German women work less than French women

By Hélène Périvier and Gregory Verdugo

In terms of the employment rate, French women work less than German women: in 2017 the employment rate of women aged 15 to 64 was 67.2% in France against 75.2% in Germany. But this commonly used indicator does not take into account that to arrange their time German women are more likely to be in part-time work than French women. This is because underemployment and labour market regulations differ in the two countries, in particular as Germany has a plentiful supply of part-time mini-jobs that are held by women more than men. Moreover, the differences in terms of policies affecting the family life-work-life balance in the two countries make it possible to deal with early childhood more extensively in France than in Germany and lead German women to take up part-time work.

To compare the employment situation of women in France and Germany, we use indicators that take into account working time, which we calculate by age to illustrate a life cycle perspective [1]. The results confirm that German women are in part-time work more than their French counterparts, and this is particularly marked at the age of maternity. These differences in women's working hours explain why the gender pay gap is higher in Germany than in France.

Employment rate and employment rate in full-time equivalents by age

Comparing employment rates with employment rates in full-time equivalents over the life cycle highlights the significant differences between the two countries in terms of the reduction in women's working hours at the ages when the family constraint is the strongest, between 30 and 40 years old.

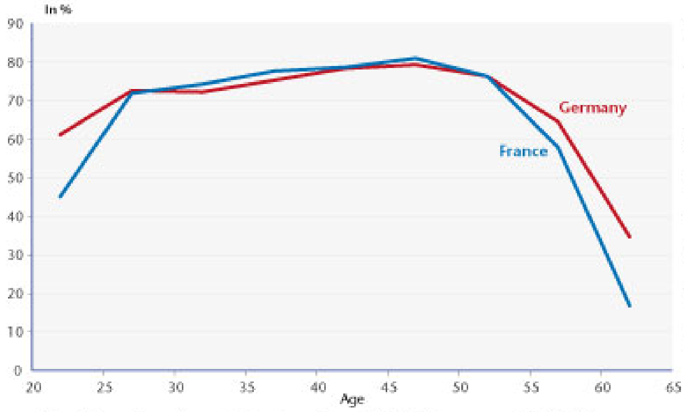
Figures 1A and 1B show employment rates and full-time equivalent employment rates by age for women in 2010, the moment when European countries were to have reached a female employment rate of 60% according to the Stratégie européenne de l'emploi (EES). Figures 2A and 2B show these same indicators for men.

If we restrict ourselves to employment rates, the models seem similar in the two countries: changes in the employment rates over the life cycle for women are quite similar, as is the case for men (with the exception of the ages of entering and leaving working life, which differ between the two countries for both sexes). In Germany as in France, women's employment rate is high, but the gap with men increases between age 30 and 40 (solid lines).

Once part-time work is taken into account, the gender division of labour turns out to be much more marked in Germany than in France (dashed lines) [2].

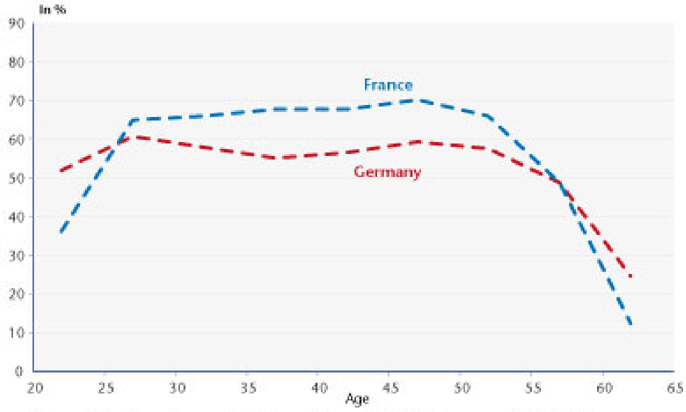
At all ages, the full-time equivalent employment rate for women is lower in Germany than in France (whereas for men it is close to the employment rate, for both countries). From the age of 30, the female full-time equivalent employment rate falls below 60% in Germany, while in France it is above 65%. This means that German women are adjusting their working time more as family constraints become stronger. For men, the full-time equivalent employment rates are close to the employment rates at all ages in both countries.

Figure 1a. Women's employment rate by age in Germany and in France, 2010



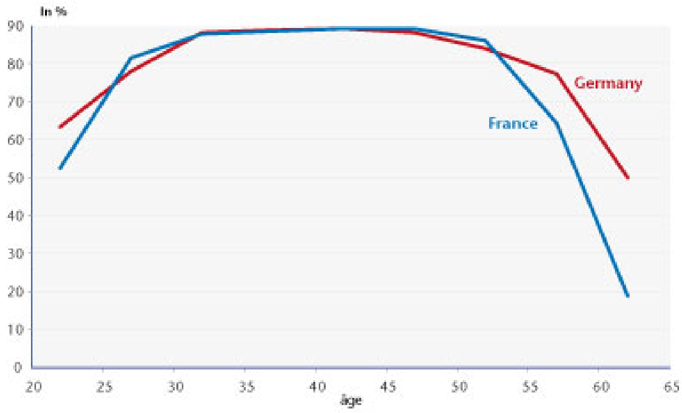
Lecture: Women's employment rate at age 42 was 78.3% in Germany and 78.7% in France.
Source: Labour force surveys, authors' calculations.

Figure 1b. Women's full-time equivalent employment rate by age in Germany and in France, 2010



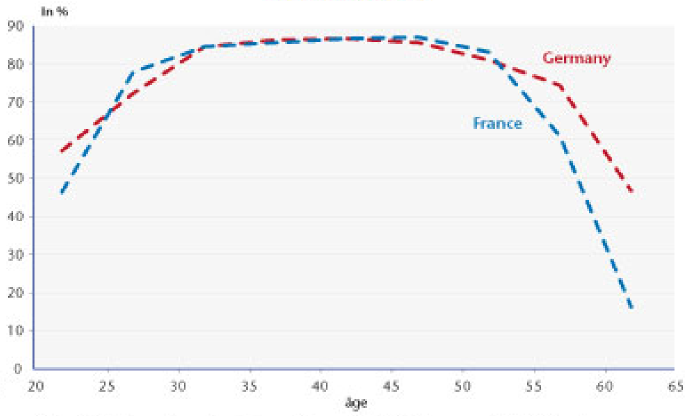
Lecture: Women's employment rate at age 42 was 56.6% in Germany and 67.7% in France.
Source: Labour force surveys, authors' calculations.

Figure 2a. Men's employment rate by age in Germany and in France, 2010



Lecture: Men's employment rate at age 42 was 89.3% in Germany and 89.3% in France..
Source: Labour force surveys, authors' calculations.

Figure 2b. Men's full-time equivalent employment rate by age in Germany and in France, 2010



Lecture: Men's employment rate at age 42 was 86.6% in Germany and 86.9% in France.
Source: Labour force surveys, authors' calculations.

The overall wage gap: the impact of working time

The massive use of part-time work by women in Germany compared to France explains a large part of the wage differentials, which are higher there. The global wage gap indicator calculated by Eurostat [3] shows that the overall wage gap is very high in Germany (45% compared to 31% in France), and that this is due mainly to differences in working time. On average German women work 122 hours a month against 144 for French women, with the average hourly wage rate being comparable (Table).

Table. Overall wage gap in 2014 in France and in Germany

	Average wage level		Average numberof paid hours per month		Employment rate in % (age 15-64)		Overall wage gap
	Men	Women	Men	Women	Men	Women	
France	18.8	15.9	154.0	140.0	67.3	60.4	31%
Germany	19.9	15.4	154.0	122.0	78.1	69.5	45%

Source : Eurostat, Structures of earnings survey (earn_ses_hourly) (earn_ses_monthly) (lfsa_ergaed) (tegges01).

Thus policies aimed at occupational equality cannot leave aside the issue of working time and the quality of the jobs held by women. It seems that from this point of view France is doing better than Germany, although much remains to be done in this area.

[1] This blog is taken from: « La stratégie de l'Union européenne pour promouvoir l'égalité professionnelle est-elle efficace ? », [Is the European Union's strategy for promoting occupational equality effective?], Périvier H. and G. Verdugo, *Revue de l'OFCE*, no. 158, 2018.

[2] Full-time equivalent employment rates were calculated from the European Labour Force Surveys. Each job is weighted by the number of hours worked. A full-time job is defined as a job where the number of hours worked is greater than or equal to 35. If the number of hours worked is between 25 and 34, we assign a weight of 75% of a full-time job, a weight of 50% if the number of hours is between 15 and 24, and a weight of 25% if the number of hours is less than 14 hours.

[3] The gap calculated by Eurostat corresponds to the average wage differential for the entire population.

The minimum wage: from labour costs to living standards. Comparing France, Germany and the UK

By Odile Chagny, IRES, Sabine Le Bayon, Catherine Mathieu, Henri Sterdyniak, OFCE

Most developed countries now have a minimum wage, including 22 of the 28 EU countries. France has long stood out for its relatively high minimum wage, the SMIC. But in 1999, the United Kingdom introduced a minimum wage, and the British government's goal is to raise this level to 60% of the median wage by 2020, which would bring it to the level of France's SMIC and among the highest-ranking countries in the OECD. More recently, in 2015, Germany also introduced a minimum wage.

Note that gross pay is a legal concept. What matters from an economic point of view is the cost of labour for a firm as well as the disposable income (including benefits and taxes) of a household in which employees earn the minimum wage.

