

The bumpy road to a National Minimum Wage in Germany

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1. Introduction

In January 2015, for the first time in its history and after more than ten years of sometimes heated debate, Germany introduced a national minimum wage, set at 8.50 euros per hour. Up to this point, pay had been negotiated by the social partners acting alone and the state did not intervene directly in the wage-setting process.

The new minimum wage is no 'planned child' but was born out of necessity. The erosion of the German collective bargaining system began in the mid-1990s. The rapid increase in low pay and the sharp downward extension of the wage spread went virtually unnoticed for almost a decade, since all the actors, including the trade unions, balked at the obvious conclusion that the traditional German wage model was no longer future-proof and was in need of reform. It was not until the Hartz Acts of 2003 further expanded the low-wage sector in Germany, which was already excessively large by international standards, and it became clear that the trade unions in many industries no longer had the bargaining power to set effective wage floors that the debates on the minimum wage went beyond expert circles and became a national issue.

The attempts between 2005 and 2013 to make a statutory minimum wage superfluous by establishing collectively agreed minimum wages at industry level failed because the employers' associations in the largest low-wage sectors were no longer able or willing to negotiate such wages with the trade unions. However, the idea behind the industry-specific minimum wages, namely to strengthen the role of the parties to collective bargaining and to revitalise collective bargaining, also lies behind the new minimum wage legislation. It became part of a legislative package

entitled the 'Act on the Strengthening of Free Collective Bargaining' whose aim, in addition to introducing the minimum wage, is to increase coverage by collective agreement and facilitate the process of declaring collective agreements generally binding.

The subject of the present paper is the shift from an autonomous to a hybrid wage-setting system. In order to understand this shift, it is necessary first of all to describe the traditional German wage-setting system, which could be characterised as a 'weak autonomous system' (section 2); it was this essential quality that allowed it to be sharply eroded from 1990 onwards (section 3). The tendentious debate within the trade union movement on the introduction of a statutory minimum wage will then be outlined (section 4). To conclude, the essential features of the 'Act on the Strengthening of Free Collective Bargaining' will be explained and the currently foreseeable problems with the implementation of the new minimum wage and its likely effects will be analysed (section 6).

2. The traditional German wage-setting system in international comparative perspective

Germany is numbered among the countries with 'autonomous' wage-setting systems, in which companies or employers' association and trade unions negotiate pay and many other employment conditions, such as the duration and scheduling of working time, usually at industry level and without any direct state intervention. The state intervened directly in the wage-setting process only on the initiative of the social partners, when they applied to make collective agreements generally binding. It went into action, as it were, without 'having to take responsibility for the substantive content of the arrangements' (Schulten 2012: 487). Furthermore, it took no responsibility for monitoring the collective agreements. In the past, however, generally binding pay agreements were the exception rather than the rule in

Germany (Bispinck 2012). They did exist in some industries with high shares of small and medium-sized firms, such as retailing or hairdressing. However, in contrast to many other European countries, such as France, Belgium, the Netherlands or Spain, they were not used in industries with low trade union density to regulate pay across the sector as a whole.

Certain preconditions have to be met if autonomous wage-setting systems are to operate successfully. Strong trade unions that can negotiate with employers and their associations on equal terms are an essential element. If the employers do not wish to conclude any collective agreements, the trade unions must in case of doubt be in a position to exert collective pressure, which requires a strong organisational base.

Germany was among the countries with weak autonomous systems. Even in the heyday of trade union strength in the 1970s, no more than 35.5% of employees were trade union members in 1978 (Visser 2015). Consequently, the German system was particularly dependent on the willingness of companies, without any direct pressure being exerted, to become members of employers' associations.

Until German reunification, the rate of coverage by collective agreements was around 85% (Visser 2015), several times greater than trade union density, since most companies belonged to an employers' association. Even companies not bound by collective agreements tended to use the collectively agreed pay rates as points of reference. This high degree of employer adherence to collective agreements was due, firstly, to the low level of unemployment in the former West Germany, which strengthened the trade unions' bargaining power and made unilateral wage-setting at company level without the protection of the employers' associations in the event of disputes appear rather unattractive. Secondly, in the old German corporatist system, with its tightly interconnected companies that took a long-term approach, the

employers' associations and chambers of commerce and industry were also able to push through rules on fair wage competition by exerting moral pressure¹.

It is frequently overlooked in the literature that even autonomous wage-setting systems are dependent on state support, which serves primarily to strengthen employees' bargaining power. This can be illustrated very clearly by drawing on Sengenberger's distinction between protective and participative standards (Sengenberger 1994). By establishing protective standards, such as minimum wages for example, the state itself sets a wage floor. Participative standards confer consultation or codetermination rights on employees or their representatives and organisations, which are protected from discrimination when they seek to exercise those rights or endowed with resources (time and money). In this way, the state can, as it were, enable others to influence working and employment conditions in its stead, so that it does not itself have to intervene with corrective measures.

Table 1 shows considerable differences between five EU member states in the mix of these standards. In the two autonomous systems – Germany (before 2007) and Sweden – the state does not intervene directly in the wage-setting process but rather strengthens the weaker side of the labour market, i.e. employees and their representatives, by means of strong codetermination rights at establishment and company level. In contrast to Sweden, however, the German state has refrained from placing the administration of the unemployment insurance funds in the hands of the trade unions. The various funds cover largely the same territories as the Swedish unions' organising areas, which facilitates member recruitment (Lind 2007). The German trade unions are strong in larger companies, where they have been able to

¹ In the varieties of capitalism literature, the norm-setting function of German corporatism is also adduced in order to explain other institutions, such as the high level of willingness on the part of firms to provide training (Lehndorff et.al. 2009).

use codetermination to build up a power base, but weak in smaller companies without works councils. Through their control of the unemployment insurance funds, the Swedish unions reach employees in all sizes of firm, which is why union density in Sweden is 70%.

