

THE BUMPY ROAD TO A NATIONAL MINIMUM WAGE IN GERMANY

Toward revitalizing collective bargaining

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Friedrich-Ebert-Stiftung (FES)

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Claudia Weinkopf contributed this chapter for FES.



GERMANY



5.3

Unemployment Rate



30.6

GINI



88.8

Wage and salaried workers, total (% of total employed)



43243

GDP per person employed (constant 1990 PPP \$)



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Introduction

In January 2015 – for the first time in its history and after more than ten years of heated debate

– Germany introduced a national minimum wage of € 8.50 (US\$ 9.32) per hour. Up to this point, pay had been negotiated exclusively through collective bargaining between unions and employers, and the state had not intervened directly in the wage-setting process.

As this chapter will demonstrate, a key driver behind the introduction of the minimum wage was the erosion of the German collective bargaining system that began in the mid-1990s.

The rapid increase in low-paid work and the sharp downward extension of the wage scale

went virtually unnoticed for almost a decade, since all the actors – including trade unions – balked at the idea that the traditional German model of negotiating wages through collective bargaining was no longer future-proof and in need of reform.

A key driver behind the introduction of the minimum wage was the erosion of the German collective bargaining system that began in the mid-1990s.

It was not until the ‘Hartz Acts’ of 2003 further expanded the low-wage sector in Germany, which was already excessively large by European standards,¹ that it became clear that trade unions in many industries no longer had the bargaining

power to set effective wage floors. Consequently, debates on minimum wage went beyond expert circles and it became a national policy issue.

Between 2005 and 2013, trade unions attempted to establish collectively agreed minimum wages at industry level – which would have rendered a national minimum wage unnecessary. These initiatives failed because the employers' associations in the largest low-wage sectors – for example, retail and hospitality – were unable or unwilling to negotiate these agreements with the trade unions.

Nevertheless, the idea behind industry-specific minimum wages – namely to strengthen the role of collective bargaining – also lies behind the new minimum wage legislation. It became part of a broader legislative package – “Act on the Strengthening of Free Collective Bargaining” – whose aim, in addition to introducing the minimum wage, was to increase the number of workers covered by collective bargaining agreements and facilitate the process of making industry-wide agreements on minimum wage legally binding.

The erosion of collective bargaining agreements

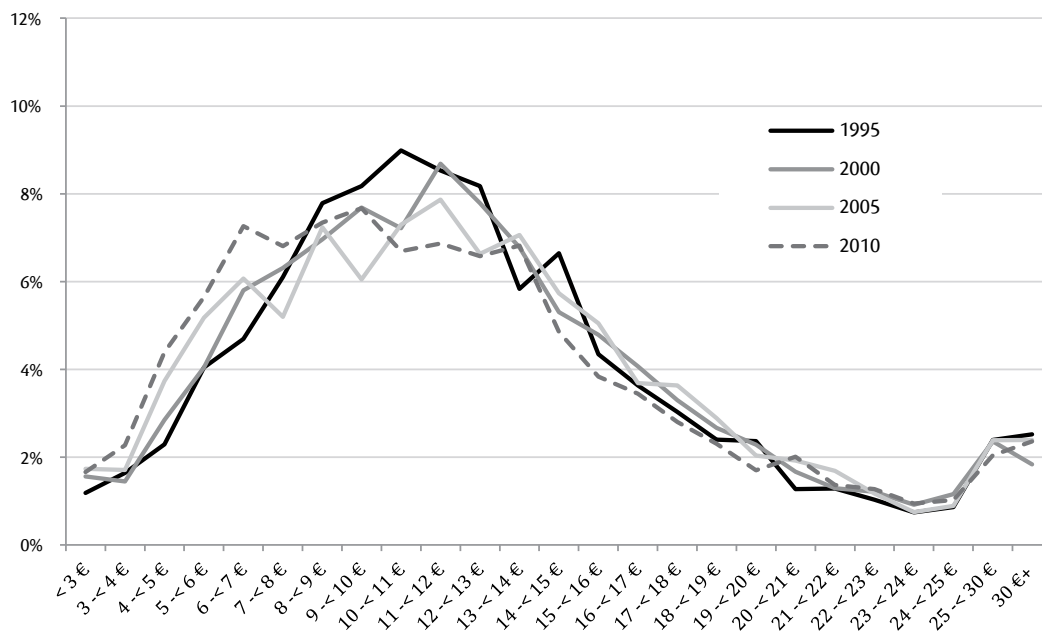
Germany was traditionally included among countries with ‘autonomous’ wage-setting systems² – meaning that companies or employers' associations and trade unions negotiated pay and many other employment conditions at the industry level and without any direct state intervention. The state intervened directly in the wage-setting process only at the request of unions and employers, specifically when they applied to make collective