In OFCE Policy Brief no. 34 we present a comparison of the minimum wages in force in 2017 in these three countries, using standard cases, from the viewpoint first of the cost of labour and then with respect to employees' standard of living.

It appears that the cost of labour is slightly higher in Germany than in France, and much more so than in the United Kingdom, and that the reforms announced in France for 2019 (reducing contributions) will strengthen France's competitive advantage vis-à-vis Germany. The cost of labour at the minimum wage is therefore not particularly high in France (Table).

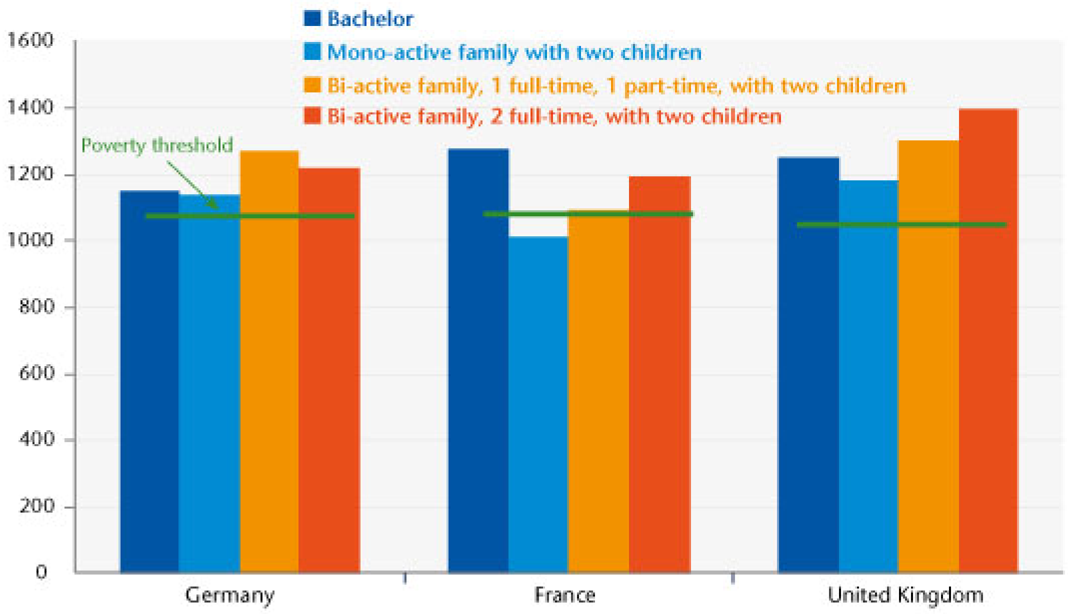
Table. Labour cost, gross wages and net wages for an employee paid at the statutory minimum wage in force in April 2017

	Germany	France	United Kingdom
Hourly labour cost	10.84 €	10.68 €	9.26 €
Employer SC rate	22.7 %	9.4 %	5.54 %
Gross hourly wage	8.84 €	9.76 €	8.77 €
Employee SC rate	20.8 %	23.3 %*	4.82 %
Net hourly wage	7.01 €	7.49 €	8.35 €
Net wage / labour cost	64.7 %	70.1 %	90.2 %
Net hourly wage (PPA)	7.31 €	7.49 €	7.82 €

(SC = social charges).
Source: Authors' calculations.

With regard to disposable income, a comparison of different arrangements for working time and family situations highlights different logics in the three countries. In Germany, the underlying rationale is to protect families from poverty, regardless of the parents' working situation. In France, in contrast, a family with two children has to have two people working full-time at the SMIC to escape poverty, as the tax-benefit system seeks to encourage women's integration into the labour market. France is thus the only one of the three countries where a mono-active family with two children, one of whose parents works full-time at the minimum wage, falls below the monetary poverty line (Figure).

Figure. Living standard of a bachelor and of a couple with two children aged 7 and 9 (mono-active or bi-active), in current euros, per month, in April 2017



Source: Authors' calculations.

From the point of view of the relative position of minimum wage earners in relation to the general population, our study highlights the rather favourable situation of the United Kingdom. The living standard there is comparatively high: all the families considered in our typical cases have a standard of living above the poverty line, on the order of 30% higher for a family where both parents work full-time at the minimum wage. The gain from taking up a job is, as in France, high, while it is low in Germany in all the configurations.

Finally, our analysis is contributing to the debate about the establishment of a Europe-wide minimum wage. A policy to harmonize the minimum wage in Europe, as this is conceived by the European Federation of Trade Unions and supported by France, cannot be thought of solely in terms of labour income, but also needs to take into account the goals targeted in terms of living standards, especially for families.

What is the initial assessment of Germany's minimum wage?

By Odile Chagny (IRES) and Sabine Le Bayon

A year and a half after introducing a statutory minimum wage, the German Commission in charge of adjusting it every two years decided on 28 June to raise it by 4%. On 1 January 2017, the minimum will thus rise from 8.50 to 8.84 euros per hour. This note offers an initial assessment of the implementation of the minimum wage in Germany. We point out that the minimum wage has had some of the positive effects that were expected, helping to reduce wage disparities between the old Länder (former West Germany) and the new Länder (former East Germany), and between more skilled and less skilled workers. By establishing recognition of the wage value of Germany's "mini-jobs", the minimum wage has made these marginal forms of employment less attractive for employers, representing a major rupture for the welfare state. But the minimum wage has also had some less fortunate results. Due probably to the flattening of pay scales at the minimum wage level, certain categories of employees in former West Germany seem to have suffered from the wage restraint that was imposed on them just before the introduction of the minimum wage, as companies limited the impact of the minimum wage on their total salary costs.

Unlike in France, there are no rules requiring an automatic annual revision of the minimum wage in Germany. It is adjusted only every two years upon a decision by the Commission. The decision taken on 28 June 2016 will take effect on 1 January

2017. There will then not be another revision until 2019, based on a decision taken in June 2018.

At first glance, the revaluation is fairly significant (+4% on 1 January 2017, i.e. a 2% annual rate) when compared to recent revisions of the minimum wage in France, where the SMIC, as it is called, rose by 1% per year over the last four years. This is due to the fact that, in accordance with the law establishing the minimum wage, the revaluation that takes place in Germany is made in light of increases concluded under collective bargaining agreements[1], thereby ensuring equivalent gains in purchasing power for all employees covered by a collective agreement. Since increases in negotiated wages have been relatively high since 2012 (+2.7% annual rate for the basic hourly wage index negotiated between 2011 and 2015, against +1.6% for the basic monthly wage in France over this same period), this automatically affects the minimum wage[2].

However, the level of the minimum wage is low and it is likely to remain so. It is much lower than the current level in France (9.67 euros since January 2016). According to the national accounts, this represented 34% of the average wage in 2015 (47% in France) and 48% of the median wage of full-time employees in 2014 (61% in France), which puts Germany in the lower range among the major European economies[3].

Nevertheless, even though set at a relatively low level, much was expected of the minimum wage's ability to correct the very sharp wage segmentation in Germany[4], which points to the need to pay particular attention to the categories of employees who benefited from it.

Between 4 and 5.8 million employees were potentially affected by the introduction of the minimum wage in 2015

Somewhat paradoxically, it is difficult to get a clear picture of the actual number of employees who received less than 8.50 euros at the time the minimum wage was introduced. The most recent estimates vary between 4 million according to Destatis and a range of 4.8 to 5.4 million according to the WSI Institute (between 10% and 16% of the total workforce)[5]. This is because the law establishing the minimum wage left some uncertainty about its practical application. For instance, the law stipulates that the minimum wage of 8.5 euros per hour applies while taking into account the actual working time (knowing that there is no statutory work week in Germany), and it gives no precise definition of the pay elements to be taken into account (year-end bonuses, 13th month bonus, miscellaneous bonuses). On this point, following an employee’s complaint, on 25 May 2016 Germany’s Federal Labour Court ruled that a bonus previously paid once a year can be included in the calculation of the minimum wage when it is henceforth paid fractionally each month and this has been approved by a company agreement. This automatically leads to decreasing the number of potential beneficiaries.

While calculating the number of people receiving less than 8.50 euros is tricky, there is nevertheless relatively good agreement on estimates indicating that employees holding mini-jobs and employees in the new Länder just prior to the introduction of the minimum wage were the main ones affected. Thus, according to Destatis, 55% of the employees concerned were “mini-jobbers”, mainly in western Germany where they are the most numerous. In eastern Germany, the proportion of people earning less than 8.50 euros was twice as high as in western Germany (just over 20% of employees, around 10% in the old Länder). Not surprisingly, more than 80% of those working for less than 8.50 euros were in companies not covered by collective bargaining agreements, with twice as many women as men. Finally, catering and retail were the trades most affected, as approximately 50% and 30% of their employees earned less than 8.50 euros, according to the WSI in 2014.

1.9 million people were on the minimum wage in April 2015 according to Destatis

The minimum wage has partly fulfilled its mission by ensuring a “decent” wage for society’s most vulnerable people. If we stick to the Destatis estimate, while 4 million people received a wage of less than 8.50 euros in April 2014, “only” 1 million were in this situation a year later. Moreover, among the 1.9 million employees earning 8.5 euros in April 2015, the great majority of whom were undoubtedly earning less before the entry into force of the minimum wage, 91% worked in companies not covered by a collective agreement and 56% held mini-jobs.

