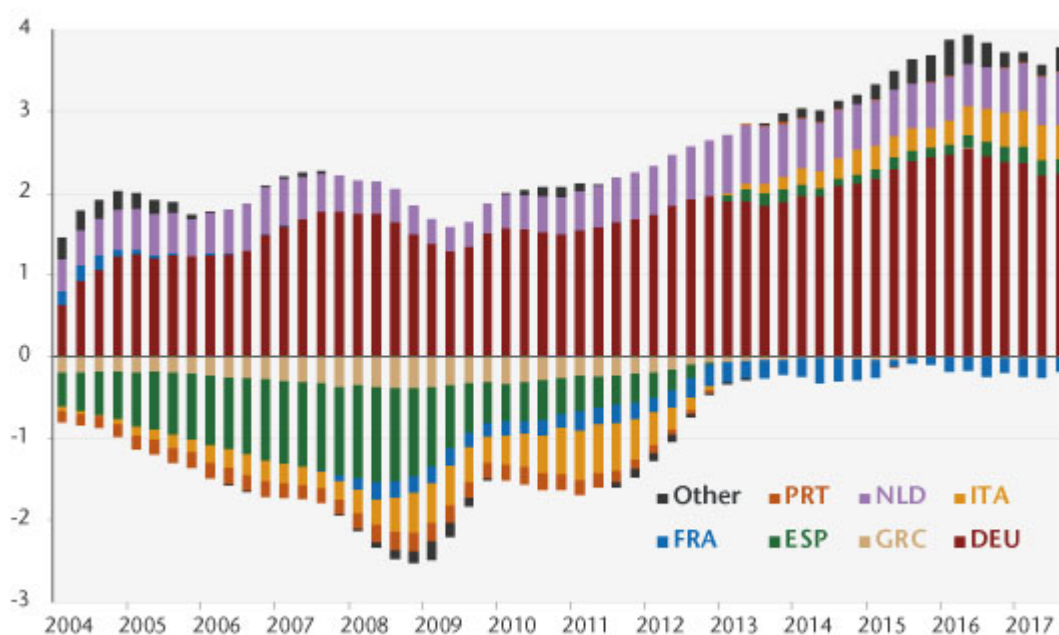


Major adjustments are awaiting the euro zone

By [Bruno Ducoudré](#), [Xavier Timbeau](#) and [Sébastien Villemot](#)

Current account imbalances are at the heart of the process that led to the crisis in the euro zone starting in 2009. The initial years of the euro, up to the crisis of 2007-2008, were a period that saw widening imbalances between the countries of the so-called North (or the core) and those of the South (or the periphery) of Europe, as can be seen in Figure 1.

Figure 1. Current account balances (moving average over four quarters)
in % of GDP of the euro zone



Source: Eurostat.

The trend towards diverging current account balances slowed sharply after 2009, and external deficits disappeared in almost all the euro zone countries. Despite this, there is still a significant gap between the northern and southern countries, so there cannot yet be any talk about reconvergence. Moreover, the fact that the deficits have fallen (Italian and Spanish) but not the surpluses (German and Dutch) has radically changed the ratio of the euro zone to the rest of the world: while the

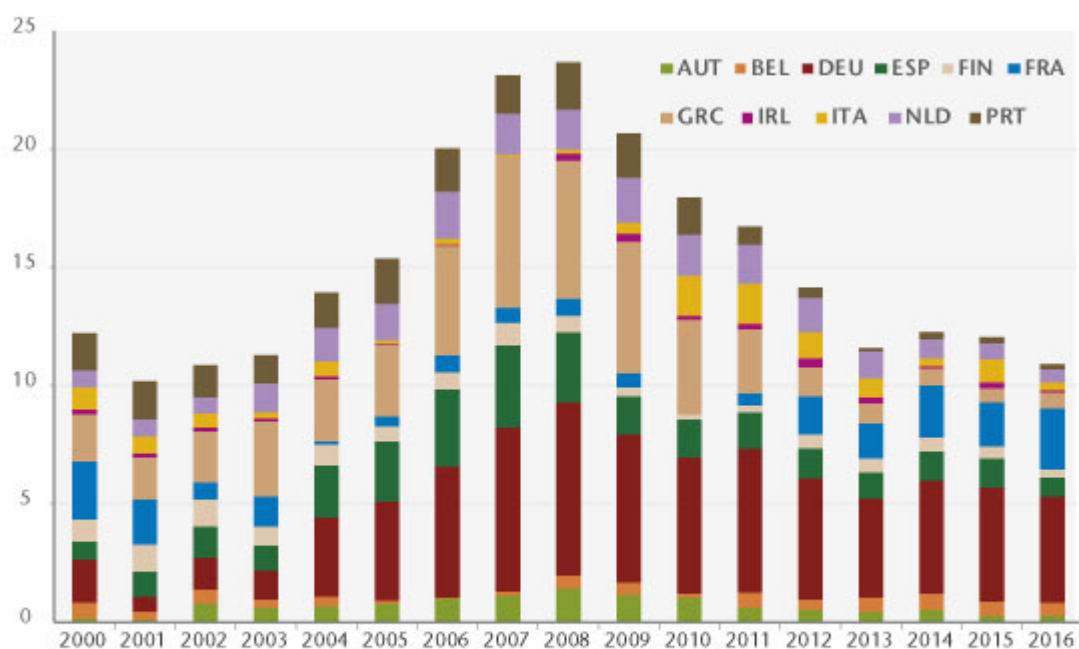
zone's current account was close to balanced between 2001 and 2008, a significant surplus has formed since 2010, reaching 3.3% of GDP in 2016. In other words, the imbalance that was internal to the euro zone has shifted into an external imbalance between the euro zone and the rest of the world, in particular the United States and the United Kingdom. This imbalance is feeding Donald Trump's protectionism and putting pressure on exchange rates. While the nominal exchange rate internal to the euro zone is not an adjustment variable, the exchange rate between the euro and the dollar can adjust.

