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Wage progression through strong social partnership?

**Peer Review on “Minimum wages – extending coverage in
an effective manner” Cyprus, 19-20 September 2019**

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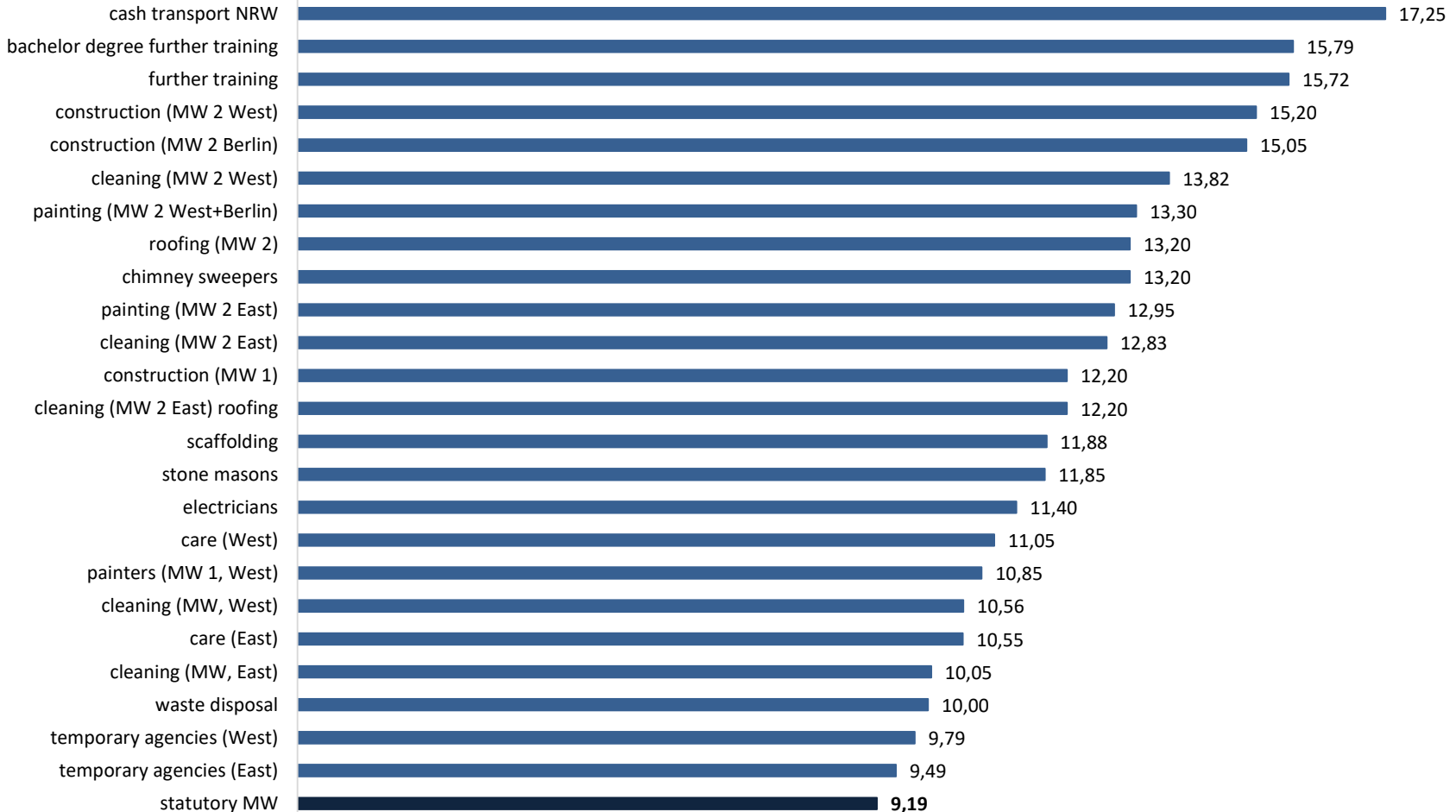
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From Autonomous Wage Setting to Minimum Wages

- Until 1990 85% coverage by collective agreements (CAs)
– social partners set wages autonomously
- Decline of coverage by CAs to 57% in West and 44% in East-Germany until 2017
- Increasing share of low wage earners, decreasing earnings mobility, reduction of real wages in the first 4 deciles in the income distribution between 1995 and 2015
- Since 1996 Industry Specific Minimum Wages (IMWs) based on the 'Posted Workers Act' negotiated by the social partners – first in the construction industry then in other industries
- In many industries unions so weak and employers so fragmented that no IMW's were negotiated
- Therefore introduction of a Statutory Minimum Wage (SMW) of EUR 8.50 on 1 January 2015
- Today: Coexistence of IMWs and the SMW

Industry Minimum Wages and the Statutory Minimum Wage in EUR per hour (August 2019)



MW 1: Minimum wage for unskilled employees, MW 2 = Minimum wage for skilled employees

Source: Compiled by the author.