Belgium has a hybrid system with a combination of very strong participative and protective standards. The participative rights are based on rights of codetermination at establishment level and management of the unemployment insurance scheme, which is known as the 'Ghent system' after the Belgian model. Unlike in Sweden and Germany, employees are not represented on supervisory boards; however, the Belgian unions' bargaining power is strengthened by a combination of a statutory minimum wage and collective agreements that are declared generally binding in virtually all industries. This results in a combination of high trade union density (50%) and virtually universal coverage by collective agreement (96%).

Table 1: Statutory protective and participative standards in five national wage-setting systems

	Germany	Sweden	UK	France	Belgium
Wage standards					
Protection	(X)*	-	X	XXX	XXX
Participation	XX	XXX	-	X	XX
Trade union density	18%	70%	26%	8%	50%
Rate of coverage by collective agreement (employees)	62%	88%	29%	98%	96%

* From 2015 with the introduction of a statutory minimum wage
State intervention: - none, X weak, XX moderate, XXX strong

Source: Wage standards ETUI 2015; own compilation.

Until the 1970s, the UK was one of the countries with autonomous pay bargaining systems and had high trade union density and extensive coverage by collective

agreement. However, there was no state support in the form of statutory participative standards. Unlike in Germany, therefore, with its system of codetermination at establishment and company level, the British unions had no legally safeguarded representative base. And because of the major structural crisis in manufacturing industry, they had little in their armoury to counter the employers' associations' withdrawal from collective bargaining during the Thatcher years. The abolition in 1993 of the wages councils, which used to set minimum wages in a number of industries in which 'sweating' was a recognised problem, shifted the balance of power in wage setting further in favour of the employers. The sharp increase in low pay and in-work benefits for low earners was the reason for the introduction of the statutory minimum wage in 1999, so that today the UK is one of the countries whose wage-setting systems are unsupported by statutory participative standards and in which the state grants only weak protective rights.

In France, on the other hand, the state intervenes very strongly in the wage-setting process. It not only sets a floor on pay through the statutory minimum wage but also declares virtually all collective agreements generally binding. Furthermore, the participation of trade unions and works councils has been strengthened, albeit with significantly weaker codetermination rights than in Germany or Sweden. Unlike in Belgium, where the unions with their high membership rates are able to bring the employers' associations to the table without state intervention, the trade unions in France are so weak in many industries that pay bargaining is usually triggered only when the state raises the minimum wage.

3. The erosion of the German wage-setting system

Until about the mid-1990s, coverage by collective agreement was high in Germany. The collectively agreed standards applied also to employees with little bargaining

power and had the same inclusive effect as general statutory regulations. This was the reason why there was, by international standards, a relatively low share of employees on low wages (OECD 1996). From the mid-1990s onwards, however, employers' compliance with collective agreements began to crumble. This process of erosion began in East Germany, where several developments coincided. Firstly, productivity in what were, for the most part, newly established companies was very low, so that opposition to the process of wage adjustment with West Germany, which the social partners had initially sought to implement rapidly following German reunification, gradually increased. Secondly, after the sudden shock of the deindustrialisation of the East German economy and the ensuing rapid rise in unemployment, many companies saw an opportunity to set wages unilaterally without negotiating with the trade unions. Thirdly, certain sections of the employers' camp were openly preaching the benefits of withdrawing from collective agreements and supported this trend by offering membership of the employers' associations without a concomitant requirement to adhere to the relevant collective agreement. With this change of strategy on the employers' side, it became evident that the trade unions in many industries did not have the power to defend compliance with collective agreements unaided.

This new experience of being able to leave the German collective bargaining system without penalty, i.e. without any major industrial disputes and consequent strengthening of the trade unions, while still finding favour among the employers' associations and some sections of the political world, was an open invitation to imitators throughout the country. The president of the largest German trade union IG Metall has written in this connection: 'The depressing thing about it was that it made it clear to us that in truth we had never had the power to enforce collective agreements in the event of a dispute' (Wetzel 2012: 156). Coverage by collective agreement

subsequently declined; by 2013, it had fallen from its peak of 85% before reunification to just 60% in West Germany and 48% in East Germany (WSI-Tarifarchiv 2015)².

This development received further impetus from changed corporate strategies and the opening up of many previously public services (postal services, railways, urban transport, etc.) to private providers that were not bound by collective agreements and competed against state-owned providers by adopting wage-dumping policies. The wide pay differential between industries and companies of different sizes constitutes a strong incentive to outsource activities in order to cut wage costs. The consequence is that companies become highly fragmented; as a result, employees working together in the same establishment increasingly have different employers. Consequently, their pay may be determined by different collectively agreed norms or may even not be subject to any collective agreement at all.

A further political impetus was given by the so-called Hartz reforms, implemented in 2003/2004. Several changes made to laws increased the downward pressure on wages – among them the replacement of the former income-related unemployment assistance with a standard minimum payment plus an additional rent subsidy and deregulation of temporary agency work and so-called “mini-jobs”. The number of these temp agency and marginal part-time jobs with frequently very low hourly pay has increased substantially in recent years.

