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

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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

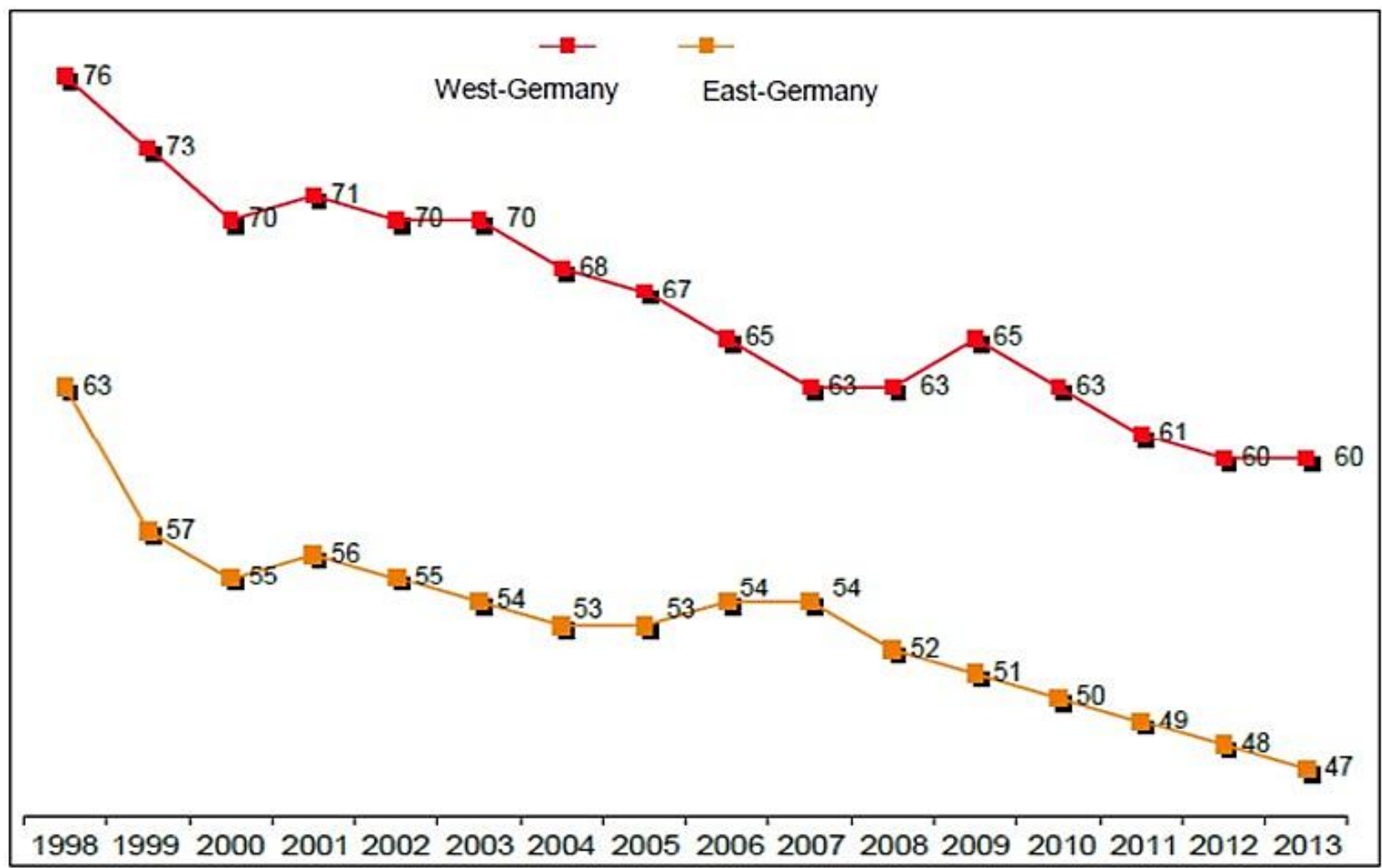
Decrease of coverage by CA's from 85% in 1990 to 60% in West- and 47% in East-Germany in 2013

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 resource for modernization of CA and political change