A significant increase in wages in the new Länder and for mini-jobs

It is obviously too early to have microeconomic surveys with accurate information about changes in the salaries of those affected by the introduction of the minimum wage, so the main source used is the quarterly wage survey [6], which provides data on different job categories (conventional jobs, i.e. subject to social security contributions, and mini-jobs) and skills levels.

Based on this survey, it is clear that the implementation of the minimum wage undoubtedly led to raising the monthly wages of certain categories of employees in 2015: for conventional jobs [7] in the new Länder and for mini-jobs in western Germany (Table 1).

Hourly wages in eastern Germany rose especially quickly in 2015 for unskilled (+8.6%) and semi-skilled employees (+5.8%) compared to those with average qualifications (+4%), helping to reduce wage inequality in these German states. However, no such trend could be seen in western Germany regardless of the skills level.

Table 1. Changes in gross total monthly wages (incl. Bonuses)

	Conventional jobs (full time and part time)		Mini-jobs	
	Ex-West Ger.	Ex-East Ger.	Ex-West Ger.	Ex-East Ger.
2011	3.1	2.3	1.8	7.6
2012	2.5	1.0	1.0	7.2
2013	1.0	1.7	5.6*	4.2
2014	1.5	1.9	1.4	6.7
2015	1.6	3.4	3.2	5.7

* This increase is due to the revision of the monthly cap on pay for mini-jobs from 400 to 450 euros.
Source: Destatis, Quarterly wage survey; authors' calculations.

Questioning the logic of mini-jobs

Given that 60% of employees holding mini-jobs received less than 8.5 euros per hour in 2014, one would expect a more marked acceleration of average earnings in this category of employees. The most likely reason why this was not the case is that the implementation of the minimum wage has de facto made these jobs less attractive for employers and led to a reduction in those workforce numbers and probably in the hours worked.

While mini-jobs are characterized by an absence of employee social security contributions and the acquisition of fewer employee rights, they are nonetheless subject to higher levies paid by employers (mainly social contributions and flat-rate tax on income) than in the case of a conventional job. As a result, the attraction for employers prior to the introduction of the minimum wage was due mainly to the flexibility offered by this type of employment as well as to the possibility of low hourly wages[8], as there was no limitation on working hours (the only constraint being the monthly ceiling of 450 euros).

However, by including mini-jobs within the coverage of the minimum wage, the law has made them much less financially attractive to employers because their hourly cost now exceeds that of a conventional job, including a midi-job[9] (see Table

2), with the number of hours implicitly capped (at 12 hours per week given the monthly ceiling of 450 euros).[10]

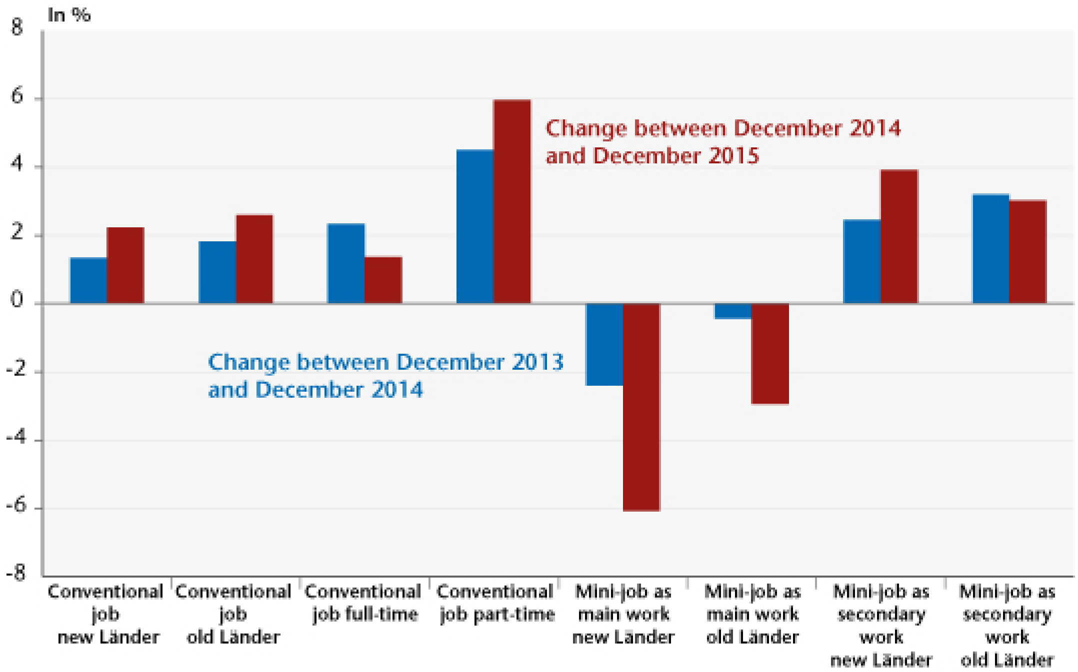
We therefore expect a reduction in the number of these jobs through simple destruction or reclassification as conventional jobs [11]. There has in fact been a sharp decrease in the number of mini-jobs since the beginning of 2015, especially mini-jobs that are the worker’s main activity, and an acceleration in the creation of conventional part-time jobs (graphic). The conversion into conventional jobs seems clear in the hotel, catering and retail trades, where mini-jobs had been prevalent and where conventional job creation has been particularly important. But although the conversion of mini-jobs into conventional jobs has been relatively high, it has not been massive, which is probably due both to a reduction in the actual hours worked so as to stay under the ceiling for mini-jobs (which for the employee has reduced the impact of a higher hourly wage) and to incorrect documentation of working time by the employer, with an underestimation of the hours worked[12]. The assurance that the legal conditions governing these jobs will be applied is even less certain given that the employee too may have a financial interest in non-compliance with the minimum wage, by accepting an underestimation of the number of hours so that their monthly wage remains below the 450 euro ceiling. The employee thus receives a net wage equal to the gross wage, which is not the case if the wage exceeds 450 euros and he occupies a midi-job, since the rate of the employee social contribution is then progressive and he becomes subject to conventional taxation (which depends on the employee’s family characteristics).

Table 2. Charges for a conventional job subject to social contributions and a mini-job before and after the introduction of the minimum wage

	Before the introduction of the minimum wage, a low wage cost for a mini-job enabled the employer to limit the cost of labour	After the introduction of the minimum wage, the employer trades off between:	
		Maintaining the mini-job (higher employer cost)	Converting it to a conventional job(1) (same employer cost as previously)
Gross wage (€/hour)	7.8	8.5	8.5
Employer social contributions (€/hour)	2.3	2.6	1.6
Labour cost for the employer (€/hour)	10.2	11.1	10.1
Employee social contributions (€/hour)	0.0	0.0	1.7[2]
Net wage (€/hour)	7.8	8,5	6.8

(1) Cas e of a mini-job with a monthly salary of 451 euros, i.e. just above the ceiling for mini-jobs, for a working time of a little more than 12 hours . The employee social contributions are then 10.9%.
(2) Case of an employee with a child. Otherwise, the dependency contribution rate (taux de cotisation dependence) of an employee subject to social contributions is increased by 0.25%.
Mini-job :
Employer portion: 30% (= 13% health + 15% pension + 2% flat-rate income tax).
Conventional job, subject to social contributions:
Employer portion: 19.325% (=7.3% health + 9.3% pension + 1.5% unemployment + 1.175% dependence);
Employee portion: 20.425% (=8.4% health +9.35% pension + 1.5% unemployment + 1.175% dependence).
Source: German legislation.

Figure. Change in employment by categories, before and after the introduction of the minimum wage



Source: Job center.

In the spring of 2015, 1 million people were still being paid below the minimum wage

The magnitude of the workforce still earning less than 8.5 euros after the implementation of the minimum wage raises several questions. This could of course be explained by the implementation deadlines and by the fact that various exemptions are allowed (long-term unemployed for the first 6 months of employment, employees in sectors providing for a transitional adaptation period – newspaper delivery, temping, the meat industry, hairdressing, agriculture, textile, laundry).

But we could also consider the actual capacity to implement the minimum wage in the "grey areas" of the collective bargaining system[13]. Among these 1 million workers, almost 80% were employed in companies not covered by collective agreements and 47% held mini-jobs.

This highlights the importance of official controls to ensure compliance, especially as the methods of calculating the hourly wage as defined by law and jurisprudence are problematic[14]. Parliament has provided for a requirement to report working hours, but this does not apply to all employees. Of course, for all mini-jobs and for those below a certain salary threshold[15] in certain sectors particularly affected by illegal work (construction, catering, passenger transport, logistics, industrial cleaning, meat industry, etc.), the employer is now required to record the start and end of each work day and the duration of work and keep these documents for two years to avoid circumvention of the law through unpaid overtime. But there are not many inspections, and the frequency even fell by about one-third in 2015 from 2014, even as the number of people affected by the minimum wage exploded.

A fairly moderate impact on the average wage of conventional jobs

More unexpectedly, it seems that some companies anticipated the coming into force of the minimum wage by slowing increases in unskilled wages in the months preceding the law’s implementation (recall that parliamentary elections took place in October 2013, and the minimum wage took effect in January 2015). The year 2014 was indeed characterized by a sharp halt to wage hikes for less skilled workers, which occurred in both the old and new Länder, a phenomenon that cannot be explained by objective factors related to the economic situation. This means, surprisingly, that certain categories of employees would have received higher wage increases in the absence of the introduction of the minimum wage.