In the traditional Germany family model, mini-jobs act as an automatic ‘deregulator’ of employment standards. Because of the lack of child care and the short school day, as well as the strong financial incentives for second earners to seek only marginal

² The figure is somewhat lower than in Table 1, presumably because it is more up to date (see footnote 3).

part-time employment, a high share of the expanding female labour supply ends up in mini-jobs. These jobs, for which maximum monthly earnings are 450 euros, are not only exempt from employee social security contributions. Married workers employed in such jobs, most of them women, continue to derive their health insurance from their spouses and their earnings are disregarded in the joint income tax assessment system. Consequently, the tax advantages of the German 'splitting' system for married couples remain unaffected, as they would if the main earner were the only earner. Since most employers pay the 7 million or so 'mini-jobbers' only for hours actually worked, contrary to European and German legislation on the equal treatment of all part-time workers, and so do not offer holiday or sick pay (Weinkopf 2014), mini-jobs are considerably cheaper than part-time jobs for which social security contributions have to be paid. Consequently, many service activities often take the form of mini-jobs only, which has led to a decline in the opportunities for mini-jobbers to make the transition into standard employment. This has had serious effects on the trade unions' power base. Women in marginal part-time jobs are only weakly committed to the employment system and are consequently difficult to organise. In contrast to the Scandinavian trade unions, which rely on women playing a full part in the labour market, the German trade unions have been unable to benefit from the expansion of women's work. Between 1980 and 2009, the share of unionised women workers in Germany fell from 21.4% to 12.9%, while it rose in Sweden between 1963 and 2008 from 48% to 74%, more than offsetting the loss of members among male workers (Visser 2015). This explains the extensive areas of the German employment system not covered by collective agreements, particularly in the rapidly growing service industries with higher share of women workers.

The considerable decline in coverage by collective agreement has allowed the low-wage sector to grow since 1995 to a level that is above average by international

standards. Furthermore, because of the absence of a statutory minimum wage, pay at the bottom end of the earnings distribution has plunged sharply downwards, so that the average gap between the pay of low-wage workers and the low-wage threshold is greater in Germany than in any other European country (Figure 1)³.

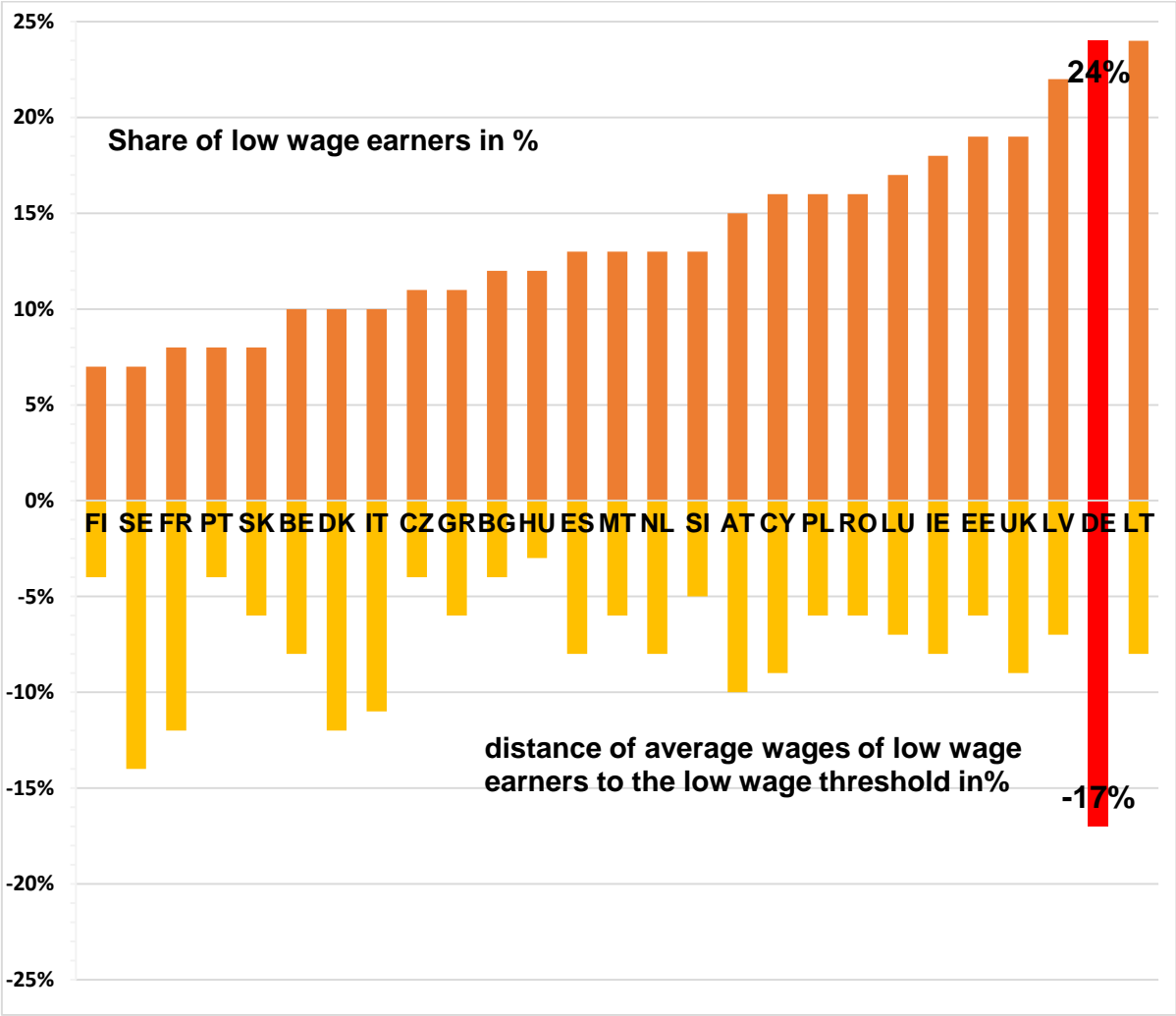


Figure 1: Share of low-wage workers and distance between their average earnings and the low-wage threshold (less than 60% of the median wage) in the EU in 2010

Source: Fernández-Macías/Vacas-Soriano, Carlos (2013), own presentation.