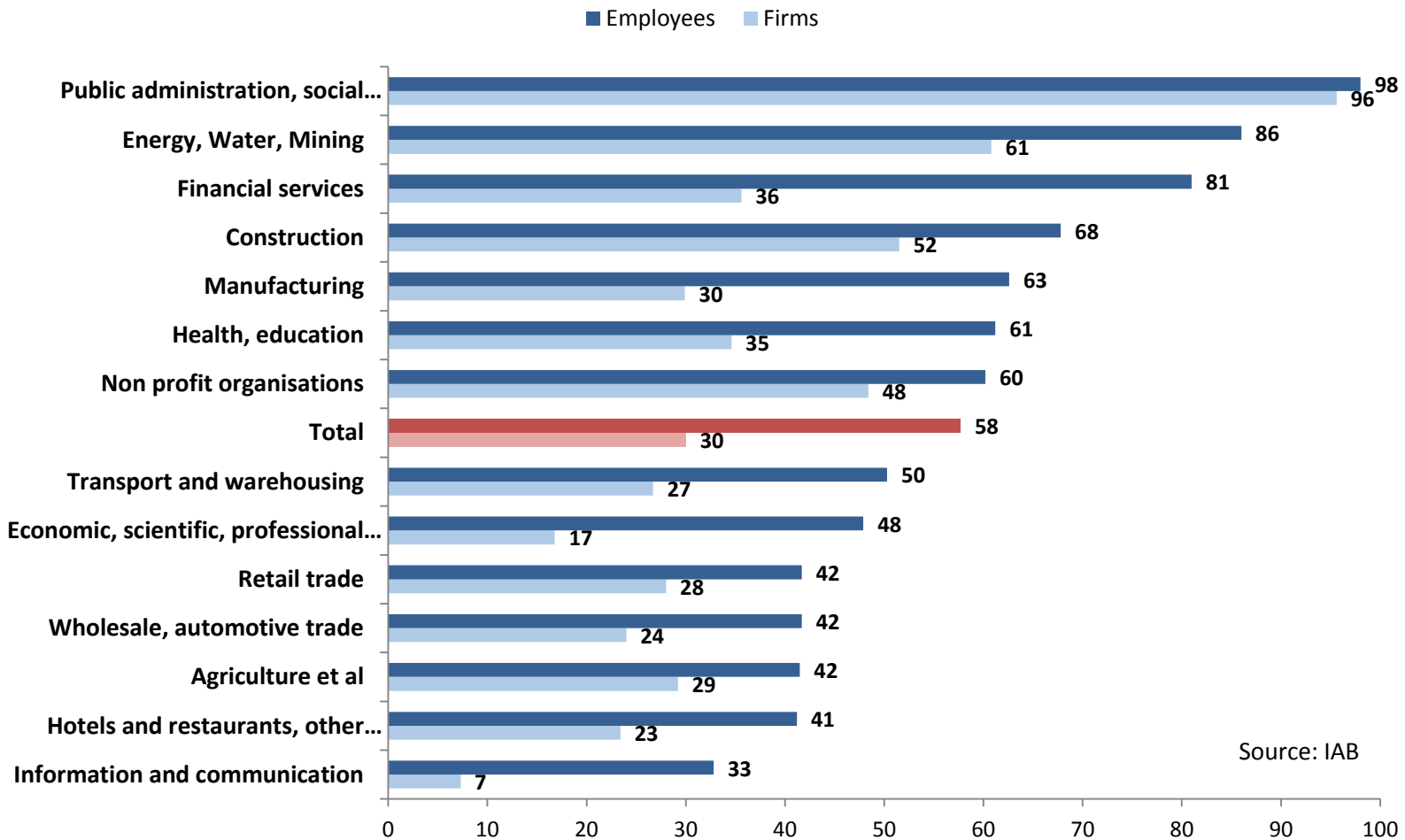
Coverage by collective agreements in % of employees



Source: WSI – Tarifarchiv (IAB Betriebspanel)