It seems unlikely that the euro zone can maintain a surplus like this over the long run. Admittedly, the pressures for the appreciation of the euro are now being contained by the [particularly accommodative monetary policy of the European Central Bank](#) (ECB), but when the time comes for the normalization of monetary policies, it is likely that the euro will appreciate significantly. In addition to having a deflationary impact, this could rekindle the crisis in the zone by once again deepening the Southern countries' external deficits due to their loss in competitiveness. This will in turn give new grounds for leaving the euro zone.

[In a recent study \[1\]](#), we seek to quantify the adjustments that remain to be made in order to resolve these various current account imbalances, both within the euro zone and vis-à-vis the rest of the world. To do this, we estimate equilibrium real exchange rates at two levels. First, from the point of view of the euro zone as a whole, with the idea that the adjustment of the real exchange rate will pass through an adjustment of the nominal exchange rate, notably the euro vis-à-vis the dollar: we estimate the long-term target of euro / dollar parity at USD 1.35 per euro. Next, we calculate equilibrium real exchange rates within the euro zone, because while the nominal exchange rate between the member countries does not change because of the monetary union, relative price levels allow adjustments in the real exchange rate. Our

estimates indicate that substantial misalignments remain (see Figure 2), with the average (in absolute terms) misalignment relative to the level of the euro being 11% in 2016. The relative nominal differential between Germany and France comes to 25%.

Figure 2. Indicator of nominal intra-euro zone adjustments with countries' contributions



Note: Figure 2 relates the average (weighted by GDP) of the absolute value of the nominal adjustments. The contribution of each country to this average is shown. The nominal disadjustments correspond to the changes in price of the added value that must be made simultaneously so that all the countries hit their current account target. This figure can be interpreted as a summary measure of the level of the internal disadjustments of the euro zone, with the contribution of each country.
Source: OFCE calculations.

In the current situation, claims by some euro zone countries are not accumulating on others in the zone, but there is accumulation by some euro zone countries on other countries around the world. This time the exchange rate (actual, weighted by accumulated gross assets) can serve as an adjustment variable. The appreciation of the euro would therefore reduce the euro zone's current account surplus and depreciate the value of assets, which are probably accumulated in foreign currency. France however now appears as the last country in the euro zone running a significant deficit. Relative to the zone's other countries, it is France that is contributing most (negatively) to the imbalances with Germany (positively). If the euro appreciates, it is likely that France's situation

would further deteriorate and that we would see a situation where the net internal position accumulates, but this time between France (on the debtor side) and Germany (creditor). This would not be comparable to the situation prior to 2012, since France is a bigger country than Greece or Portugal, and therefore the question of sustainability would be posed in very different terms. On the other hand, reabsorbing this imbalance by an adjustment of prices would require an order of magnitude such that, given the relative price differentials that would likely be needed between France and Germany, it would take several decades to achieve. It is also striking that, all things considered, since 2012, when France undertook a costly reduction in wages through the CICE tax credit and the Responsibility Pact, and Germany introduced a minimum wage and has been experiencing more wage growth in a labour market that is close to full employment, the relative imbalance between France and Germany, expressed in the adjustment of relative prices, has not budged.

Three consequences can be drawn from this analysis:

1. The disequilibrium that has set in today will be difficult to reverse, and any move to speed this up is welcome. Ongoing moderation in rises in nominal wages in France, stimulating the growth of nominal wages in Germany, restoring the share of German added value going to wages, and continuing to boost the minimum wage are all paths that have been mentioned in the various iAGS reports. A reverse social VAT, or at least a reduction in VAT in Germany, would also be a way to reduce Germany's national savings and, together with an increase in German social security contributions, would boost the competitiveness of other countries in the euro zone;
2. The pre-crisis internal imbalance has become an external imbalance in the euro zone, which is leading to pressure for a real appreciation of the euro. The order of

magnitude is significant: it will weigh on the competitiveness of the different countries in the euro zone and will lead to the problems familiar prior to 2012 resurfacing in a different form;

3. The appreciation of the euro caused by the current account surpluses in certain euro zone countries is generating an externality for the euro zone countries. Because their current accounts respond differently to a change in relative prices, Italy and Spain will see their current account balance react the most, while Germany's will react the least. In other words, the appreciation of the euro, relatively, will hit the current accounts of Italy and Spain harder than Germany's and will lead to a situation of internal imbalance much like what existed prior to 2012. This externality together with the reduced sensitivity of Germany's current account to relative prices argues for a reduction in imbalances by boosting Germany's internal demand, i.e. by a reduction in its national savings. The tools to do this could include boosting public investment, lowering direct personal taxes, or raising the minimum wage more quickly relative to productivity and inflation.

[\[1\]](#) Sébastien Villemot, Bruno Ducoudré, Xavier Timbeau: "Taux de change d'équilibre et ampleur des désajustements internes à la zone euro" [Equilibrium exchange rate and scale of internal misalignments in the euro zone], *Revue de l'OFCE*, 156 (2018).