³ The authors here have not adopted the usual low-wage threshold of two thirds of the median wage, since their intention was to calculate the effects of a European minimum wage of 60% of the median wage.

4. The debate on the introduction of a statutory minimum wage

The once relatively homogeneous and inclusive German wage-setting system has gradually been eroded and is now very heterogeneous and exclusive, which is reflected in considerable differences in the share of low-wage workers between industries (Figure 2). These considerable differences between industries were also an obstacle to forming the will within the trade union movement to campaign for the introduction of a statutory minimum wage. The trailblazers were the Food, Beverages and Catering Union and ver.di, the large service-sector union. Both had recognised at an early stage that the chances of negotiating acceptable rates of pay within the existing collective bargaining system were becoming slimmer and slimmer. In other industries, such as the metalworking and chemical industries, the traditional autonomous system was still functioning very well. The lowest collectively agreed rates of pay were significantly higher than the minimum wage being mooted and the trade unions were afraid that a statutory minimum wage would drag collectively agreed rates downwards and thus deter workers in firms not bound by collective agreements from joining a union.

Somewhat belatedly, however, the manufacturing unions realised 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. 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 for a statutory minimum wage of 7.50 euros per hour. This was raised in 2010 to 8.50 euros per hour. However, it was not until sometime after this decision that the representatives of the two largest

manufacturing unions publicly expressed unreserved support for the trade union demand.

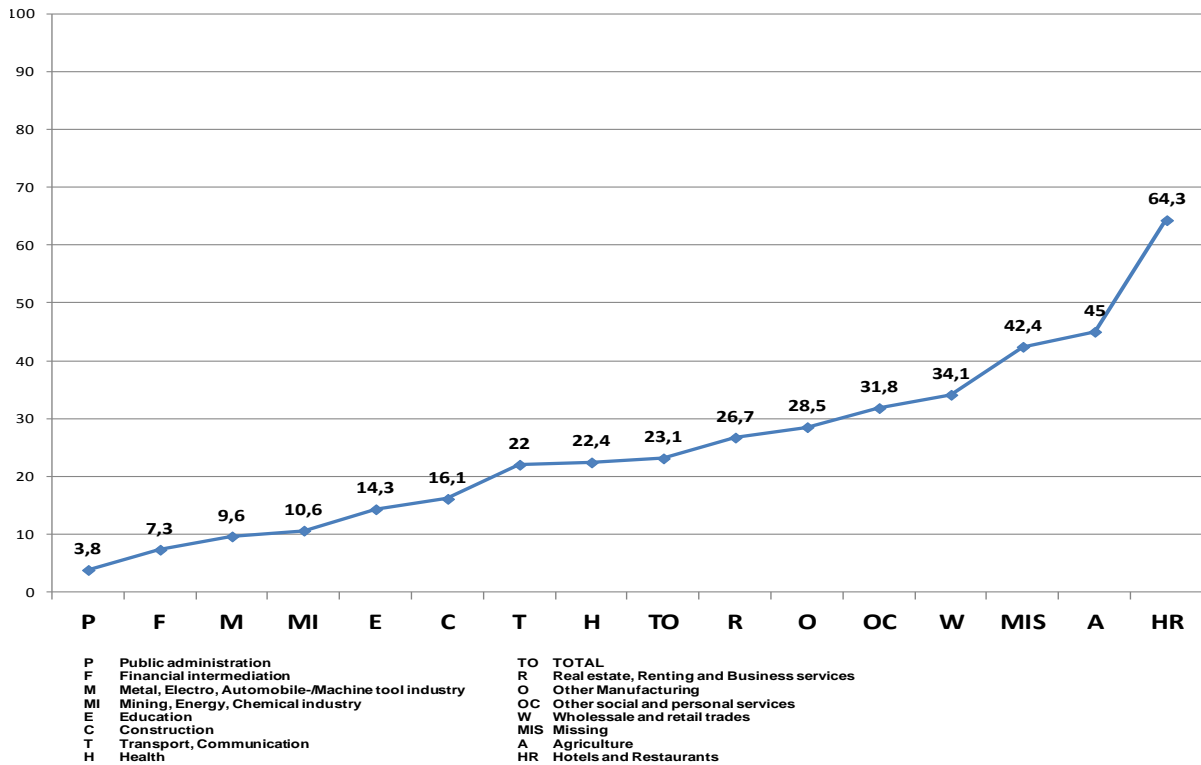


Figure 2: Incidence of low pay (less than two thirds of median wage) in various industries, 2010

Source: SOEP 2010, own calculations.

At the political level, there was strong resistance to a single statutory minimum wage. The SPD-Green coalition under Gerhard Schröder regarded the low level of wage differentiation in Germany as the most important cause of the very high level of unemployment that prevailed at the time. By cutting support for the unemployed and deregulating temporary agency work and mini-jobs, the so-called Hartz Acts, which came into force in 2003, were intended to push pay at the lower end of the wage distribution further downwards.