The percentage of workers covered by collective agreements steadily declined. By 2013, it had fallen to just 60 percent in West Germany and 48 percent in East Germany.

agreements binding, though this was rare. Until German reunification, the percentage of workers covered by collective bargaining agreements stood at 85 percent.³ Because these agreements were negotiated at an industry level, and most companies belonged to an employers' association, this rate of coverage was several times higher than trade union density. Even companies not bound by collective agreements tended to use the collectively agreed pay rates as benchmarks.

Figure 1

Distribution of hourly wages (inflation-adjusted), all employees (students, pupils and pensioners included), Germany, 1995, 2000, 2005, 2010



Source: : Own calculations based on GSOEP.

For this reason there remained, by European standards, a relatively low share of employeesⁱ earning low wages.⁴

From the mid-1990s onwards, however, employers' compliance with collective agreements began

ⁱ Estimated at around 14 percent, depending on the choice of data sets.

to crumble. This process of erosion began in East Germany, where several developments coincided. After the sudden shock caused by the deindustrialization of East Germany's economy – mainly due to low productivity combined with the sudden introduction of the West German currency

– and the ensuing rapid rise in unemployment, many companies saw an opportunity to set wages unilaterally without negotiating with the trade unions. Moreover, most of East Germany's companies, which were new at the time, faced low productivity and were opposed to paying workers in accordance with West Germany's collective agreements. Certain sections of the employers' camp were openly preaching the benefits of withdrawing from collective agreements, and even companies not adhering the wage standards of those agreements were granted access to the employers' associations. It became evident that the trade unions in many industries did not have the power to enforce compliance with collective agreements on their own.

The percentage of workers covered by collective agreements steadily declined. By 2013, it had fallen to just 60 percent in West Germany and 48 percent in East Germany.⁵ This development was further supported by new corporate strategies

The considerable decline in coverage of collective agreements has allowed the low-wage sector to grow since 1995 to a level that is above average by European standards.

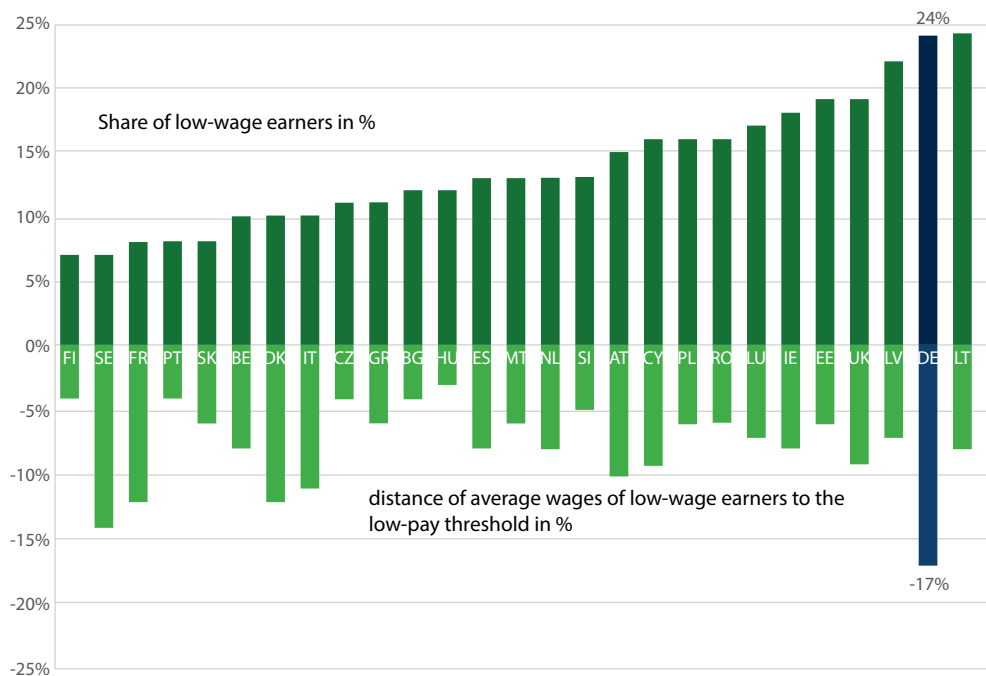
and the opening up of many public services (postal services, railways, urban transport, etc.) to private providers that were not bound by collective agreements. The wide pay differential between industries and companies of different sizes, which results from the fact that smaller companies are less likely to be party to collective agreements, became a strong incentive to outsource activities in order to cut labor costs, including wages.

