



No. 147 / 2013
25'11'13

Institute for Western Affairs
Poznań

Author:
Tomasz Budnikowski

Editorial Board:
Marta Götz
Radosław Grodzki
Krzysztof Malinowski

Role of the minimum wage in post-electoral coalition talks in Germany

Although a whole two months have passed since the parliamentary election in Germany, the new cabinet appears to be far from formed. After talks with the Green Party initiated by the winning *CDU/CSU* alliance, which by the way were doomed to fail all along, negotiations were launched to establish the grand coalition. If such negotiations succeed, Germany will see its third government in history made up of the two parties often described as *Volksparteien* or people's parties, i.e. the Christian Democrats and the Social Democrats (*SPD*).

A demoscopic study conducted within the last two weeks shows clearly that such a solution would satisfy the majority of German voters. The two leading parties have already set up 12 main and 4 auxiliary working groups to forge a compromise coalition agreement. The next step is to form the cabinet which, as envisioned by the outgoing/newly-elected Chancellor, should take its final shape before Christmas.

Reports from working group meetings and information leaking unofficially from the press suggest that, contrary to the pre-election reckoning, the junior partner, i.e. the *SPD*, seems to be growing stronger. Note that *SPD* only secured 25.7% of the vote in the September 22 election earlier this year in contrast to the astounding 41.5% of the vote garnered by the German Christian Democrats and its sister party Christian Social Union (*CSU*). The alliance came very close to acquiring the exclusive power to call the shots in German politics in the coming four years.

Statements made in the coalition talks suggest surprising willingness on the part of Christian Democrat politicians to make far-reaching concessions to their coalition partner. Contrary to pre-election promises, Angela Merkel's team are prepared to accept, among others, the prescribed SPD-promoted quota of women on the supervisory boards of German companies listed on the Frankfurt stock exchange and make gradual concessions towards increasing the retirement age. Especially noteworthy is the "softening" of Christian Democrats' position on one of Social Democrats' flagship electoral postulates, which is to adopt a minimum wage country-wide. It is in fact peculiar that Germany remains among the handful of countries which have failed to adopt such a wage floor. What is even more bewildering is that before the *Hartz* reform, which was of fundamental importance for Germany, the country stood out with its high degree of regulation. The best example of this were the principles concerning employee dismissals, collective agreement pay terms, working time and additional social benefits. And yet, the lack of a general minimal wage regulation in Germany does not mean the country has no minimum wage rules whatsoever. According to statistics, as many as 4 million workers in Germany have their minimal remuneration guaranteed by industry-wide collective agreements whose terms have been extended to apply to entire sectors by decisions of the Federal Minister of Labor. This *sui generis* minimum hourly wage ranges from €7 to €13.70 depending on the region.

While many countries, particularly in the Anglo-Saxon community, have adhered to the hire-and-fire model of labor relations, even they commonly rely on the mandatory minimum wage. The arrangement is used by the majority of countries around the globe, including 21 of the 28 member states of the European Union. The minimum wage was first adopted in the United States in the late 1930s. This was, without a doubt, a response to the Great Depression experienced in the first half of that decade. Nearly 80 years on, the minimum wage is still to become compulsory in all states. As for Europe, the minimum wage was pioneered by France where it has been in place since as early as 1950, due to the strong position at that time of the country's trade unions. Weak trade unions, on the other hand, have caused the UK to postpone the adoption of a similar policy until as late as 1998. While the solution can also be found in the post-Communist countries of Europe, it is still to arrive in Scandinavia and Switzerland.

As shown by the experience of minimum wage countries, the central concern is that of the actual minimum wage rate. The issue is not its nominal amount but rather its relation to the wage average. The minimum wage rate obviously corresponds to the strength of a given country's economy. Not surprisingly, therefore, a resident of Luxembourg has a guarantee of earning at least the gross monthly amount of €1874, a resident of Belgium: €1500, and a resident of France €1430. On the other hand, a Romanian citizen working in



his home country, which is the poorest in Europe, has a guarantee of earning a minimum of ... €157. The rate in Poland stands at €377. Notably, Slovenia (€784), which joined the European Union a decade ago, has advanced ahead Greece, Spain and Portugal.

As for the ongoing post-electoral debate in Berlin, one should firstly note how high a minimum wage is being demanded by the Social Democrats. Their electoral promise was to adopt the minimum hourly wage of €8.5. The Party's Secretary General Andrea Nahles described the rate as a red line which cannot be crossed. By having the rate accepted, the Party would succeed in placing the wage floor at 53% of the national average. The demand hardly appears exaggerated or inconsistent with the rates adopted in other leading economies. The most "generous" of them, i.e. France, has adopted a minimum wage of 48% of the average remuneration. The corresponding figures for Belgium and the Netherlands are 43% and 41% respectively. The rate in Poland amounts to 37%, while that of the United States, a country known for its glaring wage inequalities, is as low as 29%.

Were a general minimum wage adopted, slightly over 6% of the working population would be eligible to receive it. Such pay would go to 16% of persons employed in the old federal states and 32% of the residents of the former East Germany. The biggest percentage of low wage earners can be found in agriculture, forestry, trade and the restaurant business. Upwards of 40% of agricultural workers make less than €8.5 per hour. The corresponding shares in trade and the restaurant business are above 30%. Many of these people have very little education and no vocational training. The new system established by the *Hartz* reform has forced persons who had previously remained "on the dole" to take up employment. However, since a large proportion of the employed earn very little, they remain dependent on state benefits. The estimated total state benefits for the lowest income groups are approximately €4 billion per annum. The solutions proposed by the *SPD* would free the state of its obligation to finance them. However, considering that the individuals who would become eligible to receive the minimum wage have very limited professional skills, it is essential to set the minimum wage rate at a proper level. It seems that K. Benke of the Berlin Institute for Economic Research is right in suggesting that the minimum wage rate be kept relatively low - i.e. below €7 per hour - in the early phase after the new scheme is adopted. A great number of German labor market analysts believe that, if adopted, the Social Democrats' proposal may have adverse effects. Nevertheless, despite certain fears to the contrary, one can hardly expect that German enterprises might be driven out of the country. The main reason why such a scenario is unlikely is that most low paying jobs are in segments whose mobility is naturally minimal. However, certain studies show that the new scheme could increase unemployment by a million people.



In view of the above, one might suppose that the *SPD*'s cornerstone proposal will be unaffected by the opinions expressed in the Annual Report on the State of the Economy. Produced by a group which has enjoyed excellent reputation for many years, the Report was presented on November 13 of this year. Its authors are vehemently opposed to any attempts to impose an administrative mechanism to regulate pay.

The theses included in this text express the opinions of the author only.

Tomasz Budnikowski – professor at the Institute for Western Affairs in Poznań; economist; research interests: Polish and global labour markets, the economy of Germany, catholic social teaching.

