out**

**MINDESTLOHN
FÜR ALLE, JETZT.**

Würde kennt keine Ausnahmen:

**KEIN LOHN
UNTER 8,50**
Euro pro Stunde

Minimum wage for everyone, now.

Dignity without exceptions

No wage below 8.50 € per hour



4.81 € for my
dad?

Shame on you!

Germany needs
the minimum
wage

Politicians

- **Remained hesitant** for a couple of years due to several reasons – among them
 - the principle of autonomous collective bargaining
 - the hope that low-paid jobs would improve employment opportunities for the low-skilled (which has not been the case)
- Preferred **collectively agreed MW at sectoral level**
 - Negotiated by unions and employer associations – currently in place for 14 industries
- **Problems**
 - Large areas of the economy remain uncovered (creates incentives to shift jobs to sectors with lower or without MW)
 - Incidence of low pay has not been reduced in recent years
 - Puzzle of various MW-levels is difficult to enforce and to control

Other players

- Large majority of **German economists** is still strictly against minimum wages
 - Convinced that MW cause severe job losses – estimates for Germany range from 100,000 up to 4 million
 - Diverging evidence from other countries (e.g. US, UK) is neglected or regarded as “not transferable”
- More than 80% of the **German population** are now in favor of a statutory minimum wage
 - as a measure to create more fairness on the labor market, increase domestic demand etc.
- MW of 8.50 € per hour has been an **important issue in the federal elections** in September 2013 and in the negotiations afterwards

The statutory MW in Germany

- Introduction now agreed upon for January 2015
 - With a phase-in period for lower extended collectively agreed wages until end of 2016
 - Embedded in a bundle of measures to strengthen the collective bargaining system (with effects even before the introduction)
- Exceptions for apprentices, interns, employees under 18 and long-term unemployed (in the first six month of employment)
- Commission suggests MW-increases every two years
 - 3 representatives of unions and employers and 2 scientific consultants
- Controls by a specific unit of the customs authority

Assessment

- MW-introduction in Germany is one of the most important social reforms in the last decades
 - Higher hourly pay for up to 5 million employees
 - strong bite particularly in East Germany
- Several mechanisms to buffer the phasing-in process
 - Companies had at least one year to prepare, first increase of MW in 2017, option to negotiate lower industry pay-rates (if extended) until 2016
- The German economy should be strong enough to cope with a MW of 8.50 € per hour
 - probably with some structural changes in the composition on companies and employment forms (intentionally!)
 - shift from purely cost-driven to more quality-oriented competition, reduction of precarious jobs

Challenges: Compliance and enforcement

- Government needs to prove that the implementation of the MW is taken very seriously
 - Companies will comply with the new MW if they assume that the same applies to their competitors
 - requires effective controls and fines
- Self enforcement is important
 - employees and employers need to know the details: level, what accounts as working time, what needs to be paid on top etc.?
- The implementation period should be regarded as a learning process of possibly a couple of years
 - With a broad variety of experts and institutions involved seeking for good solutions if problems occur at sectoral or general level

Important lessons

- The (finally successful) MW-campaign in Germany has taken into account **the full range of potential positive impacts** – e.g. regarding
 - Reducing wage inequality and strengthening social cohesion
 - Increase domestic demand and reduce the number of working poor
 - Limit public spendings to compensate low earnings
 - Increasing motivation and productivity of employees
 - Reduce companies expenses for high labour turnover
 - Higher incentives to invest in training (for companies and employees)

Thank you very much for your attention!

