



Wage Bargaining in Germany

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Content

Free collective bargaining and sector-level agreements

Decentralisation and wage moderation

Decline of collective bargaining density and union competition

Recent trends and political discussion

Key elements of collective bargaining in Germany

- ▶ Free collective bargaining: positive and negative freedom of association
- ▶ Negative freedom of association has led to strong outside competition
- ▶ Sector-level bargaining: strong internalisation of external wage-policy-effects by unions because Germany is an open economy
- ▶ Tariff uniformity: the principle „one company, one trade union“ has protected against union competition for a long time, but recently abolished by the labour court

Wage moderation: background

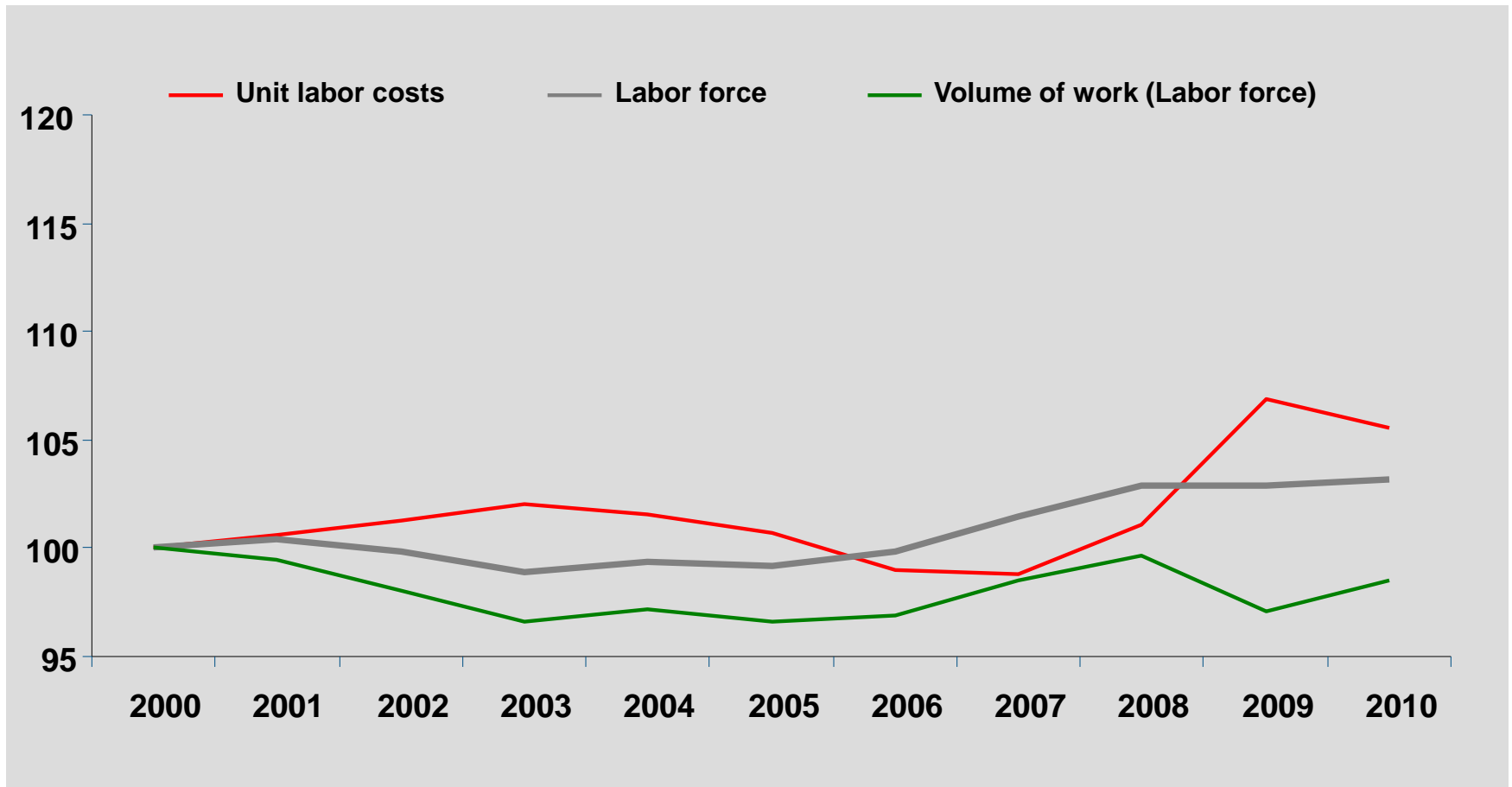
- ▶ Since the mid 1990s Germany has seen a remarkable evolution of wage moderation; this evolution evolved not randomly, it originates from an economic background
- ▶ 1991 - 1995: Schemes for east-west-wage equalization/adjustment; sharp wage increases in the east but also in the west
- ▶ Increase in unemployment due to economic crisis in 1992/93 after the reunification-boom and the market-transformation-process in the east
- ▶ Globalisation induces increasing pressure on labour costs in export industries
- ▶ Increasing criticism of the inflexibility of sector-level collective agreements in the 1990s

