

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

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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<sup>[2]</sup>.
- Once the law is in force, it is a bipartisan commission of the social partners that will decide on changes in the minimum wage every two years. The commission will meet for the first time in 2016 and if needed the first adjustment will take place in 2017.
- Furthermore, sector-wide agreements that set working conditions (pay scales, holidays, maximum hours, etc.) will be more easily extended to all the workers in a sector (because the minimum wage law also aims at strengthening the procedures for extending collective agreements, which currently are rarely used). The outcome of collective bargaining will thus cover more employees.

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

wage to 8.50 euros in January 2014 in the old Länder, with provisions to introduce it in June 2016 in the new Länder.

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

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

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

Furthermore, the labour inspectorate will need to have substantial resources to monitor the application of the law, because at the moment 36% of employees earning less than 8.50 euros gross per hour do not have their work hours specified in their employment contract, or perform unpaid overtime. Checks by the labour inspectorate will therefore be crucial,

especially as 70% of employees earning less than 8.50 euros per hour are in enterprises without a works council [\[3\]](#), which makes enforcement of the law particularly difficult. Finally, there is a risk of seeing an increase in recourse to self-employment that is paid by the task (*i.e.* without a scheduled work time) at the expense of employees on conventional contracts or those hired on mini-jobs, jobs for which there is no longer any requirement to set the hours of work and whose employees do not pay employee social security contributions or income tax.

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

The impact on competitiveness is likely to differ widely across sectors. According to [Brenke and Müller \(2013\)](#), there will be a 3% increase in total payroll. With the exception of the food industry, whose competitiveness has been based on a significant level of wage dumping, and where the introduction of a minimum wage is likely to be strongly felt (except where the law is circumvented in one way or another), industrial exporters, whose salaries are generally higher ([INSEE, 2012](#)), will not be affected much by the introduction of a minimum wage. They will however be hit indirectly, since they have outsourced a number of activities during the last decade to service enterprises that have lower costs. In many companies,

high margins should nevertheless permit them to limit any rise in production costs. For labour-intensive sectors that cannot be relocated (beauty salons, taxis, etc.), prices should on the other hand increase significantly, which could limit the positive impact on the purchasing power of employees benefitting from the minimum wage.

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

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

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

[\[2\]](#) The newspaper delivery business is an exception insofar as it is the State that has mandated a gradual increase in the minimum to 8.50 euros in 2017.

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

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