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

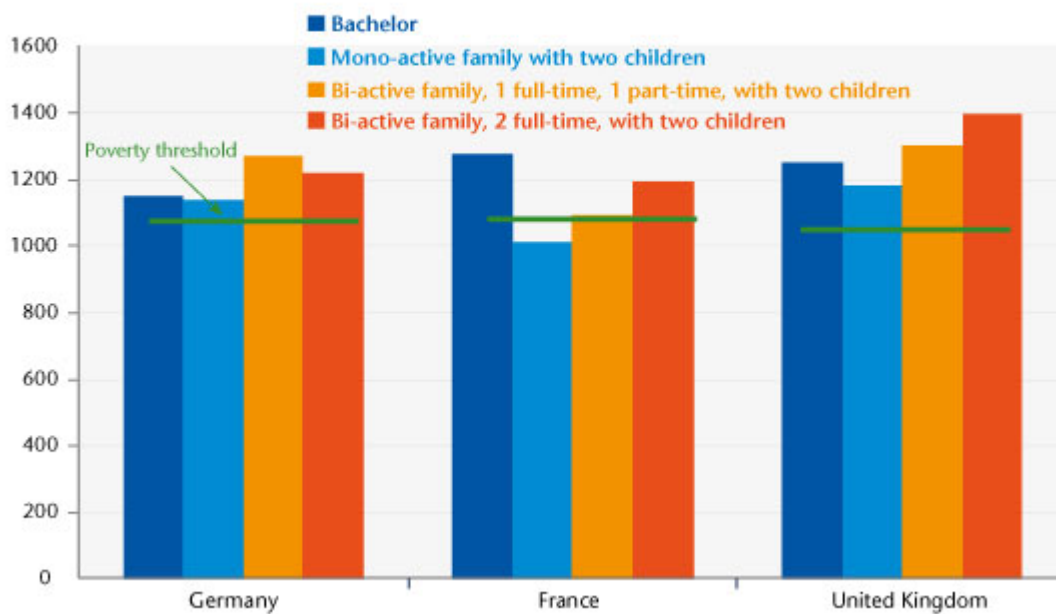
| | Germany | France | United Kingdom |
|------------------------|---------|---------|----------------|
| Hourly labour cost | 10.84 € | 10.68 € | 9.26 € |
| Employer SC rate | 22.7 % | 9.4 % | 5.54 % |
| Gross hourly wage | 8.84 € | 9.76 € | 8.77 € |
| Employee SC rate | 20.8 % | 23.3 %* | 4.82 % |
| 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) Case 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 dépendence) 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).

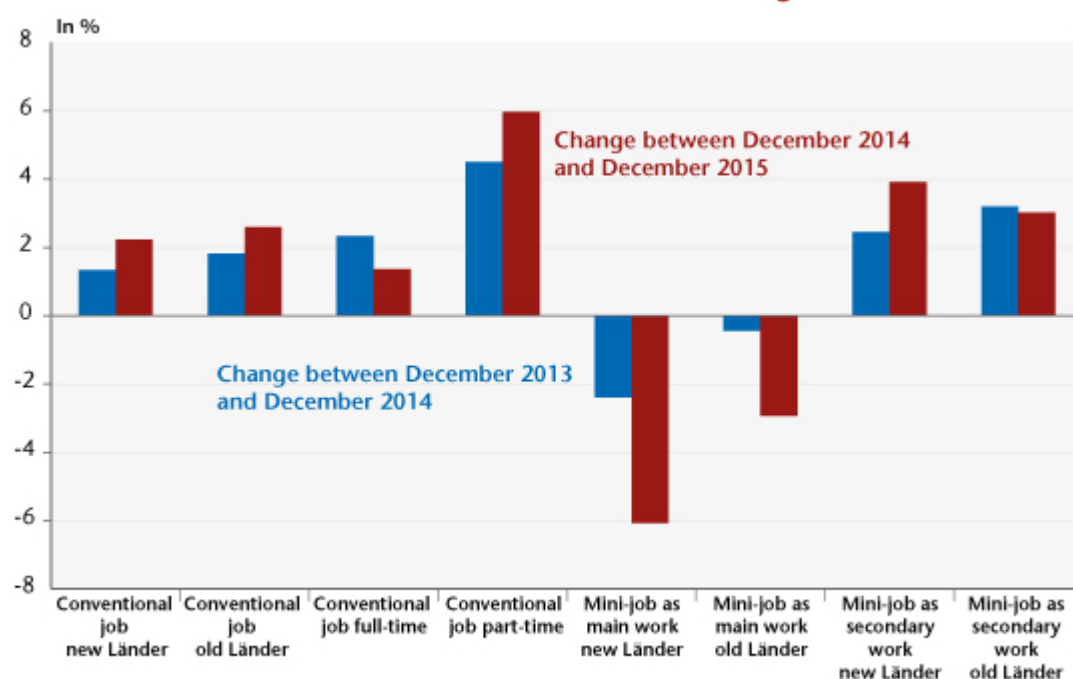
Conventional job, subject to social contributions:

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 2010-2013¹

| | 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.

Following the decision of France's Constitutional Council: the impossible merger of the RSA and PPE social welfare programmes

By [Henri Sterdyniak](#)

In June 2014, the government had Parliament approve a new provision for the gradual reduction of employee payroll taxes intended to boost the purchasing power of low-wage earners. Henceforth an employee on the minimum wage (SMIC) would benefit from a 3-point reduction in their contributions, representing a gain of 43 euros per month, *i.e.* a 4% increase in net income. The discount would then decline with the level of the hourly wage and terminate at 1.3 times the SMIC. On 6

August 2014, the Constitutional Council (*Conseil Constitutionnel*) barred this provision. There are three reasons to welcome its ruling.