The 'Hartz' labor market reforms, implemented in 2003 and 2004, further changed the landscape for collective bargaining. Several changes to the relatively generous German safety net increased the downward pressure on wages. For example, the new regulations replaced income-related unemployment assistance with a standard flat payment plus an additional rent subsidy. In other words, the long-term unemployed now face dwindling assistance. Moreover, temporary agency work and so-called 'mini-jobs'ⁱⁱ were deregulated; this form of temporary and marginal

ii Mini-jobs are part-time jobs with monthly earnings of up to € 450 (US\$ 493.4) per month. Employees do not have to pay income tax or social security contributions, which make mini-jobs particularly popular for wives who prefer to work part-time. This is related to the progressive joint taxation for married couples in Germany that provides the highest tax savings if there is only one single earner (plus an additional mini-job). Although there is no legal limit as to how many hours a month people may be employed for €450 (previous limits were abolished by the new legislation) most of these jobs are marginal and part-time (up to 15 hours per week). They are widespread in private households and in the private service industries.

Figure 2

Share of low-wage workers and distance between their average wages and the low-pay threshold (less than 60% of the median wage) in the EU in 2010



Source: Enrique Fernández-Macías and Carlos Vacas-Soriano. 2013. A coordinated EU minimum wage policy? (Dublin: Eurofound), own presentation.

part-time employment with very low hourly pay has increased substantially in recent years.

The considerable decline in coverage of collective agreements has allowed the low-wage sector to

grow since 1995 to a level that is above averageⁱⁱⁱ by European standards.⁶ Furthermore, because of the absence of a statutory minimum wage, pay at the bottom end of the earnings distribution has plunged, so that the average pay gap between

ⁱⁱⁱ According to this comparison for 2010, Germany had one of the highest incidences of low wages across Europe (22 percent compared to 17 percent on average). The lowest low pay incidences were 2.5 percent in Sweden and 5.9 percent in Finland.

low-wage workers and the low-wage threshold – defined as 60 percent of the national hourly

median wage^{iv} – is greater in Germany than in any other European country (**Figure 2**).

The minimum wage and German trade unions: From disagreement to unity

The German wage-setting system, once relatively homogeneous and inclusive, is now very heterogeneous and exclusive, reflected in considerable differences in collective bargaining coverage and in the share of low-wage workers between industries. In public administration only 3.8 percent of workers are low-wage, whereas the figure stands at 64 percent in hospitality. Up until 2006, these considerable differences were an obstacle to forming consensus within the trade union movement to officially campaign for the introduction of a statutory minimum wage.

The trailblazers were the Food, Beverages and Catering Union and ver.di, the largest German service-sector union. Both recognized at an early stage that the chances of negotiating acceptable rates of pay within the existing collective bargaining system had grown slim. In other industries, such as the metalworking and chemical industries, the traditional autonomous

wage-setting system was still functioning well. In these sectors, the lowest collectively agreed rates of pay were significantly higher than any minimum wage proposal. These trade unions feared, therefore, that a statutory minimum wage would empower employers to move away from higher collectively agreed rates, discouraging workers in firms not bound by collective agreements from joining a union.