To assess this, we simulated the hourly wages in 2014 and 2015 for conventional jobs on the basis of the 2010-2013 trend (i.e. before the minimum wage was officially incorporated into the coalition agreement of autumn 2013), and we compared the wage observed at end 2015 with the one simulated by type of qualifications and Länder in order to see which employees were overall losers or winners (Table 3).

While in the new Länder on average all
categories of employees benefited from the implementation of the minimum wage, with a diffusion effect from the minimum wage on wages immediately above 8.50 euros (and a revaluation of all salary scales), it seems that in the old Länder the least skilled categories suffered from its introduction. In other words, those whose salary was slightly higher than the minimum wage before the law took effect would have enjoyed a higher hourly wage in early 2016 on the basis of past trends!

This braking effect is such that at the level of Germany as a whole, and given the weight of the old Länder in the workforce (81% of conventional waged jobs), the unskilled and semi-skilled have therefore generally suffered from the introduction of the minimum wage, a situation that is somewhat paradoxical and which most observers have failed to highlight, focusing instead on the analysis of developments following the minimum wage’s introduction.

Table 3. Difference between the gross hourly wage (excl. Bonuses) for conventional jobs recorded at end 2015 and wage simulated on the basis of the 2010-2013 trend 2010-2013[1]

	Total[2]	Managers	Experienced skilled	Skilled	Semi-skilled	Unskilled
Germany	0.8	0.9	1.4	0.1	-0.3	-1.1
New Länder	2.7	2.9	2.6	2.9	2.0	3.8
Old Länder	0.7	0.7	1.0	-0.4	-0.8	-1.9

1. The wage is simulated from Q1 2014 based on the trend observed between Q4 2010 and Q4 2013. The difference between the wage seen in the last quarter of 2015 and the wage simulated on the basis of the past trend is shown in this table.
2. The total is the weighted sum of the different skills categories, based on the 2013 workforce.
Source: Destatis (Quarterly wage survey); authors' calculations.

If the stated objective of the law introducing a minimum wage in Germany was indeed achieved, namely, to end a situation where a significant number of employees were on extremely low wages, there are 1 million people who have yet to benefit, i.e. a quarter of the workforce who were potentially concerned. There is also evidence that many companies anticipated the introduction of the minimum wage in the year before its introduction by making trade-offs in their wage policy in order to limit the impact on their costs. The result is that not all employees have been winners from the introduction of the minimum wage. What has taken place in Germany, especially in the old Länder, is a form of redistribution among unskilled workers between those who have benefited from the law [16] and those earning a little more than the minimum wage, who have experienced two years of wage restraint.

[1] For this initial reassessment, the Commission based itself on changes in the negotiated hourly wages (excluding bonuses) between December 2014 and June 2016, which was 4%, including the retroactive effect of the latest collective agreement signed for the civil service.

[2] Like employee purchasing power, inflation rates in France and Germany have been very similar over the same period: +1.1% annual rate over the period 2011-2015 in Germany, 0.9% in

France for the HICP.

[3] M. Amlinger, R. Bispinck and T. Schulten, 2016 : "The German Minimum Wage: experiences and perspectives after one year", *WSI Report* No. 28e, 1/2016.

[4] O. Chagny and F. Lainé 2015: "Comment se comparent les salaires entre la France et l'Allemagne?", Note d'analyse no. 33, *France Stratégie*.

[5] By removing the exceptions: trainees, apprentices and those under age 18.

[6] This was conducted among about 40,000 companies with more than 10 employees (5 in some sectors such as retail or catering to reflect the specific characteristics of these areas) in industry and the service sector.

[7] This observation holds whether one is interested in the total monthly pay (including bonuses) or the hourly wage excluding bonuses, with wage increases of respectively 3.4% and 4% in 2015.

[8] B. Lestrade, 2013: "Mini-jobs en Allemagne. Une forme de travail à temps partiel très répandue mais contestée", *Revue française des affaires sociales*, 2013/4.

[9] For these contracts, which pay between 450 and 850 euros, the contribution rate for the employer is that of a conventional job, while the contribution rate for employees is progressive, ranging from 10.9% to 20.425% based on the salary.

[10] Note that the average working time in 2008 for these jobs was 12.8 hours per week (D. Voss and C. Weinkopf, 2012, "Niedriglohnfalle Minijob", WSI Mitteilungen 1/2012).

[11] For a midi-job, if the employee works between 12 and 23 hours weekly, and in a conventional job more than 23 hours.

[12] The most common strategies for circumventing the law in terms of working time are: unpaid overtime, payment for a task without fixed working hours and poor calculation of the time worked (on-call time, etc.). For more, see T. Schulten, 2014, "Umsetzung und Kontrolle von Mindestlöhnen", *Arbeitspapiere* 49, GIB, November 2014.

[13] For more, see: "Allemagne. L'introduction d'un salaire minimum légal : genèse et portée d'une rupture majeure", O. Chagny and S. Le Bayon, *Chronique internationale de l'IRES*, no. 146, June 2014.

Wage moderation in Germany – at the origin of France's economic difficulties

By *Xavier Ragot, President of the OFCE, CNRS-PSE, together with Mathilde Le Moigne, ENS*

If the future of the euro zone does indeed depend on political cooperation between France and Germany, then economic divergences between the two countries should be a cause for concern. These divergences need to be analysed, with particular attention to three specific areas: the unemployment rate, the trade balance and the public debt. Germany's unemployment rate is falling steadily; in June it was under the 5% mark, which represents almost full employment, whereas the French rate is over 10%. Germany's low unemployment rate does not however reflect strong consumption by German households, but rather the country's export capacity. While

France continues to run a negative trade balance (importing more than it exports), Germany is now the world's leading exporter, ahead of China, with a trade surplus that will run close to 8% in 2015. As for the public deficit, it will be around 3.8% in France in 2015, while Germany is now generating a surplus. This has impressive consequences for the way the public debt is changing in the two countries. In 2010 they were similar, at around 80% of GDP, but in 2014 Germany's public debt fell below 75%, and is continuing to decline, while France's debt has continued to grow, and has now hit 97%. This kind of gap is unprecedented in recent times, and is fraught with mounting tension over the conduct of monetary policy.

This triple divergence is inevitably leading to differences in the political response, with respect to the population's ability to take in migrants and to the understanding of countries facing economic difficulties, such as Greece, but also with respect to the ability to cope with future economic crises. Economic divergence will become political divergence. The point is not to idealize the German situation, which is characterized by a large number of workers who have failed to benefit from the fruits of growth, as is shown in a recent study by France Stratégie, as well as by a rapid decline in population. This should not stop us from taking a hard look at the economic gap arising between the two countries.

What are the reasons for Germany's commercial success?

Many factors have been advanced to explain the divergence between the two neighbours: for some, it's a matter of the German strategy – outsourcing value chains, aggressive wage moderation, fostering competition between companies – and for others, French weaknesses: poor geographical and / or sectoral specialization, insufficient public support for exporters, and a lack of competition in certain sectors. Our recent study emphasizes the delayed impact of German wage moderation and suggests that this could explain almost half of the Franco-

German divergence. To understand the mechanisms involved, it is necessary to distinguish between the sectors exposed to international competition and the sectors that are sheltered. The exposed sectors include industry, but also agriculture, including animal husbandry, which is currently in the news, and some services that can be traded. The sheltered sector includes transportation, real estate, retailing and a large part of personal services.

While unit labour costs in France have risen regularly and at similar levels in the two above-mentioned sectors, they have remained extraordinarily stable in Germany for nearly ten years. This wage moderation is the result of both poor management of German reunification, which tipped the balance of power during wage negotiations in favour of employers, and, to a much less extent, the introduction of the Hartz reforms in 2003-2005, which aimed to create low-paid work in the less competitive sectors (particularly the sheltered sector). The cost of German reunification is estimated at 900 billion euros, in terms of transfers from former West Germany, or slightly less than three times the Greek debt. Faced with this kind of challenge, the wage moderation initiated in 1993 represented a strategy for re-convergence between the two parts of Germany. In 2012, German nominal wages were 20% lower than French wages in the exposed (tradable) sector and 30% lower in the sheltered sector, compared to the 1993 levels. A look at French and German margin levels shows that in the exposed sector, French exporters have made significant efforts by reducing their margins in order to maintain their price competitiveness. In the sheltered sector, French margins are on average 6% higher than German margins. The bulk of France’s loss of price competitiveness is therefore a loss of cost competitiveness.

How much have these differences contributed to unemployment and the trade balance in the two countries? Our quantitative analysis shows that if German wage restraint had not taken place between 1993 and 2012, today's 8% gap in the trade balances would instead be 4.7% (2.2% of this being due solely to German wage moderation in the sheltered sector). Thus, Germany's wage moderation policy explains almost 40% of the difference in trade performance between the two countries. We also found that this wage moderation accounts for more than 2 points of France's unemployment.

The non-price competitiveness gap

This leaves nearly 60% of the difference in the trade balances still needing to be explained. Our study suggests that this difference is due to the quality of the goods produced, so-called non-price competitiveness. Between 1993 and 2012, the German quality-price ratio increased by around 19% compared with that of France, which has therefore more than offset the rise in German export prices relative to French prices. There is clearly a "quality" effect in this non-price competitiveness: Germany produces "high end", more innovative goods than France does in the same sectors. It is also possible to see an impact due to the outsourcing of some German production (nearly 52% of production volume in 2012) to countries where costs are lower: Germany today is a centre for design and assembly, which saves money on its intermediary costs, enabling it to invest more in brand strategies and efforts to move upscale.