As noted by the Constitutional Council, employee contributions fund retirement and replacement benefits, social insurance programmes that are reserved for those who have contributed and which depend on contributions. The parliamentary measure goes against the logic of a contributory system, since employees would have been able to enjoy benefits without having fully paid.[\[1\]](#) The Constitutional Council emphasized the specific nature of contributory social contributions, underscoring a sound principle of our social security system. Note, however, that the Constitutional Council did not oppose the measures exempting employer social contributions for pension contributions, which are also based on a contributory logic. On the other hand, the exemptions on family or health insurance contributions are more legitimate, since these contributions do not confer individual rights. But it's never too late to correct one's oversights.

The new measure planned by the government once again led to reducing the resources of the social security system. Exemptions from social security contributions have become the weapon of choice against unemployment, to the expense of the very purpose of the contributions: to fund social security. The State would of course have offset these exemptions, but social security would have become even more dependent on government transfers, particularly since this measure came on top of the extension, for the years 2013 and 2014 alone, of employer payroll tax cuts and transfers of resources from the taxation of family pension increases and the reduction of the family quotient.

Finally, this exemption would have introduced a new complication for pay slips, which already count twenty lines for contributions. In addition, employers must calculate digressive exemptions on employer contribution, from 28 points

at the SMIC level up to 1.6 times the SMIC, and in addition the competitive employment tax credit (CICE) of 6% for wages under 2.5 times the SMIC. From 2016, family contributions will be lowered by 1.8 points for wages under 3.5 times the SMIC. Is an even more digressive system really needed, with a new ceiling of 1.3 times the SMIC?

Despite the Council decision, the government has not abandoned its goal. Thus, in an article in *Le Monde* dated 21 August 2014, President François Hollande announced a reform “that will merge the *Prime pour l’emploi* (PPE) and the *Revenu de solidarité active* (RSA) to promote the return to work and improve the situation of precarious workers”. Would a reform like this fulfill the President’s objectives? To answer this question it is useful to review the existing arrangements.

The current situation

France has set up a particularly complicated system that aims at two somewhat contradictory goals: to help poor families and to encourage unskilled workers to find jobs.

Aid to the poorest households includes the *Revenu de solidarité active* (RSA – a family-based income supplement for the working poor), the *Prime pour l’emploi* (PPE – an individual in-work tax credit to promote employment), housing benefit (a family-based allowance) and means-tested family benefits (family income supplement, allowance for school). Despite the efforts of Martin Hirsch, the RSA’s promoter, it does not include the PPE and housing benefit. It consists of a basic allowance: the base RSA (*RSA socle* – a minimum income that depends on family composition), which is reduced by 38 euros per 100 euros of earned income. The RSA is paid monthly on the basis of a quarterly income statement. As for the PPE, it is paid automatically on the basis of the income tax return, with a one year lag. The RSA is deducted from the PPE, meaning that a household that does not ask for the RSA automatically gets the PPE.

Three mechanisms are specifically designed to encourage low-wage workers to find jobs: exemptions from employer contributions, which reduce the cost of labor at the SMIC level; and the PPE and the RSA, which increase the gain from employment for unskilled workers.

A single person paid the SMIC is entitled to the PPE, but not the RSA (Table 1). It costs the company 1,671 euros (for 35 hours); the person's salary incurs 540 euros in unemployment and retirement contributions, representing deferred wages; the person receives a net transfer of 140 euros (PPE + housing benefit – CSG-CRDS [CSG wealth tax and CRDS debt contribution] – national health insurance and family contributions); their disposable income thus comes to 1,271 euros. There is therefore no net tax burden; their health insurance is offered. The exemptions of employer contributions are higher than the non-contributory contributions. By making use of all the existing schemes, it is possible to dissociate the living standard accorded to workers on the SMIC from the cost of their work.

On the other hand, a single-earner family (Table 2) benefits from the RSA so long as the household income does not exceed 1.65 times the SMIC (Table 2). The RSA increases the incomes of the poorest households: it increases the gains from employment for the first earner, but slightly reduces those of the second (Table 3). The PPE benefits dual-earner families that are above the poverty line (defined as 60% of the median income).

Table 1. Formation of the monthly income of an unmarried employee earning the SMIC (July 2014)

| Wages (gross) | 1,445 euros | |
|----------------------------------|--------------|--------------|
| | Employee | Employer |
| CSG-CRDS | 114 (7.86%) | |
| Health insurance-family charges | | 294 (20.33%) |
| Retirement-unemployment charges | 203 (14.05%) | 337 (23.33%) |
| Low income exemption | | -405 (28%) |
| Net wages | 1,128 | |
| Total wage cost (or super-gross) | | 1,671 |
| Income tax (IR) | 0 | |
| PPE supplement | 79 | |
| Housing benefit (AL*) | 64 | |
| Disposable income | 1,271 | |
| Net tax | -140 | |
| Contributory charges | 540 | |
| Rate of taxation | -12.4% | |

* The rent is assumed to be 450 euros. The median income (MI) in 2014 can be estimated at 1642 euros per consumption unit (CU) – the SMIC provides 77.4% of the median income.

Source: URSSAF data, author's calculations.

