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The bumpy road to a National Minimum Wage in Germany

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1.1 Low wage work (LWW) in Germany

- **Germany known for low income differentiation and high earnings mobility (OECD, Employment outlook 1996 and 1997)**
- **Since 1995 fastest growth of low wage work in the EU**
- **Increase of the share of low wage workers (2/3 of median income) from 19,8% to 24,3% in 2012**
- **Increase of the number of low wage workers from 5,9 Mil to 8,4 Mil**

1.2 Low wage work in Germany

Specific characteristics of German low wage sector:

- **Marked downward dispersion: 6,6 Mil < 8,50 €; 2,5 Mil < 6,00 €**
- **High regional differences: Share of LWW much higher in East-Germany (36,5%) than in West-Germany (21,6%)**
- **Aims of Hartz laws to improve chances of the low skilled not fulfilled - 75,5% of LWW are skilled**
- **Very high incidence of LWW among non standard forms of work (temp agency workers around 2/3 ; mini-jobbers (78,6%))**
- **Decreasing earnings mobility especially from companies with high shares of LWW**

2. 1 Assessment of policy measures

- Long time consensus that that wages should be exclusively negotiated by social partners
- In 1996 first industry minimum wage (IMW) in construction to set minimum standards for posted workers
- Promotion of the expansion of a low wage sector by the Hartz-laws in 2003
- In 2005 extension of the possibilities to negotiate industry MW's
- Until 2014 12 IMW's have been declared as generally binding

IMW's slow in realisation – no aggregate effects – did not reduce the share of low wage workers – Therefore debate for a NMW

2. 2 Assessment of policy measures

December 2013: The new grand coalition agreed to introduce a NMW of 8.50 € in January 2015

Provisions in the draft of the law from March 2014:

- **Exemption of apprentices, young workers under 18 years, long term unemployed**
- **Possibility to deviate from the MW by a collective agreement until the end of 2016 (already used in some industries)**
- **„Commission of the Social Partners“ should decide on the first pay increase in January 2018**
- **Collective bargaining strengthened by facilitating the extension of collective agreements and extending the possibility to negotiate IMW**

3. Assessment of the success factors and transferability

Results of the evaluation of 8 IMW commissioned by the government:

- **High compliance – some problems with unpaid overtime and pseudo-self-employed**
- **Compression of wages in East-Germany**
- **No disemployment effects – difference-in-difference estimations in seven industries**
- **Strong ripple effects in West-Germany – because of close links between the IMW and collective agreements**

Evaluation had a high impact on the political decisions

4. Questions to the host country

- **What are the experiences with lower minimum wages for apprentices and young workers?**
- **Are long-term unemployed and workers 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 any intention to introduce a higher MW in areas with high living costs like in London?**