This effect is nevertheless probably endogenous, that is to say, it flows in part from Germany's advantage in cost competitiveness. Low labour costs have enabled German exporters to maintain their margins in the face of external competition. The funds generated have led to investments which French companies have probably had to forego in order to maintain their price-competitiveness, thus losing the opportunity to catch up with German products in terms of non-price competitiveness over the longer term.

A positive way out and up

The root cause of the gap in economic performance between Germany and France lies in the nominal divergence observed between the two countries since the early 1990s. One way to reduce these differences would be to promote convergence in wages in Europe and in its labour markets more generally. Germany would need to allow wage inflation that was higher than in the periphery countries, thereby dealing with the increase in social inequalities in Germany, while France must not fall into the trap of competitive deflation, which would destroy its domestic demand, while keeping wage movements under control. In this respect, the report of the five Presidents presented by the European Commission on 22 June 2015 proposes the establishment of national competitiveness authorities, which hopefully would allow greater cooperation on social welfare and employment.

The difference in wages between France and Germany has profound implications in terms of economic thought. The increased trade integration that followed the introduction of the euro led not to a convergence but to a divergence in labour markets. It is then up to each State to once again bring about convergence of the economies while supporting economic activity. This State intervention in the economy is more complex than the simple Keynesian framework for the management of aggregate demand, and now involves the convergence of labour markets. Heretofore, Europe’s response has been systematic cuts in labour costs, while what is really needed is to increase wages in surplus countries, such as Germany, for example by using the minimum wage as a tool. All this, it is true, is economics. The politics begins when we realize that only long-term cooperation can bring about a convergence in national interests.

Investment behaviour during the crisis: a comparative analysis of the main advanced economies

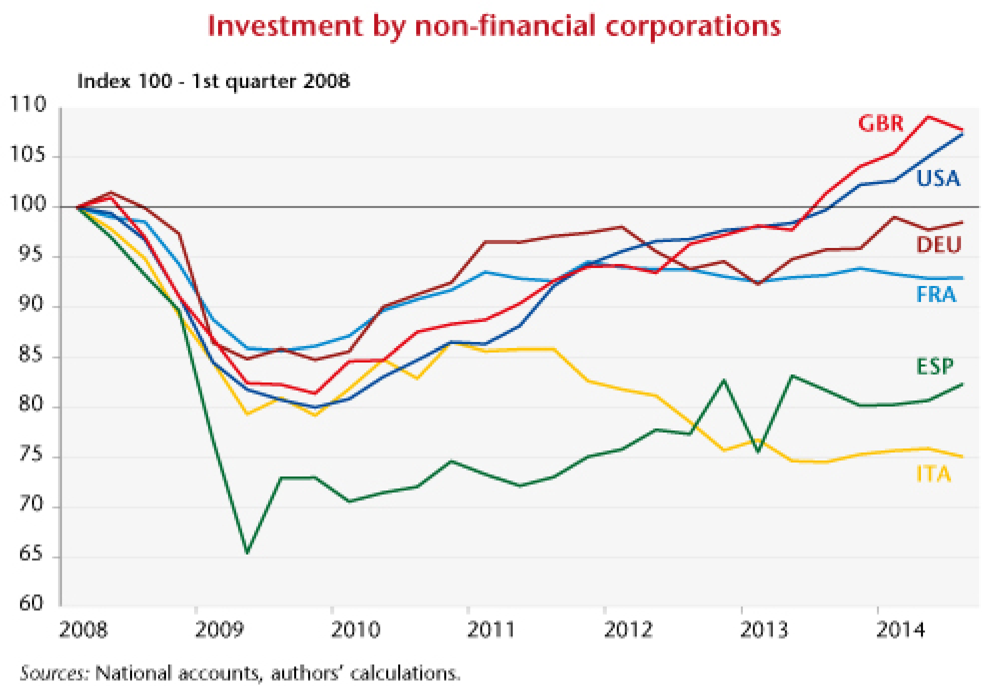
By Bruno Ducoudré, Mathieu Plane and Sébastien Villemot

This text draws on the special study, Équations d'investissement : une comparaison internationale dans la crise [Investment equations : an international comparison during the crisis], which accompanies the 2015-2016 Forecast for the euro zone and the rest of the world.

The collapse in growth following the subprime crisis in late 2008 resulted in a decline in corporate investment, the largest since World War II in the advanced economies. The stimulus packages and accommodative monetary policies implemented in 2009-2010 nevertheless managed to halt the collapse in demand, and corporate investment rebounded significantly in every country up to the end of 2011. But since 2011 investment has followed varied trajectories in the different countries, as can be seen in the differences between, on the one hand, the United States and the United Kingdom, and on the other the euro zone countries, Italy and Spain in particular. At end 2014, business investment was still 27% below its pre-crisis peak in Italy, 23% down in Spain, 7% in France and 3% in Germany. In the US and the UK, business investment was 7% and 5% higher than the pre-crisis peaks (Figure).

Our study estimates investment equations for six major countries (Germany, France, Italy, Spain, the UK and USA) in an effort to explain trends in investment over the long term, while paying particular attention to the crisis. The results show that using the traditional determinants of corporate investment – the cost of capital, the rate of profit, the rate of utilization of production capacity and business expectations – it is possible to capture the main developments in investment for each country in recent decades, including since 2008.

Thus, since the onset of the crisis, differences in decisions on taxation and on how tight to make fiscal policy and how expansive to make monetary policy have led to differences between countries in terms of the dynamics of the economy and real capital costs and profit rates, which account for the current disparities in corporate investment.



The erosion of France’s productive base: causes and remedies

Xavier Ragot, President of the OFCE and the CNRS

The deindustrialization of France, and more generally the difficulties facing sectors exposed to international competition, reflects trends that have been at work in France and in Europe for more than a decade. Indeed, while the strictly financial moment when the crisis struck in 2007 was the result of the bursting of the American real estate bubble, the scale of its impact on Europe’s economy cannot be understood without looking at vulnerabilities that have previously been neglected.

In “Érosion du tissu productif en France: Causes et remèdes”, *OFCE working document no. 2015-04*, Michel Aglietta and I offer a summary of both the microeconomic and macroeconomic factors behind this productive drift. Such a synthesis is essential. Before proposing any policy changes for France, it is necessary to make a coherent diagnosis of major trends in international trade as well as of the real situation of France’s productive fabric.

European divergences

The starting point is the surprising divergence seen in Europe. The euro zone’s two largest countries, Germany and France, have diverged in an unprecedented way since the mid-1990s. While property prices remained stable in Germany, in France they increased by a factor of 2.5, hitting the country with two negative consequences: a high cost of living for its employees, and a collapse in property investment by its businesses. Wages in Germany are now 20% lower than in France due to the wage moderation implemented to manage the former's reunification process. Furthermore, until the crisis, real short-term interest rates (which take into account inflation differentials) were about 1 percentage point lower in France and Spain than in Germany. This change in the price of the production factors (higher real interest rates and lower wages in Germany than in France) did not give rise to a greater substitution of capital for labour in France. There was little difference between the two countries in the investment rate, which was relatively stable in both. Other indicators, such as the number of robots, indicate on the contrary that there was less modernization of France's productive fabric. These changes in factor prices have not therefore translated into an adjustment in the productive fabric, but have instead led to an unsustainable divergence in the current accounts.

Current account balances are crucial concepts for measuring disequilibria within Europe. A positive current account means that a country is lending to the rest of the world, while a negative current account means that it is borrowing from the rest of the world. While European rules have focused attention on the public deficit alone, the proper measure of a country's indebtedness is the current account, the sum of public and private debt. On this measure, Germany's current account is one of the most positive in the world, meaning that it is lending heavily to other countries. While over the last three years the differences between European current accounts have been narrowing, this is the result more of a contraction in activity due to austerity measures than of a modernization of the productive base in countries with negative current accounts. The European framework for analysing macroeconomic imbalances does of course have numerous indicators, including the current account. However, in practice the multiplicity of indicators gives a crucial role to the numerical public deficit targets. So while the framework for European surveillance seems very general in its assessment of economic imbalances, it is the short-term budgetary aspect alone that dominates analysis. Don't forget that Spain's public debt was less than 40% of GDP in 2007, but over 90% of GDP in 2013. Low public debts are not therefore a sufficient condition for macroeconomic stability, just as public debts that are temporarily high are not necessarily a sign of structural problems.

The fragility of France's productive base

In this sense, corporate data can be used to gain insight into trends in the French economy. French companies did of course experience a fall in margins, but this has mainly affected sectors exposed to international competition. Corporate profitability (which finances the payment of dividends and interest and contributes to investment) fell from 6.2% in 2000 to less than 5% in 2012. Despite this decline, the investment rate held steady in all business categories during the period, in part funded by corporate savings, which declined from a rate of 16% in 2000 to 13% in 2012. The result has been a substantial rise in corporate debt, although up to now this has not led by higher debt costs due to the fall in interest rates. All these factors are inevitably fuelling concern about the health of our productive fabric: France's businesses have responded to economic difficulties, not by innovation, but by financializing their balance sheets and taking on debt.

Towards partnership in governance

To innovate, invest and upscale, France's companies must make efforts over the long term – this is the only way there will be a process of reconvergence in Europe. The point is not to maximize short-term financial returns, through for example excessive dividend payments, but rather to invest over horizons that are typically considered (too) long by companies. As a result, making improvements to France's productive fabric will require shifting corporate governance towards a model based on stronger partnerships and a more long-term vision in order to invest in employees' skills and qualifications, in intangible assets, and in new technologies. Social dialogue is not just about income distribution and tax reform but is also essential within companies in order to ensure the mobilization of our only productive wealth, men and women who are putting their all into their work.