But manufacturing unions eventually realized that the outsourcing of activities to temporary work agencies or subcontractors not bound by collective agreements meant that the low-wage sector was exerting increasing pressure on their collectively agreed rates and, moreover, was eating away at their membership, too. After a debate within the trade union movement that lasted several years and was initially very heated, the German Trade Union Confederation decided at its national congress in May 2006 to campaign

iv The definition for the low-wage threshold depends on the source. While Eurostat uses 60 percent of the median hourly wage, the OECD uses two-thirds of the median wage as its threshold, and individual countries often set their own benchmarks.

for a statutory minimum wage. However, it was not until sometime after this decision that representatives of the two largest manufacturing

unions publicly expressed support for the trade unions' demand of a minimum wage floor.

The minimum wage and the German government: From resistance to acceptance

At the political level, there was strong resistance to minimum wages in the late 1990s.^v The coalition between the Social Democratic Party (SPD) and the Green Party under Chancellor Gerhard Schröder believed that high levels of unemployment at that time were driven by the low level of wage differentiation in Germany, which they regarded as a barrier to improving the employment opportunities of low-skilled workers. Cutting support for the unemployed and deregulating temporary agency work and mini-jobs through the Hartz Acts, which came into force in 2003, sought to push pay at the lower end of the wage distribution further downwards based on the notion that employment would expand.

The considerable decline in coverage of collective agreements has allowed the low-wage sector to grow since 1995 to a level that is above average by European standards.

Since the main group affected by this was SPD voters, who consequently turned away from the party in increasing numbers, the SPD's platform in the 2005 general election campaign included a pledge to introduce a statutory minimum wage. In the context of falling wages, the general population – including conservative voters – had grown increasingly supportive of a statutory minimum wage. The conservative parties in Germany allied with the SPD in the so-called 'grand coalition' (2005-2009) did not agree on a statutory minimum wage, but instead agreed to introduce additional collectively agreed minimum wages for industries where employer associations and unions jointly demanded them.

^v One exception is the construction industry, where a sector-specific minimum wage was introduced in 1997 mainly in order to ensure that posted construction workers from other countries could not be paid below the collectively agreed minimum wage

However, hopes that unions and employers would negotiate acceptable minimum wages in all low-wage sectors were not fulfilled. Only in industries with a long tradition of national collective agreements and close cooperation between the social partners (e.g. the construction industry and related trades) could these conditions be met.

Consequently, these industries were among the first in which industry-wide minimum wages were established in late 1990s and early 2000s.^{vi} Other industries – for example, cleaning and industrial laundries – were dominated by regional collective bargaining or even had competing collective agreements, narrowing the prospect of reaching a mutual agreement on an industry-wide minimum wage.

The conservative-liberal coalition government in power from 2009 to 2013 refused to include the introduction of a national minimum wage in its coalition agreement. Even industry-specific minimum wages were controversial within the

coalition and as a result, decisions on declaring agreements binding were delayed a number of times. The German business world and many economists issued almost apocalyptic warnings of the dramatic job losses that would inevitably accompany the introduction of a statutory minimum wage. The estimates of the numbers

of jobs that would be lost ranged from 100,000 to 4 million and were prominently published in the press over the years.⁷

In 2011, the industry minimum wages in eight German industries were evaluated by different research institutes. They came to the conclusion that the industry-level minimum wages, some

of which were relatively high, had no negative employment effects.⁸ On the basis of this new evidence, the labor minister and the Chancellor declared their support for expanding minimum wages at the industry level.

However, industry-specific minimum wages could not reduce the share of low-wage workers