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, although without stipulating a level. In view of the growing popularity of a minimum wage among the general population, including conservative voters, who had grown increasingly fearful of suffering pay cuts themselves as wages in many companies were falling, the CDU/CSU in the grand coalition with the SPD (2005-2008) agreed to the introduction of collectively agreed minimum wages in specific industries.

The instrument used for this purpose was the Posted Workers Act of 1996. It was on the basis of this legislation, itself based on the European Posted Workers Directive, that minimum wages for workers seconded from other countries had been agreed, primarily in the construction industry, in order to protect national collective agreements. For want of a German legal tradition on the introduction of minimum wages, this legislation, introduced in order to protect national collective agreed rates of pay against international competition, was diverted, so to speak, from its original purpose in 2007 and used as a 'reform workshop' (Däubler 2012: 508f) in which the instrument for regulating domestic wage competition in certain industries was developed. For reasons of European law⁴, the basic precondition was a national collective agreement on an industry-wide minimum wage, which would then be declared generally binding by the Federal government. The legislation provides for minimum wages that can be differentiated by skill levels but not for the extension of the entire wage grid to all employees, including posted workers, as the corresponding legislation in France, Belgium and the Netherlands does.

⁴ Industry-specific minimum wages can be extended to foreign contract workers only if they apply to all nationals employed in the industry in question.

The hopes that the parties to collective bargaining would negotiate acceptable minimum wages in all low-wage sectors under their own steam, so to speak, 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, painting and decorating, roofing and the electrical trade) could these conditions be met without institutional reform. Consequently, these industries were among the first in which industry-wide minimum wages were agreed. However, other industries were dominated by regional collective bargaining or there were competing collective agreements. In these cases (e.g. cleaning and industrial laundries), the social partners had to centralise their negotiations or, when there were competing agreements, agree, as members of a collective bargaining union, on an industry-wide wage floor (care work, waste management).

The conservative-liberal coalition (2009-2013) 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 generally binding were delayed a number of times. This negative attitude had its roots in fears of serious job losses, and indeed the politicians' anxieties were supported by numerous model estimations supplied by German economists.

Although most of the recent international empirical research on minimum wages had been unable to identify any negative employment effects, apocalyptic warnings of the dramatic job losses that would inevitably accompany the introduction of a statutory minimum wage emanated at regular intervals from the German business world. The estimates of the numbers of jobs that would be lost ranged from 4 million to 100,000 and were prominently published in the press over the years. Thus, for example, the presidents and directors of the major publicly funded economic research institutes wrote in a joint appeal on 12 March 2008 (Blum et al. 2008):

‘Either way – the minimum wage will lead to considerable job losses. In the Western part of our country these job losses will be considerable. In the East they will assume shattering proportions.’

Meanwhile, the imminent financial crisis, about which warnings really should have been issued, was not foreseen.

In 2010, the labour ministries in the conservative-liberal coalition had eight industry minimum wages evaluated by research teams from different institutes, with the aim of bringing the debate on to a more objective level. In seven of these eight studies, the employment effects were estimated using difference-in-differences methods. With these eight evaluation studies, the majority of German economists met their Waterloo. All of them, including all the control group estimates, came to the conclusion that the industry-level minimum wages, some of which were relatively high, had had no negative employment effects (Möller 2012; Bosch/Weinkopf 2012). On the basis of this new evidence, the labour minister and then the Chancellor herself declared themselves in favour of further minimum wages at industry level.

However, industry-specific minimum wages could not reduce the share of low-wage workers in the economy as a whole. In the sectors with the most low-wage workers, such as retailing, catering or the meat processing industry, the employers and their associations were so fragmented or at odds with each other that no minimum wage agreements ever materialised. This situation was further compounded by the negative attitude of the Confederation of German Employers' Associations (*BDA*), whose representatives on the national collective bargaining committee that decides on applications to the government for declarations of general enforceability repeatedly overturned agreements that had been reached at industry level because the agreed minimum wages seemed to them too high. On several occasions, the

BDA, which in the old German corporatist system had actively obliged its members to adhere to collectively agreed standards, intervened in industry agreements that had already been concluded with the aim of reducing the minimum wages.

Since the industry-level minimum wages materialised only 'in dribs and drabs', despite constant public avowals from the employers' associations and the policy on free collective bargaining, the demand for a statutory minimum wage became a key issue in the general election campaign, principally as a result of pressure from the unions. At the end of 2013, the SPD made its entry into another 'great coalition' with the CDU/CSU dependent on the introduction of a statutory minimum wage set at 8.50 euros per hour, 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.

5. The 2014 Act on the Strengthening of Free Collective Bargaining

The trade unions were involved in the preparations for the coalition negotiations alongside the SPD and influenced the design of the minimum wage. They wanted to ensure, firstly, that increases in the minimum wage were decided by the social partners and, secondly, that the introduction of the minimum wage was closely linked to a strengthening of free collective bargaining. Since the conservatives and the employers' associations were also interested in ensuring that the new, as yet unloved instrument maintained path dependency as far as possible, the unions were able to achieve most of their objectives.

The new Minimum Wage Act became part of a more extensive legislative package bearing the programmatic title of 'Act on the Strengthening of Free Collective Bargaining'. In pursuance of the new act, industry-level minimum wages can now be agreed in all industries. Additionally, declarations of general enforceability are no

longer dependent on the industry in question having a rate of coverage by collective agreement of at least 50%. Rather, collective agreements can now be declared generally binding if there is a 'public interest' in the 'maintenance of collectively agreed standards in the event of adverse economic developments'. The introduction of the minimum wage rendered the Minimum Working Conditions Act redundant and it was abolished.