Table 2. Couple with two children (2.1 consumption units – CU)

| | RSA | Single-earner household | | | Dual-earner household | |
|---------------|-------|-------------------------|--------|----------|-----------------------|--------|
| | | 0.5 SMIC | SMIC | 1.5 SMIC | 1.5*SMIC | 2*SMIC |
| Net wage | 0 | 564 | 1,128 | 1,692 | 1,692 | 2,255 |
| RSA | 900 | 543 | 343 | 128 | – | – |
| PPE | – | – | – | – | 158 | 164 |
| AF/ARS | 63 | 129+63 | 129+63 | 129+63 | 129+63 | 129+63 |
| Housing (AL*) | 483 | 483 | 353 | 182 | 185 | |
| Total | 1,446 | 1,782 | 2,016 | 2,194 | 2,225 | 2,611 |
| % MI per CU | 41.9 | 51.7 | 58.4 | 63.6 | 64.6 | 75.7 |
| PPE** | | | 92 | 13 | | |
| Total** | | | 1 765 | 2 079 | | |
| % MI per CU | | | 51.1 | 60.3 | | |

* The rent is assumed to be 600 euros. The children are aged 7 to 12. MI = median income; CU = consumption unit.

** If the household does not demand the RSA activité supplement.

Sources: CAF, author's calculations.

Table 3. Gain from becoming employed. Couple with two children

| | Recourse to RSA | Without recourse to RSA-activité |
|--|-----------------|----------------------------------|
| First working age | | |
| RSA up to 0.5 SMIC | 336 (60%) | – |
| 0.5 SMIC up to SMIC | 234 (41%) | – |
| RSA up to SMIC | 570 (50%) | 319 (28%) |
| SMIC up to 1.5 SMIC | 178 (32%) | 314 (56%) |
| Second working age. First working age earning SMIC | | |
| Inactif up to 0.5 SMIC | 201 (36%) | 462 (82%) |
| Inactif up to 1 SMIC | 595 (53%) | 846 (75%) |

Source: Author's calculations.

The limits of the existing system

- *The reduction of employer contributions:* The PPE and RSA create a class of poorly paid employees whose salary increases are very costly for the employer and not very profitable for the employee. A 10% wage hike for a worker on the SMIC (145 euros) costs the company 242 euros and brings the employee 53 euros. Companies are encouraged to create specific unskilled jobs, with no prospects for progress for the employee, who is stuck in a low-wage trap. The reduction in charges on low wages does not promote the employment of skilled workers, who are also experiencing some unemployment. Not do the jobs created match up with the increasing qualifications of young people. The consistency of the system as a whole therefore needs to be reviewed. However, the persistence of a large mass of unskilled workers and the desire not to lower the living standards of the working poor currently make it hard to take the risk of eliminating the existing mechanisms.
- *The calculation of the PPE is complicated:* It is paid only after a year's delay, meaning that the incentive effect is probably very small. This supplement benefits employees above the poverty line rather than the poorest families. At the same time, eliminating it would decrease the living standard of those on the SMIC by 6%, which is not an option.
- *The rate of non-take-up of the RSA-activité is very high* (about 68%) [\[21\]](#). Low-wage workers refuse to be subjected to ongoing monitoring just to receive a relatively small amount of benefit. Given some stigmatization of those receiving the RSA, these workers do not want to be confused with people receiving the base RSA (RSA-socle).
- *The RSA provides a benefit of around 110 euros per child for families with 1 or 2 children* receiving the minimum wage, a benefit that fills a gap in our system, which was not very

generous for families of the working poor. But this benefit is not paid to unemployed families. This 110 euro allocation should be paid in the form of a family supplement to all poor families with 1 or 2 children (families with 3 or more children already have a family income supplement and more generous benefits) regardless of the source of income.

– *The RSA is not paid to people under age 25*, even though this age group has particular difficulty finding jobs.

What is to be done?

As France has such a large number of social benefits and charges, it is possible to target the measure precisely depending on the objective. Several measures can be envisaged:

Increase family benefits

If the goal is to increase the purchasing power of poor families, the easiest way to do this is to significantly increase family and housing benefits. Instead, the government has decided to suspend their indexation in 2014 or 2015, inflicting a loss of purchasing power, which fortunately will be limited by low inflation. But the prevailing view today is that it is essential to encourage employment, and thus to increase net wages rather than benefits.

Lower income tax

As poor families do not pay income tax, lowering it will not affect them.

Make the CSG wealth tax progressive

As shown in Table 1, a minimum wage worker pays 114 euros in CSG-CRDS and receives 79 euros in PPE. Wouldn't it be possible to offset the removal of the PPE by making the CSG progressive, which would exempt workers on the SMIC and increase the wages they receive each month? The Constitutional Council rightly considers that any progressive tax must be

family based and take into account all the family income. A genuinely progressive CSG is thus virtually impossible to implement, as employers and financial institutions would need to know the marital status of their employees and customers and all of their income, making everyone repeat the work of the tax authorities. This would only make sense in the context of a CSG-income tax merger, which is not feasible in the short term.

Furthermore, only limited progressivity would be feasible. Each person would be entitled to an exemption of around 1,445 euros per month on the amount of income subject to the CSG-CRDS; a spouse without their own resources could transfer their exemption to their partner; dependent children would be eligible for a half exemption. In return, the PPE would be eliminated; pensioners and the unemployed could be subject to the same CSG as employees. But this exemption would have a huge cost, and in return the rate of the CSG would need to rise to 15% on income above the exemption. This possibility thus must be abandoned.

The merger of the PPE and RSA

The fusion of the PPE and RSA is the path proposed by the President of the Republic. But the devil is in the details, in how to fashion the merger.

