

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.

Rent control: What is the expected impact?

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[The decree on rent control](#), which was published in the *Journal*

officiel on 21 July, takes effect on 1 August 2012 for one year. The measure was announced in January 2012 during François Hollande's presidential campaign. It has now been adopted, while awaiting the major reform of landlord-tenant rental relations that is scheduled for 2013.

Difficulties in finding housing and deteriorating living conditions for an increasing share of the population point to growing inequality in housing. This inequality is undermining social cohesion, which is already being hit by the economic crisis. For many people, homeownership is becoming a problematic proposition due to the rising cost of buying, while applications for the allocation of social housing remain on hold for lack of space, and the private rental market is becoming increasingly expensive in large cities because of the soaring price of property. Rent control in these cities is serving as an emergency measure to slow the price increases. This poses a challenge of keeping investors in the private rental market, which is already characterized by a shortage in housing supply and very low rental returns (1.3% in Paris after capital depreciation).

The decree aims to significantly lower market rents [2], which are being driven up by rents at the time of re-letting, *i.e.* during a change of tenant. Unlike rent during the lease period or upon renewal of a lease, which are indexed to the IRL rental benchmark, until 31 July 2012 rents for new tenants were set freely. In 2010, this applied to nearly 50% of re-lettings in the Paris area (60% in Paris). Now, in the absence of major renovations, these will be subject to control. Only rents for new housing that is being let for the first time or renovated properties (where the renovation represents more than one year's rent) will remain uncontrolled (Table 1).

Table 1. The method of setting rent under current law

Legal framework set by	Renewal of lease	Re-letting	First letting and new housing
Act of 6 July 1989 as modified	<ul style="list-style-type: none"> - Indexed to the IRL - In case of obvious under valuation, re-evaluation over 3 years or 6 years if the difference is greater than 10% - In case of renovations, increase agreed in advance between the landlord and tenant 	Uncontrôle	Uncontrôle
Decree for the Paris region	<ul style="list-style-type: none"> - Indexed to the IRL - In case of obvious under-or renovation for an amount at least greater than 1 year's rent, authorized increase of half the difference between the last rent and the market rent or of 15% of the actual cost of the renovation (tax incl.) 	Uncontrôle	Uncontrôle
Decree of 21 July 2012 (applicable in the relevant municipalities)	<ul style="list-style-type: none"> - Indexed to the IRL - In case of obvious under-valuation or of renovation for an amount at least greater than 1 year's rent in the private or common areas, authorized increase of either half of the difference between the last rent and the market rent or of 15% of the actual cost of the renovation (tax incl.) 	<ul style="list-style-type: none"> - Indexed to the IRL - In case of an obvious under-valuation or of renovation for an amount between 6 month's rent and 1 years' rent in the private or common areas, authorized increase either of half of the difference between the last rent and the market rent or of 15% of the actual cost of the renovation (tax incl.) - Uncontrolled if renovation of at least 1 year's rent 	Uncontrôle

By using the [data from the Observatoire des Loyers de l'Agglomération Parisienne](#), along with the hypotheses set out in the [OFCE Note \(no. 23 of 26 July 2012\)](#), "Rent control: what is the expected impact?", we evaluated the impact this decree would have had if it had been implemented on 1 January 2007 and made permanent until 2010. According to our calculations, this decree would have resulted not only in sharply slowing increases in rents for re-lettings during the first year it was applied (+1.3% in the Paris area, against 6.4% observed), but also in stabilizing or even reducing rents at the time of the next re-letting, *i.e.* in our example, three years later (in 2010, 0% in Paris and -0.6% in the Paris region). Finally, in 2010, rents would have been 12.4% lower in Paris and 10.7% lower in the Paris region than they would have been in the absence of the measure. This means that in Paris, rents would have been about €20.1 per sq.m instead of the rate of €22.6 per sq.m actually observed (Table 2). For an average size dwelling (46 sq.m) re-let in Paris, the monthly rent would thus have been €924 instead of €1,039, a savings for the tenant of €115 per month. For the Paris region as a whole, using the same assumptions, the rent upon re-letting would have fallen on average to €15.9 per sq.m, instead of the

actual €17.8 per sq.m. For an average rental area upon re-letting of 50 sq.m, the gain would be €95 per month!

Over the longer term, the decree would make it possible to reduce the gap between sitting tenants in place for more than 10 years and new tenants (a gap of 30% in 2010 in the Paris region and 38% in Paris itself), and to improve market fluidity.