The new minimum wage of 8.50 euros per hour was introduced. It applies to all employees except trainees, the long-term unemployed for the first six months after their return to employment, employees under the age of 18, placements for students or trainees of up to three months and – in response to massive pressure from the press – newspaper deliverers until the end of 2016. Furthermore, derogations from the minimum wage will be permissible up to the end of 2016, provided they are incorporated into national collective agreements that have been declared generally binding.

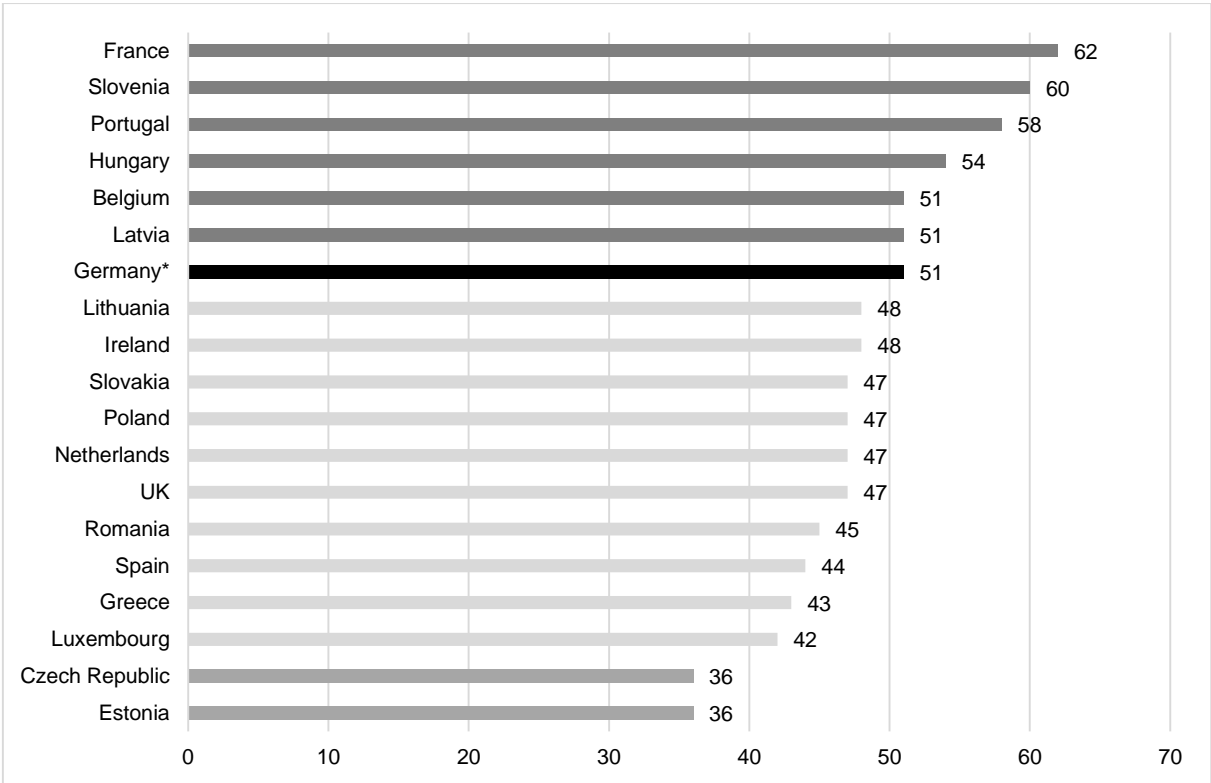
The Minimum Wage Act provides for the establishment of a minimum wage commission. In contrast to the UK model, however, the three representatives of the social partners will be appointed by their respective organisations and not selected as individuals by the government. The two academic members of the commission will also be proposed by the social partners but, unlike their UK counterparts, will not have voting rights. The government will appoint an independent chair proposed by the social partners. In the government's bill, the value of the minimum wage was originally to be frozen until the end of 2017. In order to prevent the minimum wage rising too sharply in 2018 after three years of stagnation, a joint initiative from the trade unions and the employers' associations ensured that the date for the first increase was brought forward to 1.1.2017. The commission will submit a proposed

increase to the government, which can then implement it by statutory order. As jointly proposed by the social partners, the benchmark for any increase in the minimum wage will be the increases in collectively agreed rates of pay, in order to make it clear that it is collective bargaining that sets the pace for increases in the minimum wage. The social partners adopted this approach also in order to avoid energy-sapping disputes and votes, in which the chair ultimately casts the deciding vote. The commission will also keep the minimum wage under continuous review and submit a biennial report to the government. The commission will have a staffed office to support its work.

The regulations on monitoring constitute an important part of the Minimum Wage Act. As the monitoring agency, the Federal Customs Service can have sight of all relevant documents. In certain industries with high shares of illegal practices, such as the construction and meat processing industries or catering, working hours with start and finish times have to be recorded and the records kept for two years. This applies in particular to mini-jobs, which account for 68.6 % (2012) of all low-wage work, the highest share of any employment form (Kalina/Weinkopf 2014). If, in the event of infringements, subcontractors cannot be held liable, the main contractor will be deemed legally responsible. Fines of up to 500,000 euros can be imposed. Companies that are fined more than 250,000 euros may be temporarily excluded from public contracts. A total of 1600 new customs officers are to be recruited by 2019 to carry out monitoring duties; the full monitoring capacities will not therefore be available for a number of years. Following the UK model, the Federal Ministry of Labour has set up a hotline for employees and employers that will provide information on wage entitlements. The Confederation of German Trade Unions (DGB) is also funding a temporary hotline that will provide support as the minimum wage is being implemented.