Coverage by sector

Collective bargaining coverage by employees and firms 2013 in %



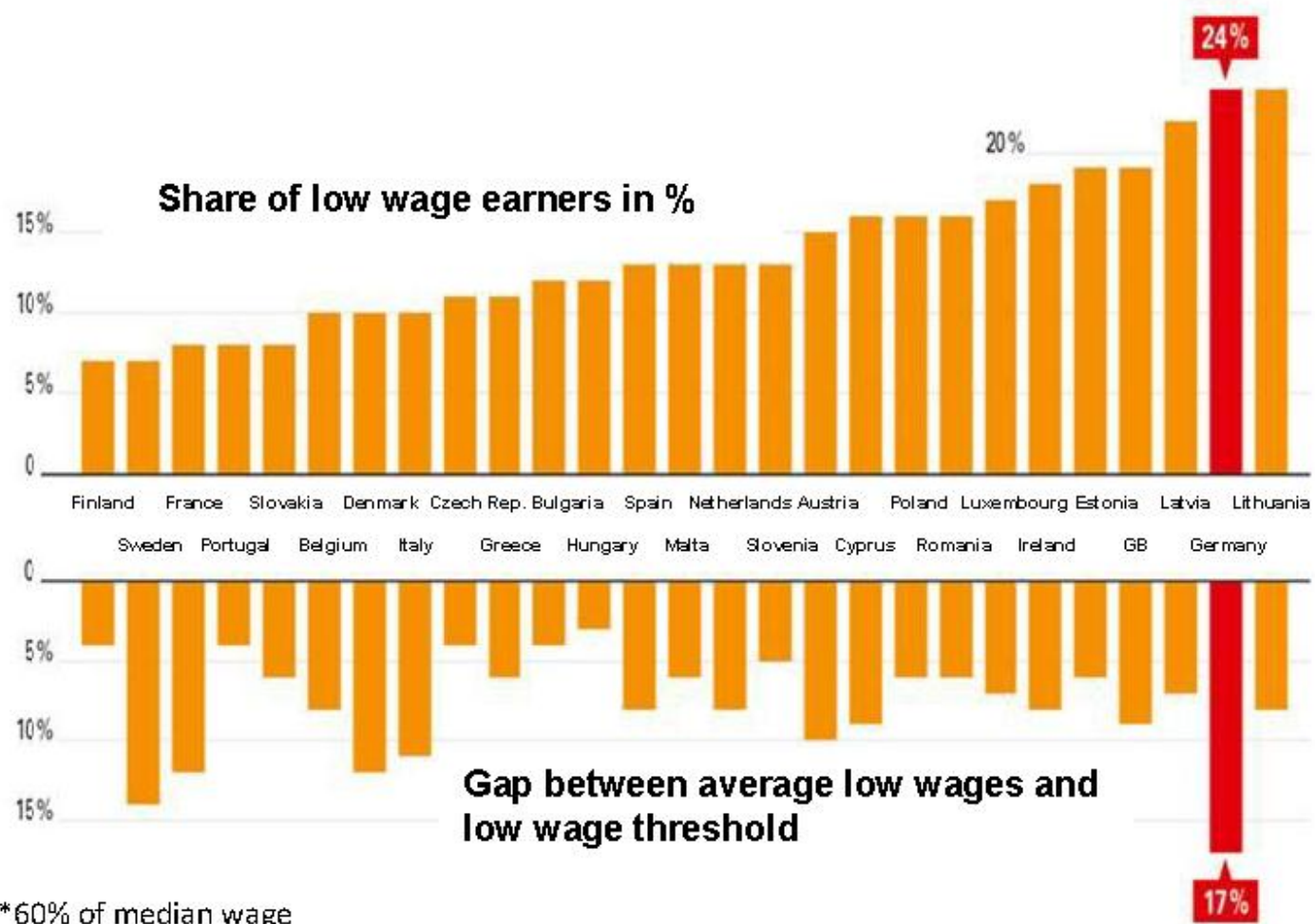
Source: IAB

End of pattern agreements – negative wage drift



Quelle: Statistisches Bundesamt, WSI-Tarifarchiv 2015 | © Hans-Böckler-Stiftung 2015