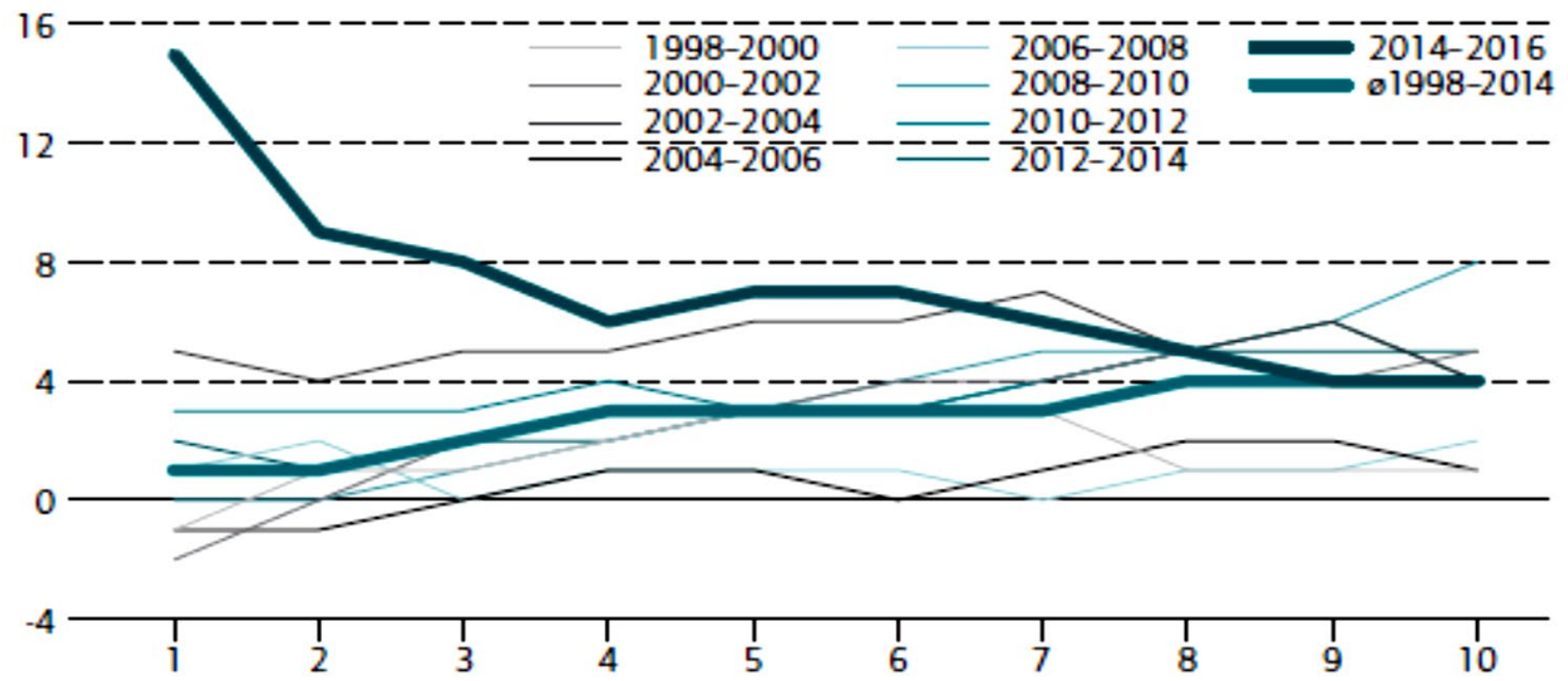
The new Statutory Minimum Wage

- **Single rate to increase self-enforcement and controls: no subminimum wage and few exceptions**
(apprentices, employees less than 18 years, long term unemployed, internships up to 3 month, internships which are part of a degree programme, subsidized practical training in companies for young people)
- **Strong influence of social partners**
(Minimum Wage Commission (MWC) with 6 representatives of the social partners, two academics with no voting rights and a chairperson)
- **Benchmark for SMW updates are the average increases in collectively agreed rates of pay – government can then prescribe proposed increase by statutory order but cannot alter the proposed amount**
- **MWC shall pass a resolution in respect of the adjustment of the amount of the NMW wage every two years**
(in 6/2016 the MWC proposed to increase the SMW by 1 January 2017 to EUR 8.84 and in 6/2018 by 1 January 2019 to EUR 9.19 and by 1 January 2020 to EUR 9.35)