6. Implementation and effects of the new minimum wage

With a relative value of 51% on the Kaitz Index – with reference to earnings in 2012 – the German minimum wage is in the upper middle section of the European rankings (Figure 3). However, taking into account general wage increases up to 2015, the actual Kaitz Index value for the German minimum wage will be below 50% and because of the freeze it will have sunk further by the end of 2016.



* Level of minimum wage from January 2015

Figure 3: The relative value of national minimum wages in the EU, 2012

Source: Own representation after Schulten (2014: 135).

Although the Kaitz Index value is not noticeably high, the new minimum wage’s ‘bite’ will be considerably stronger than in most other European countries because of the sharp downward extension of the wage spread. According to our calculations, some 6.6 million employees (19.2%) were paid less than 8.50 euros per hour in 2012 (Kalina/Weinkopf 2014). This figure may have fallen as a result of general wage

increases, pull-forward effects, legal exceptions (e.g. the long-term unemployed) and collectively agreed transitional arrangements. A structural analysis of the employees paid an hourly wage of less than 8.50 euros (Kalina/Weinkopf 2014) shows that precarious employees, low-skill workers, young workers, women, foreigners and employees in small and medium-sized firms will benefit to a greater than average extent from the minimum wage.

One peculiarity of the German low-wage sector is that, although low-skill workers are indeed particularly likely to earn less than 8.50 euros per hour, they represent only a minority of those entitled to the minimum wage. More than three quarters (75.5%) of the workers earning less than 8.50 euros per hour in Germany have a vocational qualification or even a university degree (Kalina/Weinkopf 2014). It can be assumed that many of the workers with qualifications in the German low-wage sector are paid significantly below their productivity level. Moreover, such a favourable qualification structure gives firms many more opportunities to increase efficiency than in the USA, so that the cost increases occasioned by the introduction of the minimum wage can be more easily absorbed.

A second peculiarity is the considerable differences in pay between East and West Germany. The minimum wage will have a particularly strong effect in East Germany, where wages are still considerably lower than in West Germany even 25 years after reunification and despite an adjustment at the bottom end (Figure 4).

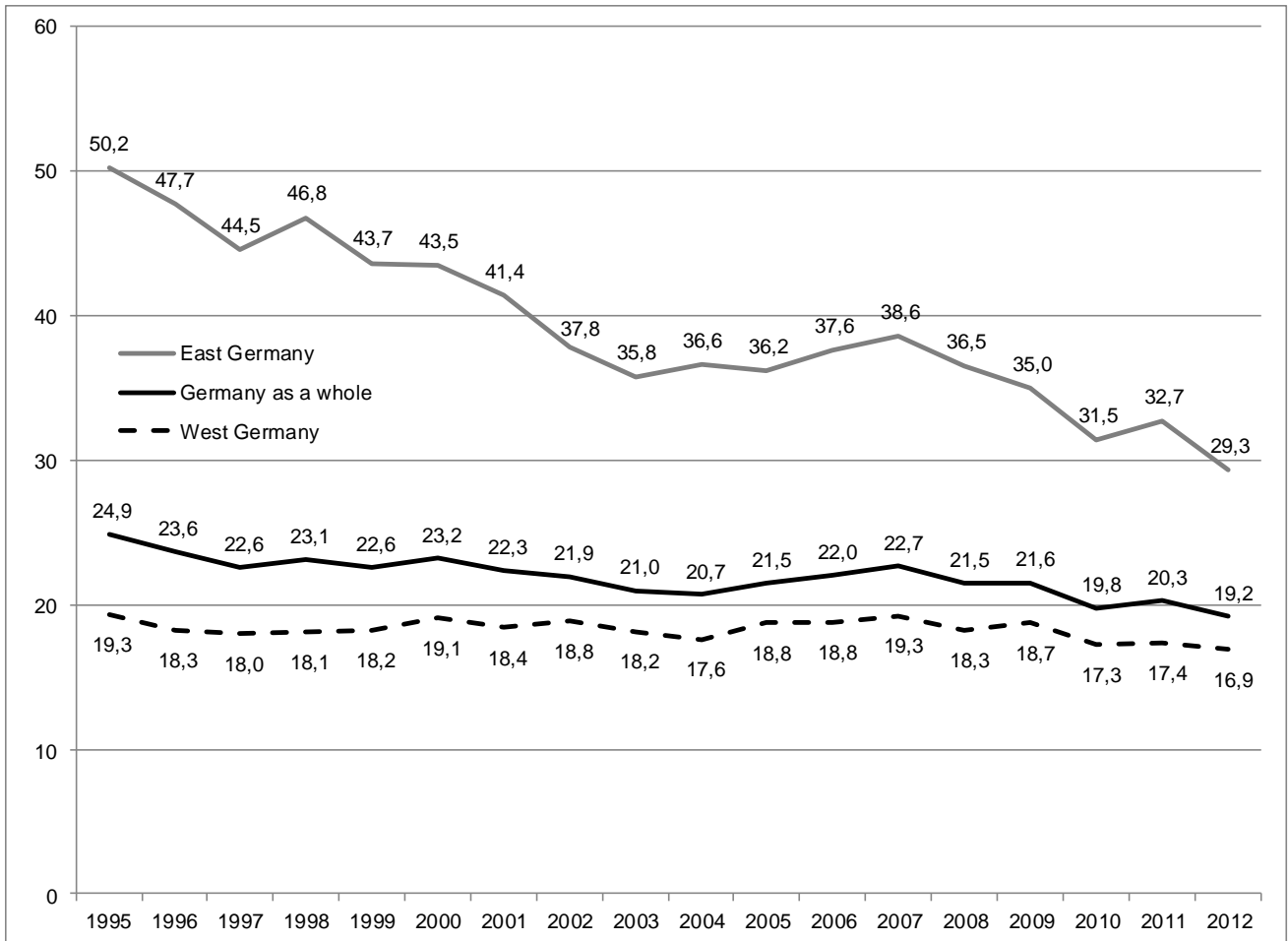


Figure 4: Share of employees earning less than 8.50 euros per hour in East and West Germany, 1995-2012

Source: Kalina/Weinkopf 2014 (SOEP v29, calculations by IAQ).