Should Germany's surpluses be punished?

By Henri Sterdyniak

On the procedure for macroeconomic imbalances

Since 2012, every year the European Commission analyses the macroeconomic imbalances in Europe: in November, an alert mechanism sets out any imbalances, country by country. Countries with imbalances are then subjected to an in-depth review, leading to recommendations by the European Council based on Commission proposals. With respect to the euro zone countries, if the imbalances are considered excessive, the Member state is subject to a macroeconomic imbalance procedure (MIP) and must submit a plan for corrective action, which must be approved by the Council.

The alert mechanism is based on a scoreboard with five indicators of external imbalances [1] (current account balance, net international investment position, change in the real effective exchange rate, change in export market shares, change in nominal unit labour costs) and six indicators of internal imbalances (unemployment rate, change in housing prices, public debt, private debt, change in financial sector liabilities, credit flows to the private sector). An alert is issued when an indicator exceeds a certain threshold, *e.g.* 60%

of GDP for public debt, 10% for the unemployment rate, -4% (+6% respectively) for a current account deficit (respectively surplus).

On the one hand, this process draws lessons from the rise in imbalances recorded before the crisis. At the time of the Maastricht Treaty, the negotiators were convinced that economic imbalances could only come from the way the State behaved; it therefore sufficed to set limits on government deficits and debt. However, between 1999 and 2007, the euro zone saw a steep rise in imbalances due mainly to private behaviour: financial exuberance, securities and property bubbles, swollen foreign deficits in southern Europe, and a frantic search for competitiveness in Germany. These imbalances became intolerable after the financial crisis, requiring painful adjustments. The MIP is thus designed to prevent such mistakes from happening again.

On the other hand, the analysis and the recommendations are made on a purely national basis. The Commission does not propose a European strategy that would enable the countries to move towards full employment while reabsorbing intra-zone imbalances. It does not take into account inter-country interactions when it demands that each country improve its competitiveness while cutting its deficit. The Commission’s recommendations are a bit like the buzzing of a gadfly when it proclaims that Spain should reduce its unemployment, France should improve its competitiveness, etc. Its proposals are based on a myth: it is possible to implement policies on public deficit and debt reduction, on wage austerity and on private debt reduction, while offsetting their depressive impact on growth and employment through structural reforms, which are the *deus ex machina* of the fable. This year there is also, fortunately, the European Fund for strategic investments (the 315 billion euros of the Juncker plan), meaning that the Commission can claim to be giving “a coordinated boost to investment”, but this plan represents at most only 0.6% of GDP over 3 years; its actual magnitude is thus problematic.

For 2015, all the countries in the European Union have at least one imbalance according to the scoreboard [2] (see here). France has lost too much of its export market share and has an excessive public debt and private debt. Germany, too, has lost too much of its export market share, its public debt is excessive and above all its current account surplus is too high. Of the 19 countries in the euro zone, seven, however, have been absolved by the Commission and 12 are subject to an in-depth review, to be published in late February. Let's take a closer look at the German case.

On Germany's surplus

A single currency means that the economic situation and policies of each country can have consequences for its partners. A country that has excessive demand (due to its fiscal policy or to financial exuberance that leads to an excess of private credit) and is experiencing inflation (which can lead to a rise in the ECB's interest rate), thereby widening the euro zone's deficit (which may contribute to a fall in the euro), requires its partners to refinance it more or less automatically (in particular via TARGET2, the system of automatic transfers between the central banks of the euro zone); its debt can thus become a problem.

This leads to two observations:

1. Larger countries can have a more harmful impact on the zone as a whole, but they are also better able to withstand the pressures of the Commission and its partners.

2. The harm has to be real. Thus, a country that has a large public deficit will not harm its partners, on the contrary, if the deficit makes up for a shortfall in its private demand.

Imagine that a euro zone country (say, Germany) set out to boost its competitiveness by freezing its wages or ensuring that they rise much more slowly than labour productivity; it would gain market share, enabling it to boost its growth through its trade balance while reining in domestic demand, to the detriment of its euro zone partners. The partners would see their competitiveness deteriorate, their external deficits widen, and their GDP shrink. They would then have to choose between two strategies: either to imitate Germany, which would plunge Europe into a depression through a lack of demand; or to prop up demand, which would lead to a large external deficit. The more a country manages to hold down its wages, the more it would seem to be a winner. Thus, a country running a surplus could brag about its good economic performance in terms of employment and its public account and trade balances. As it is lending to other member countries, it is in a strong position to impose its choices on Europe. A country that is building up deficits would sooner or later come up against the mistrust of the financial markets, which would impose high interest rates on it; its partners may refuse to lend to it. But there is nothing stopping a country that is accumulating surpluses. With a single currency, it doesn't have to worry about its currency appreciating; this corrective mechanism is blocked.

Germany can therefore play a dominant role in Europe without having an economic policy that befits this role. The United States played a hegemonic role at the global level while running a large current account deficit that made up for the deficits of the oil-exporting countries and the fast-growing Asian countries, in particular China; it balanced global growth by acting as a "consumer of last resort". Germany is doing the opposite, which is destabilizing the euro zone. It has automatically become the "lender of last resort". The fact is that Germany's build-up of a surplus must also be translated into the build-up of debt; it is therefore unsustainable.

Worse, Germany wants to continue to run a surplus while demanding that the Southern European countries repay their debts. This is a logical impossibility. The countries of Southern Europe cannot repay their debts unless they run a surplus, unless Germany agrees to be repaid by running a deficit, which it is currently refusing to do. This is why it is legitimate for Germany to be subject to an MIP – an MIP that must be binding.

The current situation

In 2014, Germany's current account surplus represented 7.7% of GDP (or 295 billion euros, Table 1); for the Netherlands the figure was 8.5% of GDP. These countries represent an exception by continuing to run a strong external surplus, while most countries have come much closer to equilibrium compared with the situation in 2007. This is in particular the case of China and Japan. Germany now has the highest current account surplus of any country in the world. Its surplus would be even 1.5 GDP points higher if the euro zone countries (particularly those in Southern Europe) were closer to their potential output. Thanks to Germany and the Netherlands, the euro zone, though facing depression and high unemployment, has run a surplus of 373 billion dollars compared with a deficit of 438 billion for the United States: logically, Europe should be seeking to boost growth not by a depreciation of the euro against the dollar, which would further widen the disparity in trade balances between the euro zone and the United States, but by a strong recovery in domestic demand. If Germany owes its surplus to its competitiveness policy, it is also benefitting from the existence of the single currency, which is allowing it to avoid a surge in its currency or a depreciation in the currency of its European partners. The counterpart of this situation is that Germany has to pay its European partners so that they remain in the euro.

Table 1. Current account balance as % of GDP

	2007	2014
Netherlands	6,7	8,5
Germany	7,5	7,7
Austria	3,5	2,5
Italy	-2,4	1,8
Belgium	1,9	-0,1
Spain	-10,0	-0,1
Portugal	-10,1	-0,2
Finland	4,1	-1,4
France	-1,0	-1,8
Greece	-14,6	-2,0
Euro zone	0,2	2,8
United Kingdom	-2,2	-4,1
Denmark	1,4	6,5
Sweden	9,3	5,9
United States	-5,0	-2,2
Japan	4,9	0,1
China	10,7	3,3

Source : European economy.

There are three possible viewpoints. For optimists, Germany's surplus is not a problem; as the country's population ages, Germans are planning for retirement by accumulating foreign assets, which will be used to fund their retirements. The Germans prefer investing abroad rather than in Germany, which they feel is less profitable. These investments have fuelled international financial speculation (many German financial institutions suffered significant losses during the financial crisis due to adventurous investments on the US markets or the Spanish property market); now they are fuelling European debt. Thus, through the TARGET2 system, Germany's banks have indirectly lent 515 billion euros to other European banks at a virtually zero interest rate. Out of its 300 billion surplus, Germany spends a net balance of only 30 billion on direct investment. Germany needs a more coherent policy, using its current account surpluses to make productive investments in Germany, Europe and worldwide.

Another optimistic view is that the German surplus will decline automatically. The ensuing fall in unemployment would create tensions on the labour market, leading to wage increases that would also be encouraged by the establishment of the minimum wage in January 2015. It is true that in recent years, German growth has been driven more by domestic demand and less by the external balance than prior to the crisis (Table 2): in 2014, GDP grew by 1.2% in Germany (against 0.7% in France and 0.8% for the euro zone), but this pace is insufficient for a solid recovery. The introduction of the minimum wage, despite its limitations (see A minimum wage in Germany: a small step for Europe, a big one for Germany), will lead to a 3% increase in payroll in Germany and for some sectors will reduce the competitiveness gains associated with the use of workers from Eastern Europe. Even so, by 2007 (relative to 1997), Germany had gained 16.3% in competitiveness compared to France (26.1% compared to Spain, Table 3); in 2014, the gain was still 13.5% relative to France (14.7% relative to Spain). A rebalancing is taking place very slowly. And in the medium term, for demographic reasons, the need for growth in Germany is about 0.9 points lower than the need in France.