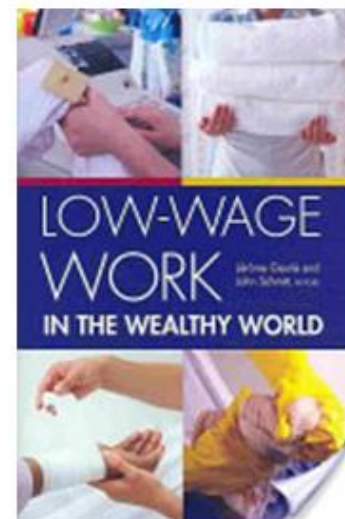
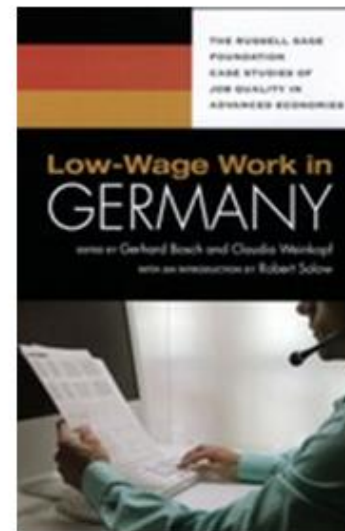
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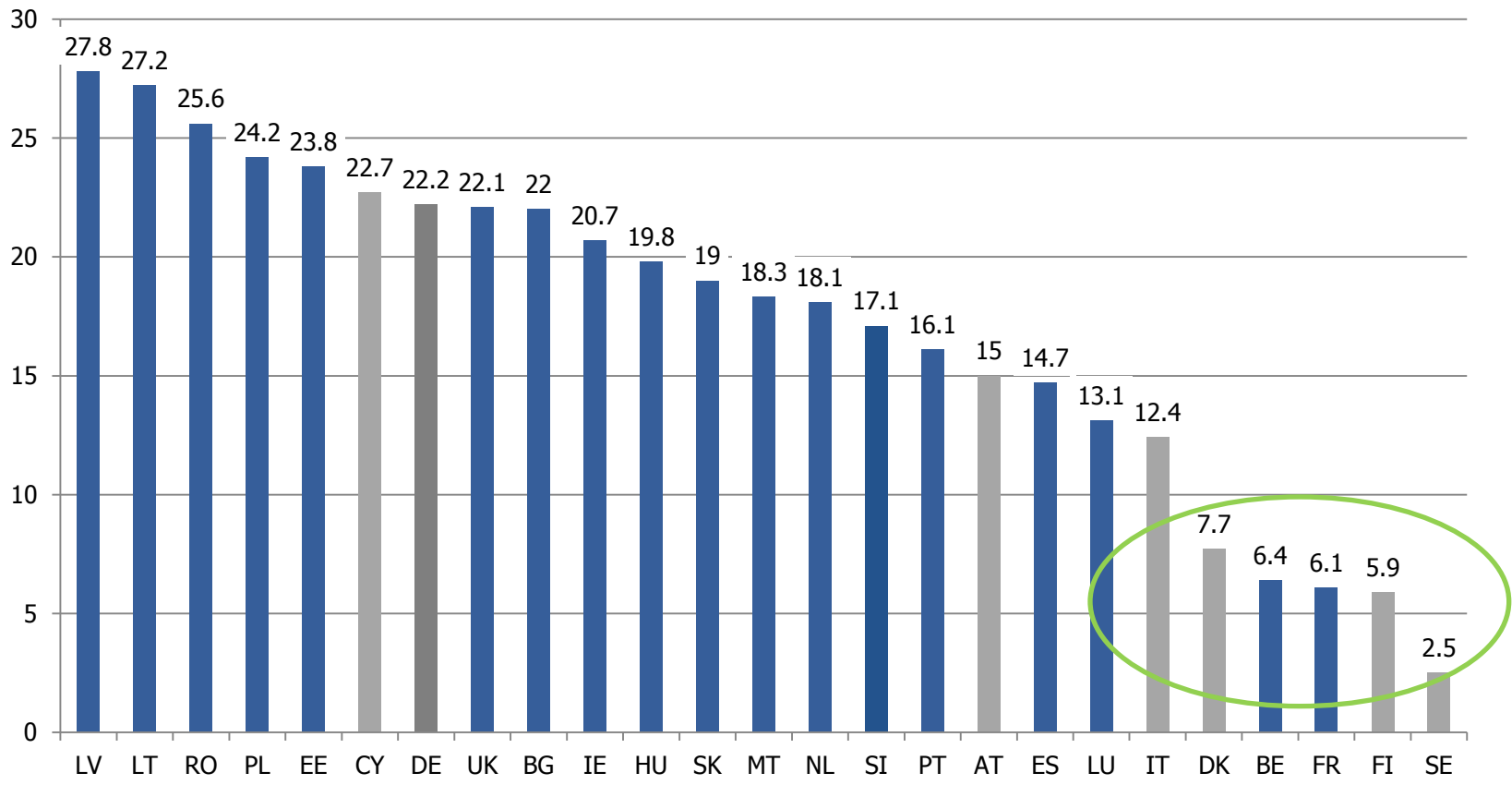
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Homepage (with many downloads):