In 2013, the report of MP Christopher Sirugue proposed a reform that would create an activity bonus (*Prime d'activité*) to replace the RSA-activité and the PPE (see the critical analysis of Guillaume Allègre, [*Faut-il remplacer le RSA-activité et la PPE par une Prime d'activité? Réflexions autour du rapport Sirugue, 2013*](#)). However, as the base RSA would continue to exist, families with very low wages would need to seek two benefits – the base RSA and the *Prime d'activité* – confronting them with a complicated system. The benefit schedule for *Prime d'activité* set out in the Sirugue report was arbitrary, with slopes and a peak at 0.7 SMIC that had no

justification. The resulting system was more complicated and more arbitrary than the RSA, and did not represent any major improvement over the existing system. The proposed measure was costly for single-income families (some lost 10% of their income). The risk was that the *Prime d'activité* would suffer from the same lack of take-up as the PPE and that some families would lose the PPE without wanting to use the *Prime d'activité* [\[3\]](#).

A merger that would result in a family-based benefit paid by France's Family Allowance Fund (CAF) would run the risk of a high rate of non-take-up and would generate losers among dual-earner households with children. A merger that would result in an allowance paid on the pay slip would not take into account children and the spouse, and would hurt part-time workers, raising questions about consistency with the base RSA.

In short, the merger is tricky to implement (if not impossible).

Increase the SMIC [\[4\]](#)

If the goal is to increase the living standard of low-wage earners, the obvious measure is to raise the level of the SMIC. An increase of about 10% would make it possible to eliminate the PPE and provide minimum-wage workers an increase in income equivalent to that under the measure overruled by the Constitutional Court. Assistance aimed specifically at part-time workers would be abandoned, as with the PPE, but this specific assistance is too complicated to have any incentive effect at all. An increase in net earnings is undoubtedly better.

Note, however, that an increase in the minimum wage would not provide enough support for poor families with one or two children, especially the families of the unemployed. The families of the working poor (between the base RSA and 2 times the SMIC) need specific support, by introducing a family

supplement of about 80 euros for one child and 160 euros for two children.

The *RSA-activité* should be maintained, since it ensures that any activity actually results in higher disposable income, but its role would be reduced and, thanks to the extension of the family income supplement, non-take-up would have less impact on families with children.

It is also necessary to create an employment integration allowance, in the amount of the RSA, for young people seeking work, without a right to unemployment benefit, a benefit subject to pension contributions.

Nevertheless, in the current situation, where lowering labor costs is a top priority for government policy, the cost of unskilled labor cannot be increased, leaving two possible approaches.

Either compensation for employers would take place through an increase in exemptions on charges on low-wage workers (which are to rise from 28% to 34.6%), which would not introduce an additional scheme. However, the exemptions on employer contributions would focus on contributory contributions, which could arouse the ire of the Constitutional Court.

Or the increase of the SMIC would take place through a PPE listed on the pay slip: it would be explicitly recognized as a supplement, which implies that the compulsory tax burden would increase, but also that the Constitutional Court could not oppose it, with the drawback that the supplement would fall with the level of the hourly wage, thus representing an additional administrative burden for business.

It seems obvious that there are no simple solutions.

[1] The Constitutional Court wrote, "... a single social security system would continue under the provisions in question, to finance, for all of its stakeholders, the same benefits despite the absence of payment by nearly one-third of them of all the employee contributions conferring entitlement to the benefits paid by the system; that, therefore, the legislature has created a difference in treatment, which is not based on a difference in the situation of those insured by the same social security scheme, and which is unrelated to the purpose of employee social security contributions."

[2] According to P. Domingo and M. Pucci, 2012, "Le non-recours au revenu de solidarité active et ses motifs", Annex no. 1 of the *Report of the Comité national d'évaluation du Rsa*.

[3] The *Rapport sur la fiscalité des ménages* by François Auvigne and Dominique Lefebvre, 2014, also points out deficiencies in the project.

[4] This is already the strategy recommended by Allègre (2014).

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.](#)

[\[1\]](#) 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 \(2014\)](#).

How can a basic income be defended?

By [Guillaume Allègre](#)

Following the submission of 125,000 signatures collected by organizations supporting the introduction of a basic income, Swiss citizens will vote in a referendum on a popular initiative on the inclusion of the principle of an unconditional basic income in the Swiss Federal Constitution.

An [OFCE Note \(no. 39 of 19 December 2013\)](#) analyses the grounds for supporting the institution of a basic income.

While a basic income can take many forms, its principle is that it is paid (1) on a universal basis, in an equal amount to all, without testing for means or needs, (2) on an individual basis and not to households, and (3) unconditionally, without requirement of any counterpart. A progressive version would add a fourth characteristic: it must be (4) in an amount sufficient to cover basic needs and enable participation in social life.

While this looks attractive, it is not easy to find grounds in terms of distributive justice that are consistent with these four characteristics of a guaranteed basic income. So long as there exist economies of scale and a political trade-off between conditionality and the level of minimum income, then in a Rawlsian perspective a system of guaranteed minimum income like the French RMI / RSA programme (family-based with weak conditionality) seems preferable to a pure basic income. In addition, the generalized reduction of working time seems more sustainable than a guaranteed basic income for achieving the ecological and emancipatory goals that are often attributed to a guaranteed basic income.