The particular situation in East Germany was also the reason why the minimum wage was frozen until the end of 2016 and derogations were permitted in collective agreements. In some sectors (temporary agency work, meat processing, hairdressing and agriculture, forestry and horticulture) transitional rates were negotiated, with low minimum wages, particularly in East Germany (Table 2). It remains to be seen whether these agreements will lead to a lasting revitalisation of collective bargaining in the industries in question. Since the trade unions were no longer under pressure to negotiate because of the imminent introduction of the minimum wage, they assented to such agreements only in order to revitalise collective bargaining and on condition

that the 8.50 euro threshold was exceeded before the end of 2016. In large low-wage industries, such as the hotel and catering trade, the employers were unable to agree on a negotiating offer that was attractive to the trade unions.

Table 2: Statutory agreed industry-specific minimum wages in Germany, January 2015 (in euros per hour)

Industry	Employee category	West	East	Introduction
Waste management		8.86		1/2010
Main construction industry ⁵	Machine operators	11.15	10.75	1/1997
	Skilled labourers	14.20	-	
Specialized mining	Minimum wage I	11.92		10/2009
	Minimum wage II (Skilled worker)	13.24		
Vocational education and further training	Teaching staff	13.35	12.50	8/2012
Roofing trade		11.85		10/1997
Electrical trade (collective agreement)	Fitter	10.10	9.35	6/1997
Industrial cleaning	Indoor cleaning	9.55	8.50	7/2007
	Glass and façade cleaning	12.65	10.63	
Meat processing		8.00 (from 10/2015: 8.60)		8/2014
Hairdressing (collective agreement)		8.00	7.50	11/2013
		(from 8/2015: 8.50)		
Scaffolding		10.25 (from 5/2015: 10.50)		8/2013
Agriculture, forestry and horticulture		7.40 (from 1/2016: 8.00)	7.20 (from 1/2016: 7.90)	1/2015
Temporary agency work		8.50 (from 4/2015: 8.80, from 6/2016: 9.00)	7.86 (from 4/2015: 8.20, from 6/2016: 8.50)	1/2012
Painters and varnishers	Unskilled	9.90 (from 5/2015: 10.00)		12/2003
	Journeymen/assistants	12.50 (from 5/2015: 12.80)	10.50 (from 5/2015: 10.90)	
Care work		9.40	8.65	8/2010
Stone masonry and carving		11.25	10.66	10/2013
Textiles and clothing		8.50	7.50 (from 1/2016: 8.25; from 11/2016: 8.75)	1/2015
Laundry services for commercial clients		8.50	8.00	10/2009
		from 7/2016: 8.75		
Chimney sweeps (collective agreement)		12.78		5/2014

Source: own compilation after BMAS 2015.

⁵ The current collective agreement in the main construction industry, which runs until the end of 2017, provides for a national lower minimum wage of 11.30 euros from the beginning of 2017.

The dominant issue at the beginning of 2015 is monitoring of the minimum wage. The employers' associations are up in arms against the obligation to record working times for mini-jobbers and in industries with high shares of illegal practices, which they have described as a 'bureaucratic nightmare'. In actual fact, such an obligation existed previously. Unlike in the UK, the German employers' associations have not yet made their peace with the minimum wage. They would like a 'minimum wage lite' and are doing what they can to torpedo its implementation.

7. Conclusions

By introducing a national statutory minimum wage, the German state has become a key actor not only in the setting but also, and particularly, in the implementation and monitoring of minimum wages. As a consequence, the German wage-setting system must now be regarded as a hybrid rather than an autonomous system. In the old system, the parties to collective bargaining not only set wage standards without state intervention but at the same time were responsible for ensuring compliance. In the new hybrid system, the state has delegated decisions on updating the national minimum wage to a minimum wage commission but has itself taken on the task of monitoring compliance. At the same time, it has opened up new opportunities for the social partners to use declarations of general enforceability to stabilise collectively agreed wages above the minima.

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 is one of the greatest social reforms of the post-war period. The German minimum wage's 'bite' will be strong. In some cases, it will lead to significant wage rises in the bottom two deciles of the earnings distribution and to a narrowing of the gender pay gap in East and West Germany. The risk to jobs is low, since a cautious approach has been

adopted in setting the level of the new minimum wage. Furthermore, because of its strong 'bite' in East Germany, it has been frozen until 2016 and the social partners have been granted the option of agreeing transitional arrangements in critical sectors, particularly in East Germany. And since three quarters of low-wage workers in Germany have qualifications, there are opportunities for firms to increase efficiency.

To what extent the new legislative package will, as intended, also lead to a revitalisation of collective bargaining and hence to ripple effects reaching into the middle of the earnings distribution is as yet unclear. Many of its effects will only manifest themselves with the passage of time or will not be observable until up-to-date data are available.

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