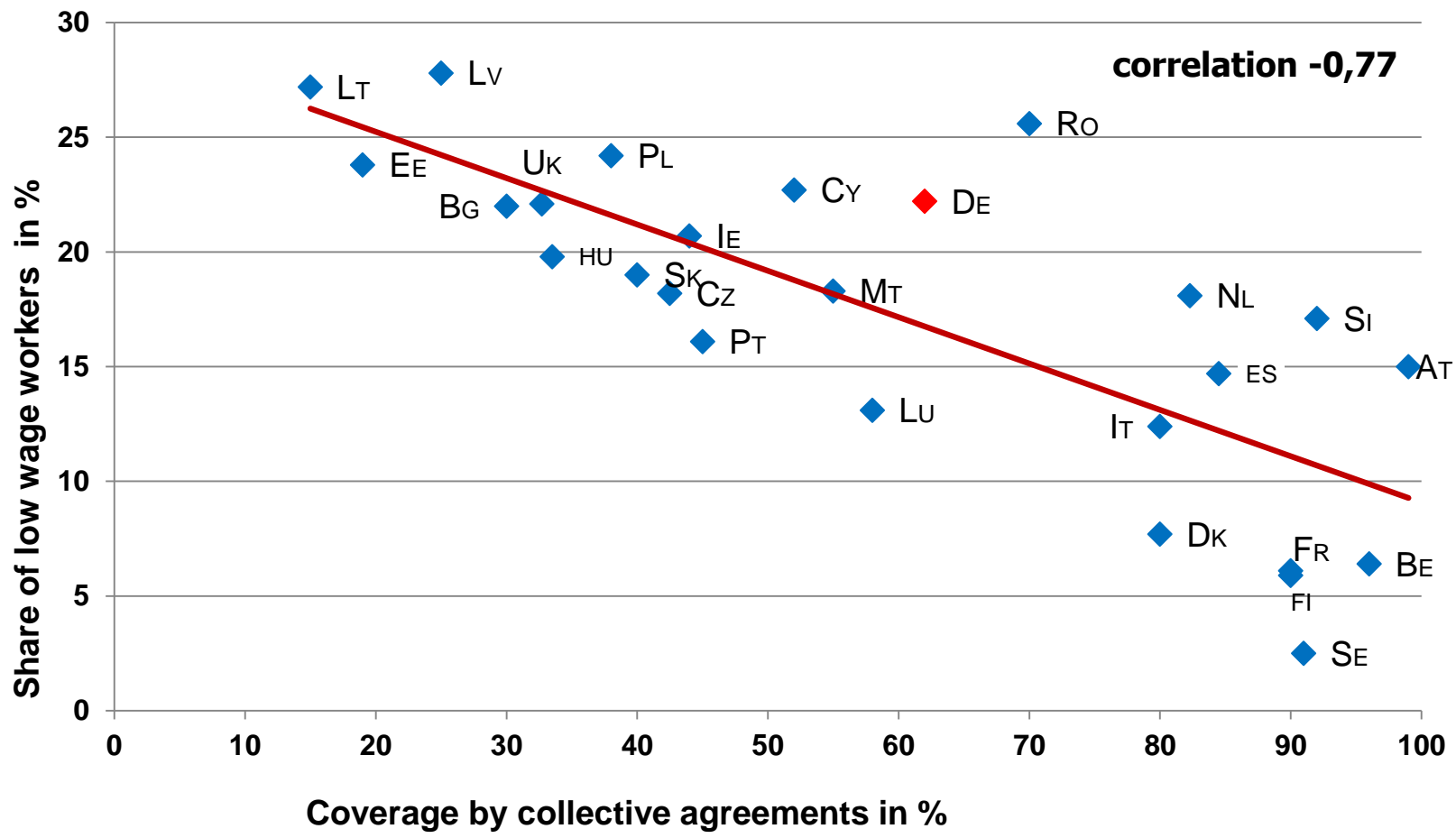
DE has one of the biggest low wage sectors in the EU