It seems that the main advantage of a guaranteed basic income is that its universality means that it does not cause any undue use or non-use and so does not stigmatize the net beneficiaries of the system. From this perspective, minimum income support could be turned into a universal benefit, which would be less stigmatizing. This allocation needs to take into account family composition and set conditions on social participation. It would involve checks on black market work and include incentives to work. It would be supplemented by specific policies to provide support for children, the elderly and disabled people, *i.e.* people who do not respond to incentives, and it would complement the insurance system (unemployment, retirement, illness). The social protection system would thus not really be simplified but transformed in such a way as to avoid stigmatization and the lack of take-up.

While a guaranteed basic income is not a stupid idea, nor is it the miracle reform pictured by its advocates, *i.e.* a veritable Swiss Army knife for reforming social welfare, a social and environmental emancipator.

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What minimum wage for Germany?

By Odile Chagny and Sabine Le Bayon

The campaign for the parliamentary elections taking place on 22 September in Germany has engendered a broad debate among all political forces about the consolidation of the welfare state. The SPD programme highlights the concept of social justice, while in its programme the CDU has taken up several of the SPD's main themes in the field of social welfare. The role of the welfare state has never been more central to a general election campaign since 2002. Despite this, the concern is not to move towards expanding the welfare state but the need for better quality in the welfare state, by correcting some of the negative consequences of Agenda 2010 [\[1\]](#). The fight against poverty at more advanced ages (through a revaluation of family benefits for older mothers and the introduction of a contributory minimum), the re-regulation of certain types of work (temporary) and the need to strengthen the minimum wage are all clearly reflected in the programmes of both the CDU and the SPD. Even the FDP, traditionally hostile to any notion of a minimum wage, has incorporated in its election platform the need for "adequate pay, even at the bottom of the wage scale". However, behind this apparent unity, the way such a minimum wage would work varies greatly between the parties.

The weakening of the collective bargaining system

In a country where there is no statutory national minimum wage, pay scales are negotiated at the regional or national level by the social partners in each business sector. But the

decline in the share of employees covered by a collective bargaining agreement (53% in 2012 in the old Länder, 36% in the new Länder, against, respectively, 70% and 56% in 1996), the weakening of the trade unions and the development of atypical forms of employment, particularly since the Hartz reforms, have led to an increase in the proportion of people earning a low wage, which is calling into question the protective role of the collective bargaining system for an entire segment of the population. In 2010, the share of low-wage workers [\[2\]](#) was 22.2% in Germany and 6.1% in France. The majority of the 8.1 million employees concerned ([Kalina and Weinkopf, 2013](#)) work full-time (45%), one-quarter occupy part-time jobs subject to social security contributions, and 30% are employed in “mini-jobs”. The range of workers earning a low wage (less than 9.14 euros [\[3\]](#)) is broad: 1.8 million receive less than 5 euros per hour, 2.6 million between 5 and 7 euros, and 2.5 million between 7 and 8.50 euros.

The debate over the introduction of a statutory minimum wage dates back to the 1990s. For a long time, however, this was confined to a few sectors, construction in particular, based on a rationale of dealing with wage competition from businesses in the new Member States of the European Union, who sent their employees to Germany under pay conditions that were much below those provided for by collective bargaining. It was not until the mid-2000s that the first joint trade union call for a national minimum hourly wage (7.5 euros per hour) was finally made ☐by the DGB (the German confederation of trade unions) and that concerns over income support gradually came to outweigh concerns over wage dumping. This level was upgraded to 8.5 euros as of May 2010.

SPD and CDU/CSU/FDP: Two different visions of the minimum wage

While all the major parties put forward a desire to establish a minimum wage, there is not much consensus about the practical arrangements.

The SPD is proposing the introduction of a statutory minimum wage of 8.5 euros per hour (gross), which would apply to all employees, regardless of the minimum wage agreed for any particular sector. The point is, as was noted by the SPD candidate, Peer Steinbrück, during a debate he had with Angela Merkel in early September, to put an end to the “patchwork of minimum wages that exists from sector to sector and region to region”. Some 6.9 million people would see their hourly wage revalued ([Kalina and Weinkopf, 2013](#)) by 30% on average and by over 80% for the 1.8 million employees earning less than 5 euros per hour. About one-fifth of employees would be affected, more than half of whom have a “normal” job (subject to social security contributions). This would result in large-scale shocks both to income (for households) and to competitiveness (for companies), and would pose a real challenge to the low-wage economy that now characterizes certain sectors (agriculture, food, retail, hotel and catering, security and cleaning, etc.).

Because of this, the issue of the minimum wage is inseparable from the future of “mini-jobs”, the 7 million posts that pay less than 450 euros per month (400 euros prior to April 2013), which are exempt from employee social charges and income tax and which give virtually no access to social rights. In the case of the introduction of a national minimum wage of 8.5 euros per hour, these employees would represent nearly 40% of those whose wages would be revalued.

It should not be forgotten that one of the key measures of the first SPD-Green government led by Schröder was in 1999 to severely restrict the growth of “mini-jobs”, which were charged with 1) promoting the casualization of employment by replacing normal jobs that are subject to social charges, and 2) not offering social security coverage. Three years later, the Hartz Commission proposed facilitating the recourse to mini-jobs so as to develop sectors with low-skilled work.