Table 2. Contributions to GDP by domestic demand and the external balance

	GDP		Domestic demand		External balance	
	1998-2007	2007-2014	1998-2007	2007-2014	1998-2007	2007-2014
Germany	1,60	0,70	0,85	0,70	0,75	0,00
France	2,25	0,30	2,60	0,35	-0,35	-0,05
Spain	3,85	-0,70	4,60	-2,10	-0,75	1,40
Italy	1,50	-1,30	1,65	-2,80	-0,15	1,50
Euro zone	2,30	-0,10	2,20	-0,55	0,10	0,45

Table 3. Indicator of relative unit labour costs

Base 100 = 1997

	2007	2013
Euro zone	99,0	105,2
Germany	86,2	90,4
Austria	94,2	98,1
Finland	98,9	109,3
France	103,0	104,5
Belgium	103,2	107,8
Italy	107,9	111,9
Portugal	110,3	101,8
Netherlands	108,2	111,9
Greece	110,5	98,3
Spain	116,6	106,0
Ireland	124,1	106,1
Outside euro zone		
United Kingdom	122,2	104,1
Sweden	92,4	98,6

Source : European economy.

Furthermore, a more pessimistic view argues that Germany should be subject to a macroeconomic imbalance procedure to get it to carry out a macroeconomic policy that is more favourable to its partners. The German people should benefit more from its excellent productivity. Four points need to be emphasised:

1. In 2014, Germany recorded a public surplus of 0.6 percent of GDP, which corresponds, according to the Commission's estimates, to a structural surplus of about 1 GDP point, *i.e.* 1.5 points more than the target set by the Fiscal Compact. At the same time, spending on public investment was only 2.2 GDP points (against 2.8 points in the euro zone and 3.9 points in France). The country's public infrastructure is in poor condition. Germany should increase its investment by 1.5 to 2 additional GDP points.

2. Germany has undertaken a programme to reduce public pensions, which has encouraged households to increase their retirement savings. The poverty rate has increased significantly in recent years, reaching 16.1% in 2014 (against 13.7% in France). A programme to revive social protection and improve the prospects for retirement[3] would boost consumption and reduce the savings rate.

3. Germany should restore a growth rate for wages that is in line with growth in labour productivity, and even consider some catch-up. This is not easy to implement in a country where wage developments depend mainly on decentralized collective bargaining. This cannot be based solely on raising the minimum wage, which would distort the wage structure too much.

4. Finally, Germany needs to review its investment policy[4]: Germany should invest in Germany (public and private investment); it should invest in direct productive investment in Europe and significantly reduce its financial investments. This will automatically reduce its unproductive investments that go through TARGET2.

Germany currently has a relatively low rate of investment (19.7% of GDP against 22.1% for France) and a high private sector savings rate (23.4% against 19.5% for France). This should be corrected by raising wages and lowering the savings rate.

As Germany is relatively close to full employment, a significant part of its recovery will benefit its European partners, but this is necessary to rebalance Europe. Any policy suggested by the MIP should require a change in Germany's economic strategy, which it considers to be a success. But European integration requires that each country considers its choice of economic policy and the direction of its growth model while taking into account European interdependencies, with the aim of contributing to balanced growth for the euro zone as a whole. An approach like this would not only benefit the rest of Europe, it would also be beneficial to Germany, which could then choose to reduce inequality and promote consumption and future growth through a programme of investment.

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[1] For more detail, see European Commission (2012) : "Scoreboard for the surveillance of macroeconomic imbalances", *European Economy Occasional Papers* 92.

[2] This partly reflects the fact that some of these indicators are not relevant: almost all European countries are losing market share at the global level; changes in the real effective exchange rate depend on trends in the euro, which the countries do not control; the public and private debt thresholds were set at very low levels; etc.

[3] The ruling coalition has already raised the pensions of mothers and allowed retirement at age 63 for people with lengthy careers, but this is timid compared with previous reforms.

[4] The lack of public and private investment in Germany has been denounced in particular by the economists of the DIW, see for example: "Germany must invest more for future", *DIW Economic Bulletin* 8.2013 and *Die Deutschland Illusion*, Marcel Fratzscher, October 2014.

Does growth in the euro zone really depend on a hypothetical German fiscal stimulus?

By Christophe Blot and Jérôme Creel

The debate on economic policy in Europe was re-ignited this summer by Mario Draghi during the now traditional symposium at Jackson Hole, which brings together the world's main central bankers. Despite this, it seems that both the one side (Wolfgang Schaüble, Germany's finance minister) and the other (Christine Lagarde, head of the IMF) are holding to their positions: fiscal discipline plus structural reforms, or demand stimulus plus structural reforms. Although the difference can seem tenuous, the way is now open for what Ms. Lagarde called "fiscal manoeuvring room to support a European recovery". She is targeting Germany in particular, but is she really right?

In an interview with the newspaper *Les Echos*, Christine Lagarde said that Germany "very likely has the fiscal manoeuvring room necessary to support a recovery in Europe". It is clear that the euro zone continues to need growth (in second quarter 2014, GDP was still 2.4% below its pre-crisis level in first quarter 2008). Despite the interest rate cuts decided by the ECB and its ongoing programme of exceptional measures, a lack of short-term demand is still holding back the engine of European growth, mainly due to the generally tight fiscal policy being pursued across the euro zone. In today's context, support for growth through more expansionary fiscal policy is being constrained by tight budgets and by a political determination to continue to cut deficits. Fiscal constraints may be real for countries that are heavily in debt and have lost market access, such as Greece, but they are more of an institutional nature for countries able to issue government debt at historically very low levels, such as France. For Ms. Lagarde, Germany has the manoeuvring room that makes it the only potential economic engine for powering a European recovery. A more detailed analysis of the effects of its fiscal policy – both internally and spillovers to European partners – nevertheless calls for tempering this optimism.

The mechanisms that underlie the hypothesis of Germany driving growth are fairly simple. An expansionary fiscal policy in Germany would boost the country's domestic demand, which would increase imports and create additional opportunities for companies in other countries in the euro zone. In return, however, the impact could be tempered by a slightly less expansionary monetary policy: as Martin Wolf argues, didn't Mario Draghi ensure that the ECB would do everything in its power to ensure price stability over the medium term?

In a recent OFCE working document, we have tried to capture these various commercial and monetary policy effects in a dynamic model of the euro zone. The result is that a positive fiscal impulse of 1 GDP point in Germany for three consecutive years (a plan involving 27.5 billion euros per year [1]) would boost growth in the euro zone by 0.2 point in the first year. This impact is certainly not negligible. However, this is due solely to the stimulation that would benefit German growth and not to spillovers to Germany's European partners. Indeed, and as an example, the increase in Spain's growth would be insignificant (0.03 point of growth in the first year). The weakness of the spillover effects can be explained simply by the moderate value of Germany's fiscal multiplier [2]. Indeed, the recent literature on multipliers suggests that they rise as the economy goes deeper into a slump. But based on the estimates of the output gap retained in our model, Germany is not in this situation, and indeed the multiplier has dropped to 0.5 according to the calibration of the multiplier effects selected for our simulations. For an increase in German growth of 0.5 percentage points, the effect of the stimulation on the rest of the euro zone is therefore low, and depends on Germany's share of exports to Spain and the weight of Spanish exports in Spanish GDP. Ultimately, a German recovery would undoubtedly be good news for Germany, but the other euro zone countries may be disappointed, just as they undoubtedly will be from the implementation of the minimum wage, at least in the short term, as is suggested by Odile Chagny and Sabine Le Bayon in a recent post. We can also assume that in the longer term the German recovery would help to raise prices in Germany, thereby degrading competitiveness and providing an additional channel through which other countries in the euro zone could benefit from stronger growth.

And what would happen if the same level of fiscal stimulus were applied not in Germany, but rather in Spain, where the output gap is more substantial? In fact, the simulation of an equivalent fiscal shock (27.5 billion euros a year for three years, or 2.6 points of Spanish GDP) in Spain would be much more beneficial for Spain but also for the euro zone. While in the case of a German stimulus, growth in the euro zone would increase by 0.2 percentage points over the first three years, it would increase by an average of 0.5 points per year for three years in the event of a stimulus implemented in Spain. These simulations suggest that if we are to boost growth in the euro zone, it would be best to do this in the countries with the largest output gap. It is more effective to spend public funds in Spain than in Germany.

In the absence of any relaxation of the fiscal constraints on Spain, a stimulus plan funded by a European loan, whose main beneficiaries would be the countries most heavily affected by the crisis, would undoubtedly be the best solution for finally putting the euro zone on a path towards a dynamic and sustainable recovery. The French and German discussions of an investment initiative are therefore welcome. Hopefully, they will lead to the adoption of an ambitious plan to boost growth in Europe.

Table. Impact of a fiscal expansion in Germany and in Spain

In percentage points

	Fiscal expansion in Germany			Fiscal expansion in Spain		
	German growth	Spanish growth	Euro zone growth	German growth	Spanish growth	Euro zone growth
2013	0,5	0,0	0,2	0,0	4,9	0,5
2014	0,6	0,0	0,2	0,0	5,8	0,7
2015	0,5	0,0	0,2	0,0	2,8	0,4
2016	0,0	0,0	0,0	0,0	-0,7	-0,1
2017	-0,6	0,0	-0,2	0,0	-2,6	-0,3
2018	-0,8	0,0	-0,2	0,0	-3,0	-0,3
2019	-0,7	0,0	-0,2	0,0	-2,9	-0,3

Source: iAGS model.