Impact of the Statutory Minimum Wage

- **Above wage increases in the lower deciles after 2015**
– up to double-digit wage increases
- **No negative impact on employment**
– even stronger employment growth in low wage industries
- **Positive impact on Collective Bargaining in some industries**
- **Still compliance problems especially in small companies and in mini-jobs (marginal part-time jobs)**
- **Decline of controls by the labour inspection (Finanzkontrolle Schwarzarbeit) after 2015**
(from 60 000 in 2014, to 40 374 in 2015 and 53 491 in 2018)

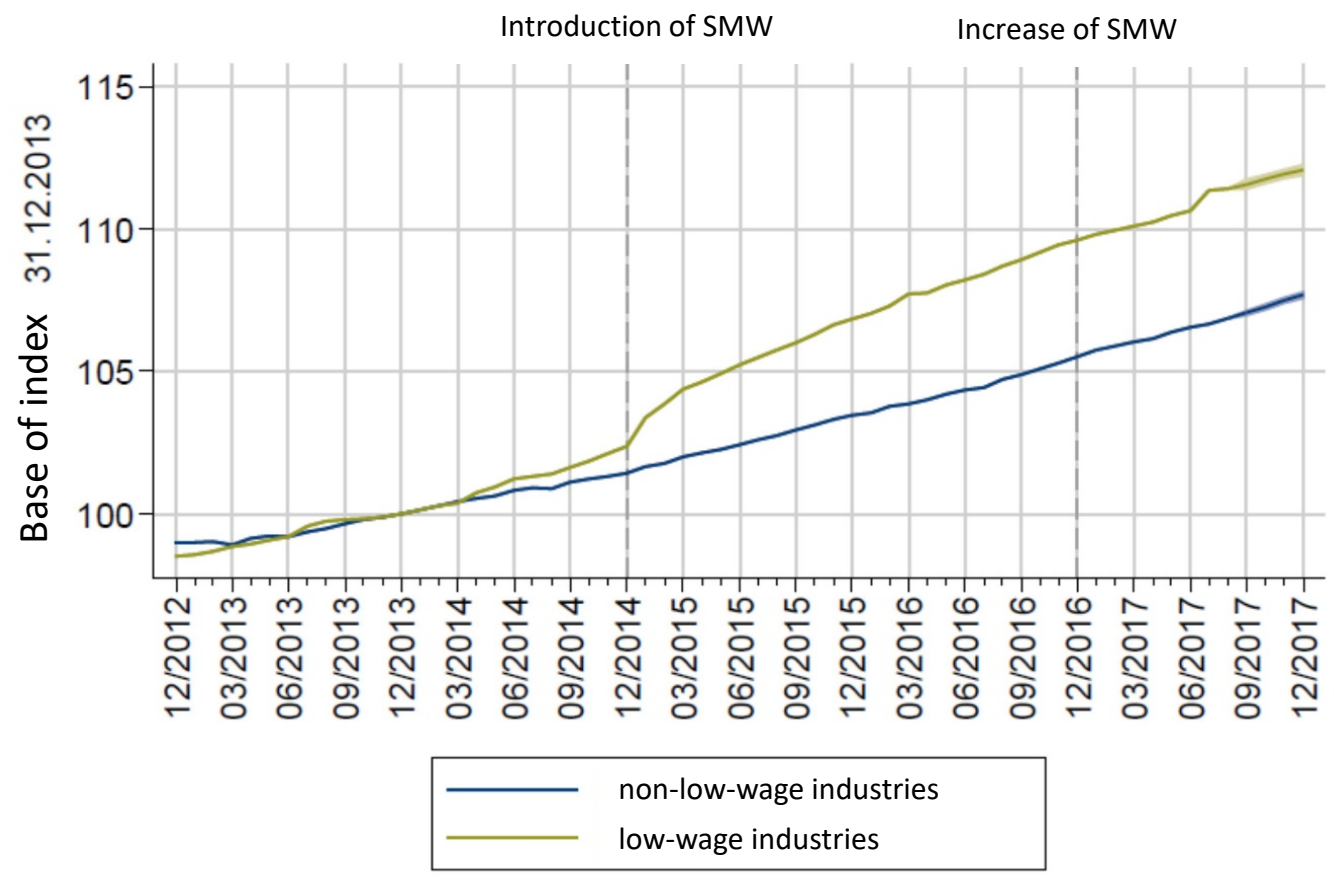
Nominal growth in contractual hourly pay over two years by deciles (Germany, 1998-2014)



Source: Burauel et al., 2017: 1110.