*60% of median wage

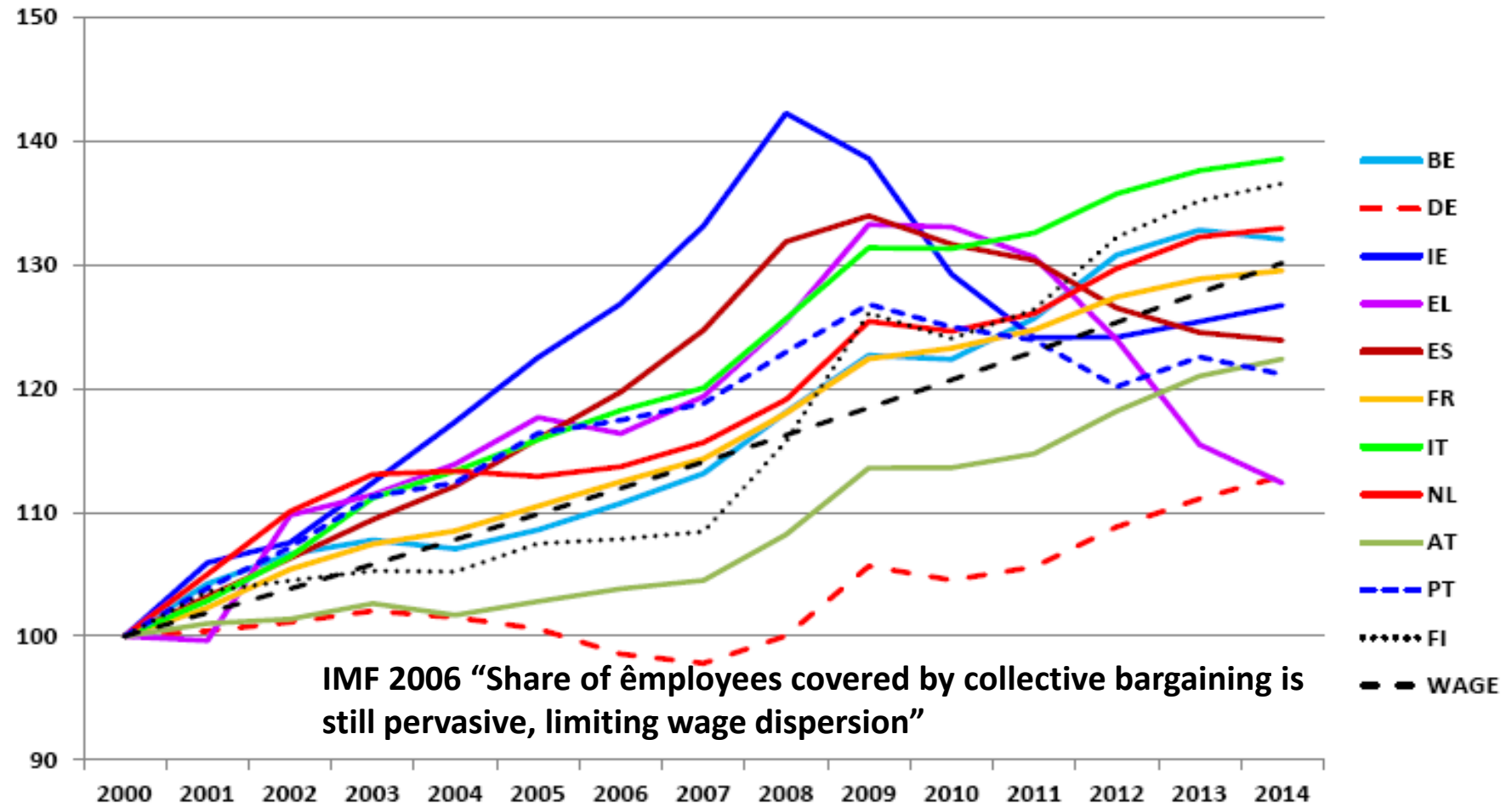
Source: Fernandez-Macias 2013, Vacas-Soriano 2013, Hans-Böckler-Stiftung 2013

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



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 engineering industry (early 2000's)
- 5. Abolition or reduction of seniority pay* in engineering 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

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

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 kindergarden/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

9. Negotiation of industry minimum wages (I-MW's) in 19 industries (2015) since 2008

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 competitiveness

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 main stream 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“