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[1] The measure is then compensated in a strictly equivalent way so that the shock amounts to a transient fiscal shock.

[2] Recall that the fiscal multiplier reflects the impact of fiscal policy on economic activity. Thus, for one GDP point of fiscal stimulus (or respectively, tightening), the level of activity increases (respectively, decreases) by k points.

A minimum wage in Germany: a small step for Europe, a big

one for Germany

By Odile Chagny (Ires*)* and Sabine Le Bayon

After several months of parliamentary debate, a minimum wage will be phased in between 2015 and 2017 in Germany. The debate led to only slight modifications in the bill introduced last April, which came out of the coalition agreement between the Social Democrats and the Christian Democrats. The minimum wage will rise in 2017 to 8.50 euros gross per hour, or about 53% of the median hourly wage. In a country that constitutionally guarantees the social partners autonomy in the determination of working conditions, this represents a major rupture. Overall, the importance of the introduction of the minimum wage lies not so much in the stimulus it will be expected to have on growth in Germany and the euro zone as in the turning point it represents in how the *value* of labour is viewed in a country that has historically tolerated the notion that this can differ depending on the status of the person (or persons) carrying it out [1].

The introduction of a statutory minimum wage in Germany represents the culmination of a long process initiated in the mid-2000s that has led to a relative consensus on the need to better protect employees from the wage dumping taking place in certain sectors and businesses. Unlike in France, where a statutory minimum wage was established in 1951 (the "SMIG", followed by the "SMIC "), Germany has had no "interprofessional" or industry-wide minimum wage. The introduction of the minimum wage by the State, though contrary to the principle of the social partners' autonomy, is a sign that the various stakeholders explicitly recognize that the collective bargaining system is no longer able to guarantee decent working conditions for a growing number of employees, including both those not covered by collective agreements as well as those who are working in areas where the trade unions have grown so weak that the sector's minimum floor is too low.

The State's intervention thus constitutes a genuine revolution in the system of industrial relations. The intention, however, is for this to be a one-off measure. The social partners are in effect to retain a major role, for a number of reasons:

- By the end of 2014, they can negotiate sectoral agreements aimed at bringing sector minimums that are below 8.50 euros per hour up to this threshold by end 2016[2].
- Once the law is in force, it is a bipartisan commission of the social partners that will decide on changes in the minimum wage every two years. The commission will meet for the first time in 2016 and if needed the first adjustment will take place in 2017.
- Furthermore, sector-wide agreements that set working conditions (pay scales, holidays, maximum hours, etc.) will be more easily extended to all the workers in a sector (because the minimum wage law also aims at strengthening the procedures for extending collective agreements, which currently are rarely used). The outcome of collective bargaining will thus cover more employees.

The application of the statutory minimum wage will proceed in stages. In 2015, only employees not covered by a collective agreement will be affected. As for the others, either this wage floor is already being applied, or it will be phased in through negotiations in the sector. This is, for example, the situation in the meat and slaughterhouse business, where in January 2014 the social partners signed an agreement to implement a minimum wage of 7.75 euros on 1 July 2014, which will be upgraded to 8.60 euros in October 2015. With respect to temping, an agreement in October 2013 increased the minimum wage to 8.50 euros in January 2014 in the old Länder, with provisions to introduce it in June 2016 in the new Länder.

The debate about exemptions was heated, but ultimately the minimum wage will cover all but a few people: some young people (apprentices, work-study trainees) and the long-term unemployed during the first six months after the resumption of employment. As for seasonal workers (about 300,000 jobs), who have a large presence in the agricultural sector, the 8.50 euro minimum will indeed apply, but the employer can deduct the cost of food and lodging. This should still limit wage dumping in this area, even if it will be more difficult to ensure compliance with the law.

The real issue concerns not so much the exemptions being highlighted by various parties (the DGB trade union confederation, Die Linke and the Greens are criticizing these, while some employers and conservatives think there are too few) as how the law will actually be implemented.

This is because the impact of the minimum wage law will depend firstly on how remuneration and working time are defined and what they cover, two points that have been left unanswered up to now. However, depending on whether overtime and other variable elements of remuneration are taken into account, or whether the duration of work is based on the work contracted or the actual hours worked, the law will differ greatly in its coverage and impact. In 2012, depending on the definitions used, estimates of the number of people potentially affected by the minimum wage ranged from 4.7 to 6.6 million, a difference of 40%.

Furthermore, the labour inspectorate will need to have substantial resources to monitor the application of the law, because at the moment 36% of employees earning less than 8.50 euros gross per hour do not have their work hours specified in their employment contract, or perform unpaid overtime. Checks by the labour inspectorate will therefore be crucial, especially as 70% of employees earning less than 8.50 euros per hour are in enterprises without a works council [3], which makes enforcement of the law particularly difficult. Finally, there is a risk of seeing an increase in recourse to self-employment that is paid by the task (*i.e.* without a scheduled work time) at the expense of employees on conventional contracts or those hired on mini-jobs, jobs for which there is no longer any requirement to set the hours of work and whose employees do not pay employee social security contributions or income tax.

On a more macro-economic level, and contrary to the hopes of many of Germany's European partners, the introduction of the minimum wage will have only a limited impact on domestic demand, not only because it is far from established that the legislation will actually apply everywhere, but also due to its limited impact on household income. Following an increase in their marginal tax rates and cutbacks in social benefits, the real income of households affected by the minimum wage will rise by only a quarter of the initial increase in their wages. As for the 1.3 million "*Aufstocker*", people who combine job income and a solidarity allowance for those in need and the long-term unemployed (under the Hartz IV reform), their number will fall by only 60,000 [4].

The impact on competitiveness is likely to differ widely across sectors. According to Brenke and Müller (2013), there will be a 3% increase in total payroll. With the exception of the food industry, whose competitiveness has been based on a significant level of wage dumping, and where the introduction of a minimum wage is likely to be strongly felt (except where the law is circumvented in one way or another), industrial exporters, whose salaries are generally higher (INSEE, 2012), will not be affected much by the introduction of a minimum wage. They will however be hit indirectly, since they have outsourced a number of activities during the last decade to service enterprises that have lower costs. In many companies, high margins should nevertheless permit them to limit any rise in production costs. For labour-intensive sectors that cannot be relocated (beauty salons, taxis, etc.), prices should on the other hand increase significantly, which could limit the positive impact on the purchasing power of employees benefitting from the minimum wage.

While the impact of introducing the minimum wage should be relatively limited at the macro-economic level, in particular in terms of a recovery in the euro zone, the strong signal being sent with regard to economic policy should not be overlooked. The establishment of a minimum wage that is broad in coverage – the exceptions will ultimately be very circumscribed – and is industry-wide – the floor will apply to all sectors – reflects above all the idea that employees must be able to live from their work and that it is not necessarily up to the State to subsidize low wages in the form of social benefits so as to maintain the competitiveness of low-skilled workers in particular. As Sigmar Gabriel, the chairman of the SPD and the Minister for Economic Affairs in the new coalition government, declared to the Bundestag in February 2014, the minimum wage is important not so much for the level or the date it takes effect as for the fact that it represents a central issue for the social market economy, that "all work must be valued".

This note is being posted simultaneously with the publication of an article on this subject: Chagny O. and S. Le Bayon, 2014 : "L'introduction d'un salaire minimum légal : genèse et portée d'une rupture majeure" [The introduction of a statutory minimum wage: genesis and significance of a major rupture], Chronique internationale de l'IRES, no. 146, June.

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[1] In accordance with the principle that a retiree, a student or a housewife does not necessarily need social security and works primarily for extra income.

[2] The newspaper delivery business is an exception insofar as

it is the State that has mandated a gradual increase in the minimum to 8.50 euros in 2017.

[3] Works councils ensure the representation of employees in companies with at least 5 employees. It is they who determine how collective agreements are to be implemented.

[4] This raises the matter of the particular features of Germany's tax-benefit system: high marginal tax rates for the second earner in connection with the marital quotient; a marginal tax rate that is higher than in France for low earners; and, for beneficiaries of the Hartz IV solidarity allowance, a high tax rate (80% above 100 euros) of the job income exceeding the benefit. For more information, see Brenke and Müller (2013) and Bruckmeier and Wiemers (2014).

France-Germany: is there a demographic dividend?

By Vincent Touzé

Thanks to a high birth rate, France is aging less quickly than Germany. According to Eurostat, the French population is expected to exceed the German population by 2045. France could well become a European champion. But to what extent should we be talking about a demographic dividend?

The renewal of generations is of course important. It makes it possible to maintain a workforce that is large enough to meet the social costs (pensions, health care) of senior citizens, who are living longer and longer. In this sense, France should do better than Germany. But population growth also has its share of disadvantages. Indeed, in a context of scarce resources, the size of the population is primarily a factor that splits the amounts available per capita. For example, on a rationed labour market that is struggling to keep up the positions on offer due to problems with outlets and with production costs that are not competitive enough at the global level, growth in the labour force can also be counted in the numbers of unemployed. To avoid this, a more efficient labour market that is rooted in a thriving economy is essential. The demographic dividend depends as much on the productive capacity of new generations of workers as on their size.

The latest *Note of the OFCE* (no. 5, October 11, 2013) compares the relative performance of France and Germany over the period 2001-2012. This study shows how recent economic developments have been distinctly favourable to the German economy. Despite a glorious demographic future, France is mired in weak growth and mass unemployment that is hitting young people very hard. The demographic dividend is slow in coming.