www.iaq.uni-due.de

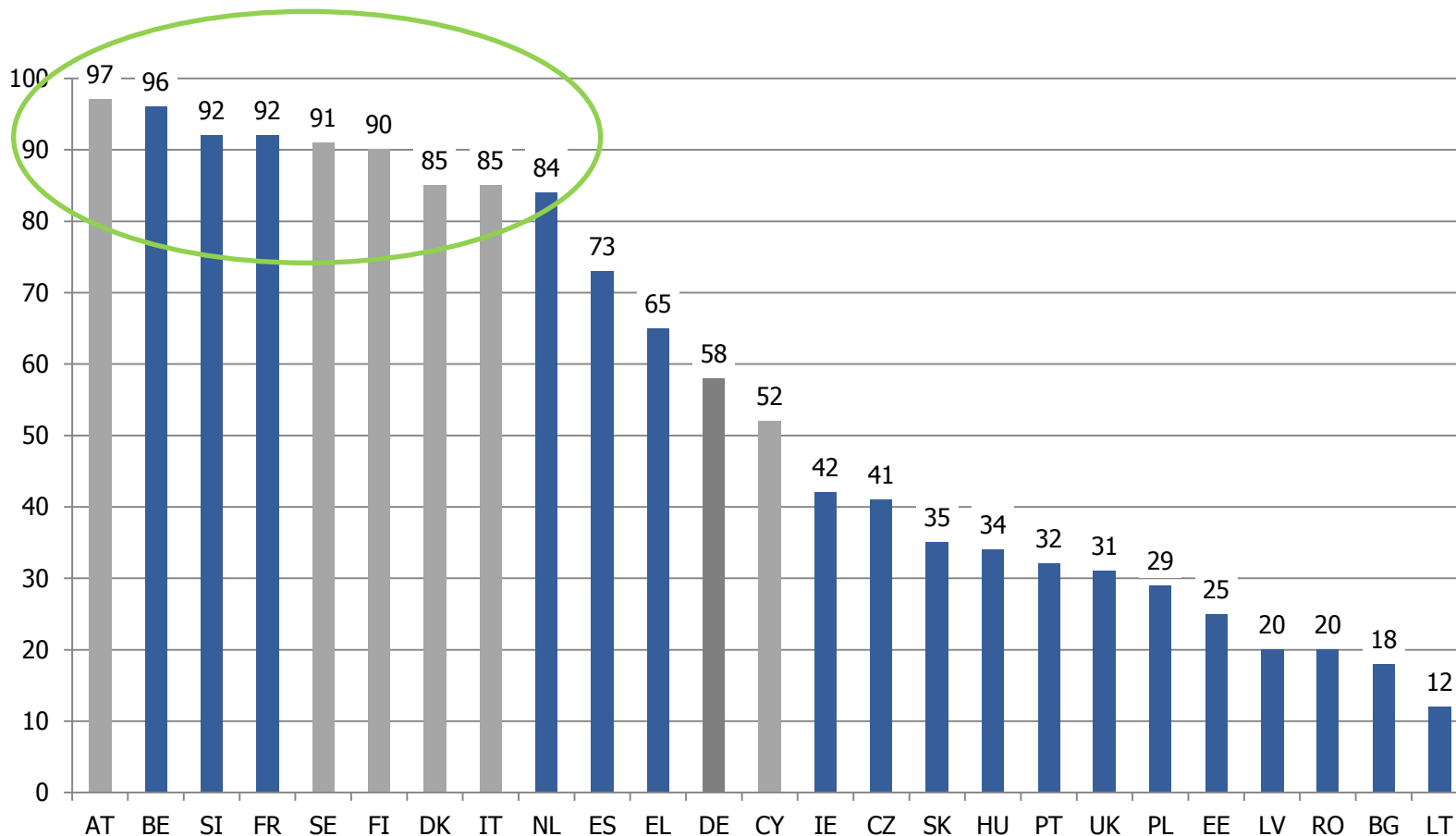


Share of low-paid employees in the EU (in %), 2010



Source: Bezzina 2012 (Eurostat)

Collective bargaining coverage and statutory minimum wages in der EU



Source: Schulten 2014