Currently, what possibility is there of moving if the mere fact that a couple has children increases the price per sq.m by over 15% in the Paris region? Similarly, the financial incentive to move for a couple living in a four-room 80 sq.m dwelling whose children have left home is zero, because the rent for a 60 sq.m unit with 3 rooms would cost just as much. This premium on being sedentary increases the pressure on the rental market and encourages households to stay in properties that are not suited to their needs, and even hampers labour market mobility.

Can this measure encourage mobility and restore household purchasing power? In the short term, it will certainly benefit the most mobile households by limiting the increase in the share of their budget spent on housing [3]. But these are the households facing the least constraints on income, that is to say, those with high incomes or a relatively low share of income spent on housing. It will also benefit households that are forced to move or those who are running up against the limits on their finances. For all these households, the increase in the share of income on housing will be lower than it would have been without the decree. In contrast, for low-income households whose share is already high [4], the decree won't change anything, because they can ill afford the additional cost of re-letting.

Table 2. Simulated change in rents upon re-letting in the Paris region using the hypothesis that the decree took effect on 01 Jan 2007

	Rents noted letting on 31/12/2006	Rents after re-letting on 01/01/2007	Change in 2007	Rents on 31/12/2009 after indexing to IRL and before re-letting	Rents on 01/01/2010 after letting	Change in 2010	Gap between observed and simulated rents upon re-letting in 2010
PARIS		19 €/m ²	2.2 %	20.1 €/m ²	20.1 €/m ²	0 %	-12.4 %
Actual	18.6 €/m ²	(20.1 €/m ²)	(+ 8.3 %)	(20,9 €/m ²)	(22,6 €/m ²)	(+8,3 %)	
PARIS REGION		15.4	1.3%	16 €/m ²	15.9 €/m ²	-0.6 %	-10.7 %
Actual	15.2 €/m ²	(16.2 €/m ²)	(+ 6.4)	(16.9 €/m ²)	(17.8 €/m ²)	(+5.7 %)	

What are the risks?

While there are real benefits to be expected, these would still need to be made viable by the application of this decree, or at least by the next Act. Besides the difficulty of implementing the decree (absence both of reliable mechanisms to monitor rents in the areas concerned and of a legal framework to allow tenants to assert their new rights), the impact of this measure will be positive for tenants only if the rental supply does not shrink (by maintaining current investors in the market and continued new investment) and if landlords do not seek to offset future rent control by raising the rent at the time of the first let.

Likewise, the realization of improvements in line with the Grenelle 2 environmental consultation or simply maintenance work could wind up being abandoned due to the lengthening of the amortization period for landlords compared with the previous situation. Conversely, some owners might be encouraged to carry out major renovations (in excess of one year's rent) and "to upgrade the dwelling" in order to be able to freely determine the rent. This would give the landlord a margin of safety to offset any subsequent shortfall. These increases, if they occurred, would penalize less creditworthy tenants and would promote the process of gentrification already at work in the areas under greatest pressure. We could then see increasing differences between the market for

“rundown housing” and that for renovated housing.

This decree should in the short term limit the extent of disparities in the areas under greatest pressure, at no cost to the government. But it will not solve the problem for the poorest households of the share of income going to housing: to do this, it is necessary to increase the stock of social housing, to improve its fluidity and to significantly upgrade housing subsidies [5], which would require a major financial effort. The fundamental problem remains the lack of supply, particularly in urban areas, where by definition the available land is scarce and expensive, with higher rents simply passing on the price of property. However, to ease housing prices, more land needs to be available, with a greater density where possible, transport needs to be developed to facilitate the greater distance travelled between residential areas and workplaces, and so on. These are the levers that need to be used if we are to improve the housing conditions of less well-off households.

[1] The decree applies in municipalities where the rent increases seen over the period 2002-2010 were more than double the increase in the IRL benchmark (*i.e.* 3.2% per year) and the market rent per sq.m exceeds the national average outside the Paris region (€11.1 /sq.m) by 5%. This includes nearly 1,400 communes in 38 cities (27 in metropolitan France and 11 in overseas departments).

[2] There are two types of rent: the average rent is the rent of all rental housing, whether vacant or occupied; and the market rent is the rent of all dwellings available on the rental market, *i.e.* new rental accommodation and re-lettings. This is very close to the rent for re-lettings, as residences for first-time lets represent only a small portion of the

available supply.

[3] This share has increased for 15 years for households in the private rental sector, and particularly the less well-off.

[4] In 2010, more than half of private sector tenants spent an income share on housing (net of housing benefit) of over 26.9%, but above all, the share was 33.6% for the poorest 25% of households.

[5] According to the IGAS report "Evaluation of personal housing assistance", in 2010, 86.3% of rents in the private rental sector were greater than the maximum rent taken into account for calculating housing benefit. Any increase in rent is thus borne entirely by the tenant.