Numerous studies have recently revealed blatant violations of

labour law (lack of compliance with regulations on sick leave, on paid holidays, etc.) and unacceptably low hourly wages in these jobs (Bäcker and Neuffer 2012 [\[4\]](#), [Bundesministerium für Familie, 2012](#)). It is therefore not surprising that all the major parties (except the FDP) have included in their election manifestoes a commitment to reforming “mini-jobs”. But whereas the CDU is only targeting violations of labour law, the SPD programme goes further. The introduction of a minimum wage of 8.5 euros (gross) per hour would in effect limit companies’ interest in making use of “mini-jobs”. Furthermore, given the monthly ceiling on the maximum payment for “mini-jobs”, setting a wage of 8.5 euros per hour would amount to introducing a time limit on these jobs of about 13 hours per week. This would not be far from the limit of 15 hours per week that was suppressed by Hartz Law II in 2003 ... as part of Agenda 2010 [\[5\]](#). More generally, the entire political economy underlying these jobs would be called into question, as their rationale is to provide extra compensation that is exempt from social security contributions for employees in sectors with low minimum wages.

The CDU proposal on the minimum wage aims both at facilitating the extension of existing agreements (that is to say, to reform the process by which a collective agreement becomes mandatory for all the companies in the sector in question) and at requiring sectors without a collective agreement to set a minimum wage. A desire to secure protection against wage competition from companies that do not adhere to collective agreements and from East European companies who post their employees in Germany [\[6\]](#) has led several sectors to resort to these extension procedures in recent years. However, while an extension like this is virtually automatic in France, this is far from the case in Germany, even though the procedure was simplified in 2009. The CDU therefore proposes a “least burdensome approach”, that is to say, government intervention only in cases where the social partners have failed. The aim is to deal with situations where there is an “agreement

vacuum” and allow a maximum number of employees to be paid according to collectively agreed minimum wages, while enabling the social partners to fix the level, since the CDU believes that minimum wage differentials help to take into account the diversity of regional and sectoral situations.

The CDU, which is unlikely to be able to govern alone in the next Parliament, has not gone farther than this for the time being, pending the outcome of the elections. Depending on which party it will govern with, the decisions about how low wages are regulated can differ greatly.

Here it is worth summarizing the numerous limitations of the current arrangements for the State’s extension procedure, which set the context for the CDU’s proposal:

- – When the same sector has a number of different collective bargaining agreements, the extension procedure becomes more difficult, as it is necessary to determine which one is most representative and which ones could be controversial. This is what happened in the postal sector, where two competing collective bargaining agreements co-existed: one covering employees of Deutsche Post, the former monopoly in the sector, and the other covering employees of competitors for whom minimum wages were much lower. The government decided to extend the agreement signed in Deutsche Post to the entire sector, but the competitors complained, and the extension procedure was overturned by the Berlin Court [\[7\]](#).
- – Negotiations on a sector’s minimum wages are renewed regularly (every six months or every one or more years). But when renegotiation fails, several months may elapse during which no minimum is in effect, and employers have sometimes seized the opportunity to hire employees at wages that are 30% below the previous minimum. This is what happened for instance in late 2009 in the industrial cleaning business ([Bosch and Weinkopf 2012](#)).

- – The minimum in a sector can vary greatly, and some of them do not protect workers against the risk of poverty. Thus, according to data from the [WSI-Tarifarchiv \(March 2013\)](#), 11% of collective agreements in late 2012 provided for a minimum of less than 8.50 euros, the threshold proposed by the SPD as the statutory minimum wage, which is below the threshold for a “low wage” (9.14 euros).

The impact of the proposals of the various parties on changes in employment is difficult to estimate from studies conducted recently in Germany ([Bosch and Weinkopf 2012](#)), if only because the studies have focused on the introduction of minimum wages in isolated sectors, covering only a limited proportion of employees. This would not be comparable to the introduction of an industry-wide minimum wage that affected at least a quarter of employees, that was not differentiated, or even with the generalization of collectively agreed minimums. The goal is now for the maximum of employees to receive a “decent” income, even if the level of the latter differs depending on the programme. It is also to curtail certain atypical forms of employment. Notably, in a number of sectors the studies conducted show that the introduction of a minimum wage leads to a change in the structure of employment, with fewer “mini-jobs” and more “normal” jobs (subject to social security contributions), due to the regular checks conducted to ensure compliance with the minimum wages in the companies. Whatever the election results, the measures adopted will in any case point in the direction of correcting the most egregious injustices in terms of compensation, especially with respect to “mini-jobs”.

[\[1\]](#) Agenda 2010 includes all of the reforms implemented in Germany by the SPD-Green coalition between 2003 and 2005, which focused on labour market reform (called the Hartz reforms) (for more on this, see e.g. [Hege 2012](#), [Chagny 2008](#)).

[\[2\]](#) These are employees receiving less than 2/3 of the median gross hourly wage.

[\[3\]](#) In 2011, the median gross hourly wage in Germany was 13.7 euros.

[\[4\]](#) “Von der Sonderregelung zur Beschäftigungsnorm : Minijobs im deutschen Sozialstaat” [On special employment standards: Mini-jobs in the German welfare state], WSI Mitteilungen 1/2012.

[\[5\]](#) Not to mention the fact that as a result it would be necessary to completely revamp the support for low-wage workers provided by exemptions on employee social charges.

[\[6\]](#) When companies from a Member State send their workers to another State, they are required to meet the minimum standards (working time, wages). The posting of workers has been governed by a 1996 EU Directive. These postings, which are growing in number, are posing a number of problems (social dumping, unfair competition, deterioration in working conditions) ([Metis 2013](#)).

[\[7\]](#) For further information, see: [“Vrais et faux enjeux de la controverse sur les salaires minima légaux en RFA” \[True and false issues in the controversy over the statutory minimum wage in the RFA\], Karl Brenke, *Regards sur l'économie allemande*, no. 94, 2009.](#)