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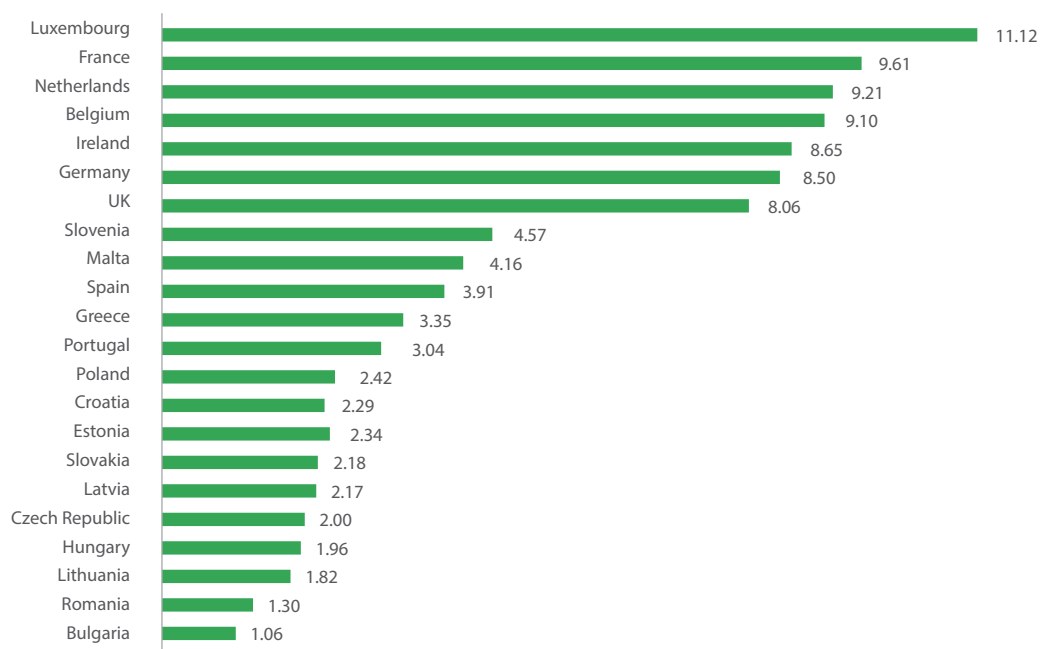
^{vi} Minimum wages for roofers and electricians were introduced in 1997 and for painting and varnishing in 2003.

in the economy as a whole. In the sectors with the highest share of low-wage workers, such as retailing, hospitality or the meat processing industry, union density and coverage by collective agreements were low and employers and their associations were so fragmented or at odds with each other that no minimum wage agreements ever materialized. This situation

was further compounded by the Confederation of German Employers' Associations (BDA). Their representatives on the national collective bargaining committee – which decides on the enforceability of collective agreements – repeatedly overturned agreements that had been reached at industry level because the agreed minimum wages were too high in their opinion.

Figure 3a

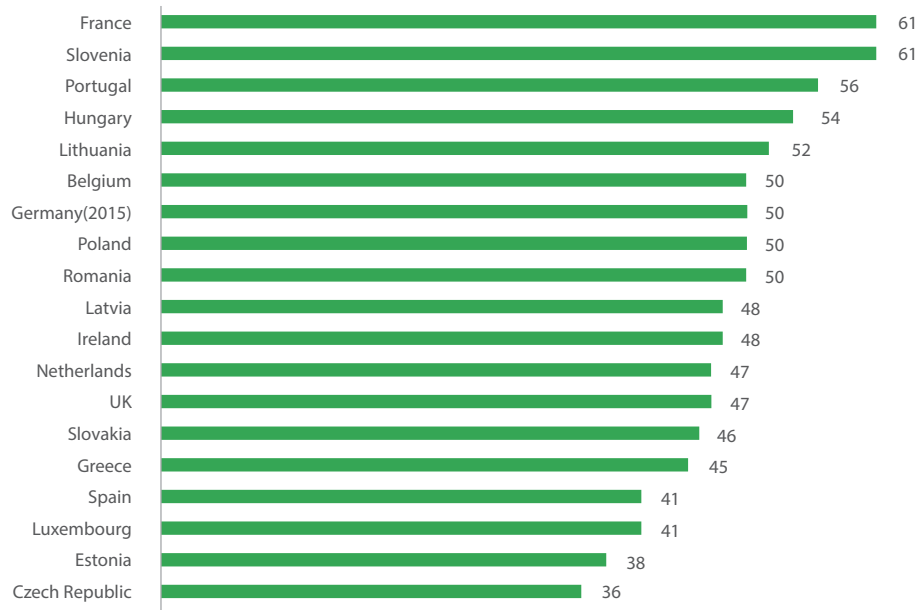
Hourly minimum wages in Europe, 2015 (€)



Source: Thorsten Schulten. 2015. WSI-Mindestlohnbericht 2015 – Ende der Lohnzurückhaltung? In: WSI-Mitteilungen 68 (2): 133-140.