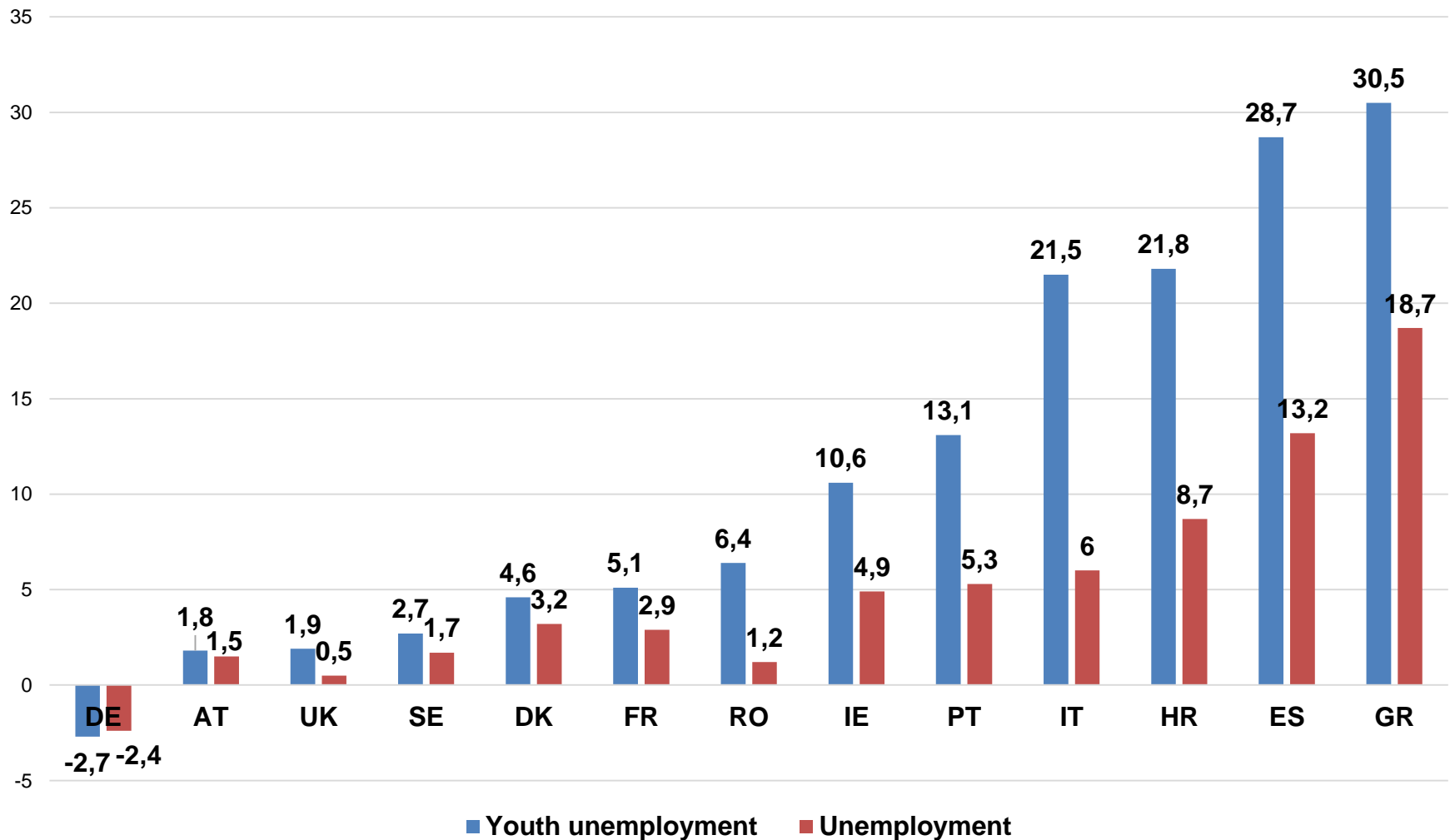
News paper appeal of the Presidents of the 6 big German economic research institutes in March 2008