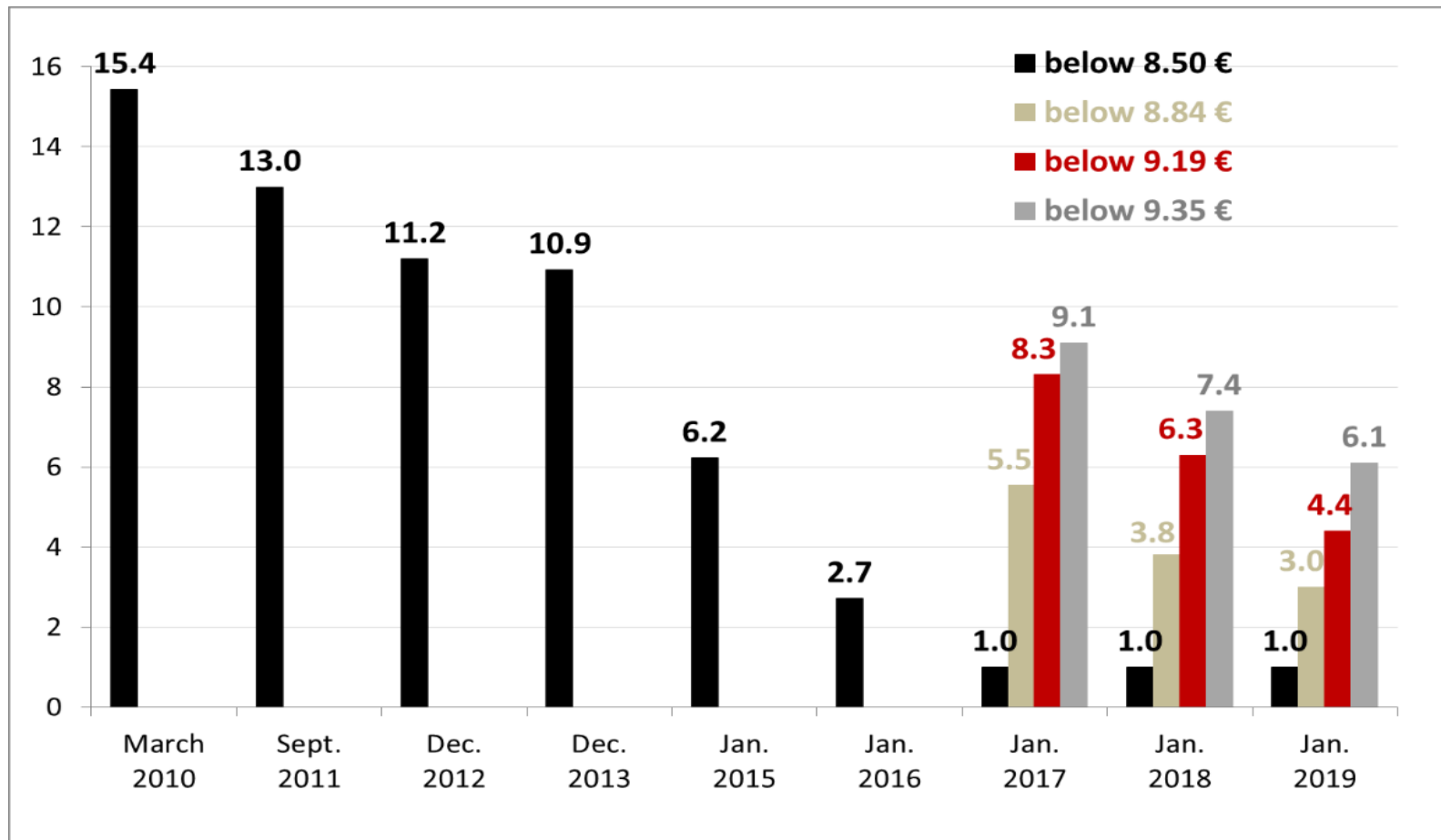
Employment growth in low-wage and non-low-wage industries 2012-2017

Seasonal adjustment



Source: vom Berge et al., 2018

Wage groups in collective agreements below the threshold of the statutory minimum wage in %*



* on the basis of around 4 500 collectively agreed wage groups in 40 sectors; including expired agreements which are valid only due to the *Nachwirkung* (after-effect) of old agreements. In Germany collective agreements do not expire unless they are replaced by a new agreement. Source: Schulten, T. and WSI-Tarifarchiv, 2019