Figure 3b

Hourly minimum wages in % of full-time median wages, 2013



Source: Thorsten Schulten. 2015. WSI-Mindestlohnbericht 2015 – Ende der Lohnzurückhaltung? In: WSI-Mitteilungen 68 (2): 133-140.

In 2013, the demand for a statutory minimum wage became a key issue in the general election, principally as a result of pressure from the unions. The SPD was willing to enter into another coalition government with the conservative parties only under the condition that a statutory minimum wage of € 8.50 per hour be introduced (**Figures**

3a and 3b), together with the re-regulation of temporary agency work and a strengthening of free collective bargaining. These demands were largely met, but in exchange the SPD had to accept the restrictive German fiscal policy approach favored by the conservatives under Chancellor Angela Merkel.

The design of the German minimum wage

Trade unions sought to influence the design of the minimum wage to ensure that increases in the minimum wage were decided by unions and employers – not simply state-sanctioned – and that the introduction of the minimum wage was closely linked to collective bargaining. Since the conservatives and the employers' associations were also interested in maintaining their involvement in the minimum wage-setting process, the unions achieved most of their objectives. The new Minimum Wage Act became part of a more extensive legislative package, 'Act on the Strengthening of Free Collective Bargaining'. In pursuance of the new act, industry-level minimum wages can now be agreed upon in all industries. Additionally, for an industry-wide minimum wage to go into effect, there is no longer a stipulation that at least 50 percent of the industry's workers are covered by collective agreements.

There are a few groups for whom the new minimum wage of € 8.50 per hour does not apply: trainees; the long-term unemployed for the first six months after their return to employment;

vii In 2017, all industries are obliged to have a minimum wage of at least € 8.50 (while the statutory minimum wage will be increased for the first time in January 2017).

employees under the age of 18; and – in response to pressure from the press – for newspaper deliverers until 2017. Furthermore, deviations from the minimum wage are permissible up to the end of 2016, if they are part of national collective agreements.^{vii}

The Minimum Wage Act calls for the establishment of a minimum wage commission that is tasked

The new minimum wage will impact a large segment of the labor force. As of 2012, some 6.6 million employees (19.2 percent of the workforce) were paid less than € 8.50 per hour in 2012.

with determining the wage level in the future. It consists of an independent chair, a total of six representatives from unions and employers' associations, and two academic members without voting rights. Importantly, the

law stipulates that increases in wage levels in national collective bargaining agreements serve as the benchmark for any increase in the national minimum wage. This enforces the idea that it is collective bargaining that sets the pace for future increases in the minimum wage.

The regulations on compliance with minimum wage standards are another important part of the Minimum Wage Act. In certain industries with high incidence of illegal practices – such

as construction, meat processing, or catering – working hours with start and finish times have to be recorded and the records kept for two years. This also applies to ‘mini-jobs,’ which were frequently paid below € 8.50 per hour in the past.

The new minimum wage will impact a large segment of the labor force. As of 2012, some 6.6 million employees (19.2 percent of the workforce) were paid less than € 8.50 per hour in 2012.⁹ One peculiarity of the German low-wage sector is that, although low-skilled workers are likely to be on low pay, they represent only a minority of those entitled to the minimum wage. More than three quarters of the workers earning less than € 8.50 per hour in Germany have a vocational qualification or even a university degree. It can be ascertained, therefore, that many Germans earning low wages are paid significantly below their productivity level. Since many of the workers whose wages will rise as a result of the new law are skilled, productive workers, firms in Germany are likely to absorb the cost of a rise in wages

more easily than they would otherwise through increasing efficiency.

A second peculiarity is the considerable difference in pay between East and West Germany. The minimum wage will have a particularly strong effect in East Germany, where wages are still significantly lower than in West Germany even 25 years after reunification. Several experts had even recommended a temporarily lower minimum wage rate for the East. However, politicians preferred to take into account the particular situation in East Germany by freezing the minimum wage until the end of 2016 and permitting deviations in collective agreements. In some sectors, like temporary agency work, meat processing, and agriculture, transitional rates with lower minimum wages were negotiated, particularly in East Germany. Trade unions supported such agreements only in order to revitalize collective bargaining, and on the condition that the € 8.50 threshold was exceeded before the end of 2016.