also

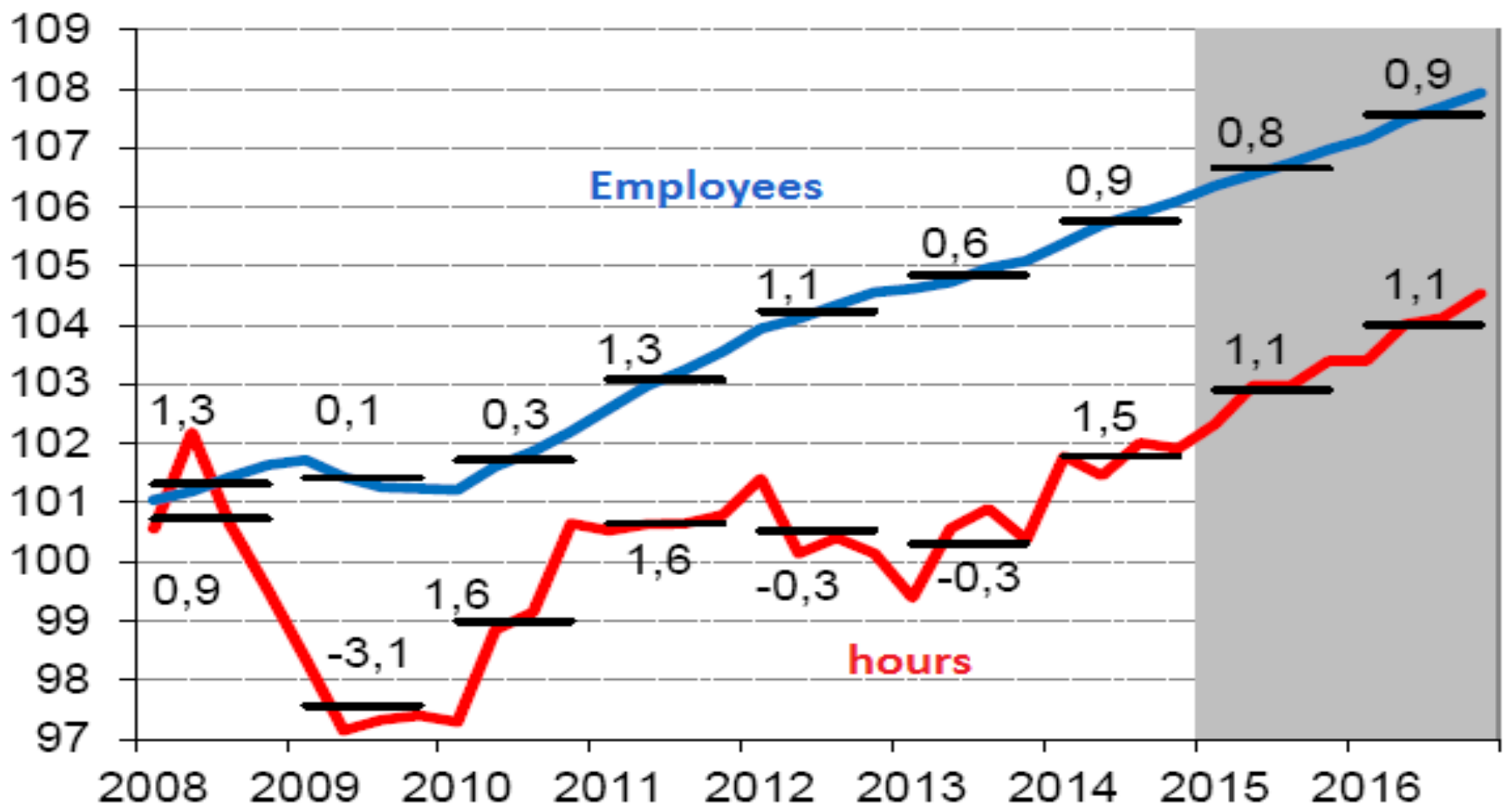
IMF staff warned that the “remarkable turnaround on the labor market was jeopardized by a misplaced focus on minimum wages to pursue social objectives.”

IMF (2008) 2007 Article IV Report, p. 20

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



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.)

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

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