Current debates on implementation and outlook

The biggest political issue following the adoption of the new minimum wage law is its monitoring. Employers' associations are up in arms against the obligation to record working times for mini-jobbers and in industries with high incidence of illegal practices, which they have described as a 'bureaucratic nightmare'. Technically, such an obligation existed previously. Unlike in the UK, several German employers' associations and conservative politicians have not yet made their peace with the minimum wage. They would prefer a 'minimum wage-light' and are doing what they can to torpedo its implementation.

In view of the fact that the German wage-setting system has been significantly eroded over the years, the introduction of a statutory minimum wage can be regarded as one of the greatest social reforms of the post-war

period. The German minimum wage will lead to significant wage rises in the bottom two deciles of the earnings distribution and a narrowing of the gender pay gap in Germany,^{viii} since women are more likely than men to earn low wages.¹⁰ The risk to jobs tends to be low, the minimum wage is frozen until 2017 and certain sectors have been allowed transitional arrangements. Moreover,

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as three quarters of low-wage workers in Germany have qualifications, firms have opportunities to increase their efficiency. Whether the new legislative package will, as intended, lead to a revitalization of collective bargaining

and have a ripple effect on workers closer to the middle of the wage scale is yet to be seen.

^{viii} The reduction of the gender pay gap is estimated at 2.5 percentage points.

Endnotes

¹ For 2005, the low-pay incidence in Germany was at 22 percent (similar to the United Kingdom with 21.7 percent and 25 percent in the United States) while the related figures for the Netherlands (17.6 percent), France (11.1 percent) and particularly Denmark (8.5 percent) were much lower. See: Wiemer Salverda and Ken Mayhew. 2009. Capitalist economies and wage inequality. In: *Oxford Review of Economic Policy* 25 (1): 126-154.

² Jelle Visser. 2009. The quality of industrial relations and the Lisbon Strategy. In: *European Commission: Industrial Relations 2008*. 45-72. (Luxembourg: European Commission)

³ Jelle Visser. 2015. Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS): An international database. (Amsterdam: Amsterdam Institute for Advanced Labour Studies).

⁴ OECD. 1996. *Employment Outlook*. (Paris: OECD)

⁵ Peter Ellguth and Susanne Kohaut. 2014. Tarifbindung und betriebliche Interessenvertretung: Ergebnisse aus dem IAB-Betriebspanel 2013. In: *WSI-Mitteilungen* 67 (4): 286-295.

⁶ Eusebio Bezzina. 2012. In 2010, 17% of employees in the EU were low-wage earners. In: *Statistics in Focus* 48/2012. (Eurostat).

⁷ Two examples: Knabe, Andreas, Ronnie Schöb and Marcel Thum. 2014. *Der flächendeckende Mindestlohn*. Discussion Paper No. 2014/4 (Berlin: Sachverständigenrat) estimated a loss of 911,000 jobs (340,000 full-time equivalents). The German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung. 2013. *Gegen eine rückwärtsgerandte Wirtschaftspolitik*. Jahresgutachten 2013/14) did not provide precise numbers but emphasized the high risk of severe negative effects of the statutory minimum wage on employment.

⁸ Joachim Möller. 2012. Minimum wages in German industries – what does the evidence tell us so far? In: *Journal for Labour Market Research* 45 (3-4): 187-199; Gerhard Bosch and Claudia Weinkopf. 2012. *Wirkungen der Mindestlohnregelungen in acht Branchen*. Expertise im Auftrag der Friedrich-Ebert-Stiftung WISO Diskurs. (Bonn: Friedrich-Ebert-Stiftung).

⁹ Thorsten Kalina and Claudia Weinkopf. 2014. *Niedriglohnbeschäftigung 2012 und was ein gesetzlicher Mindestlohn von 8,50 € verändern könnte*. IAQ-Report 2014-02. (Duisburg: Universität Duisburg-Essen).

¹⁰ Christina Boll, Hendrik Hüning, Julia Leppin and Johannes Puckelwald. 2015. *Potenzielle Auswirkungen des Mindestlohnes auf den Gender Pay Gap in Deutschland – eine Simulationsstudie*. (Hamburg: HWWI).