Wage moderation: empirical findings since 2000

- ▶ Nearly constant nominal labour unit costs
- ▶ Productivity-based wage policy: wage increases in single branches are based on the average productivity growth of all sectors, not on branch-productivity
- ▶ Collectively agreed wages and gross pay are running parallel; nearly constant wage drift
- ▶ Wage differentiation between manufacturing and service sectors
 - ▶ Productivity based wage policy in manufacturing; between 2004 and 2007: wages grew less than productivity
 - ▶ In services wages rose faster than productivity; small productivity gains, but wage costs were partly passed on to prices as far as this was possible within the competitive environment; negative wage-drift

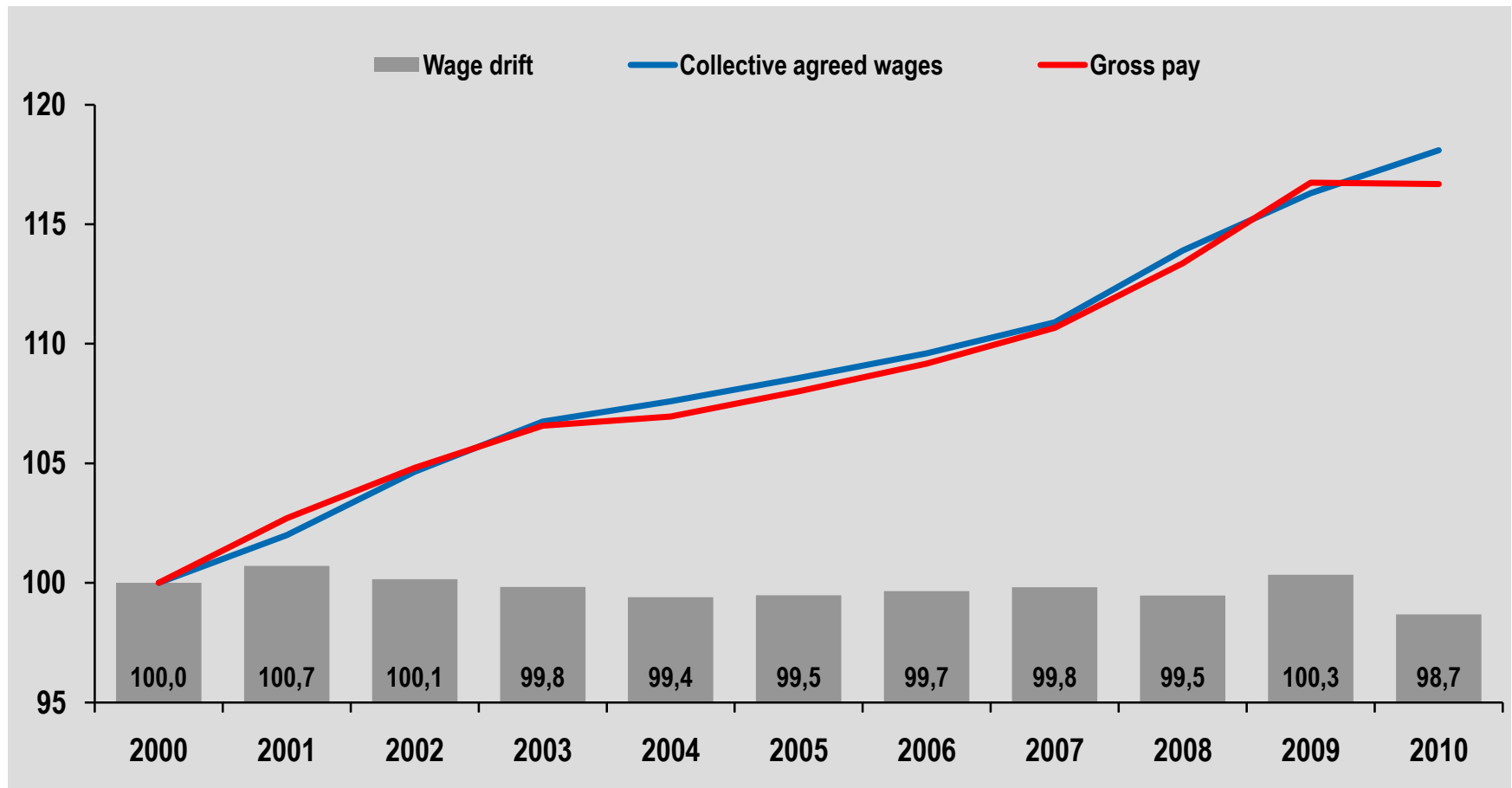
Unit labour costs, civilian employment, volume of work

All sectors; Index 2000 = 100



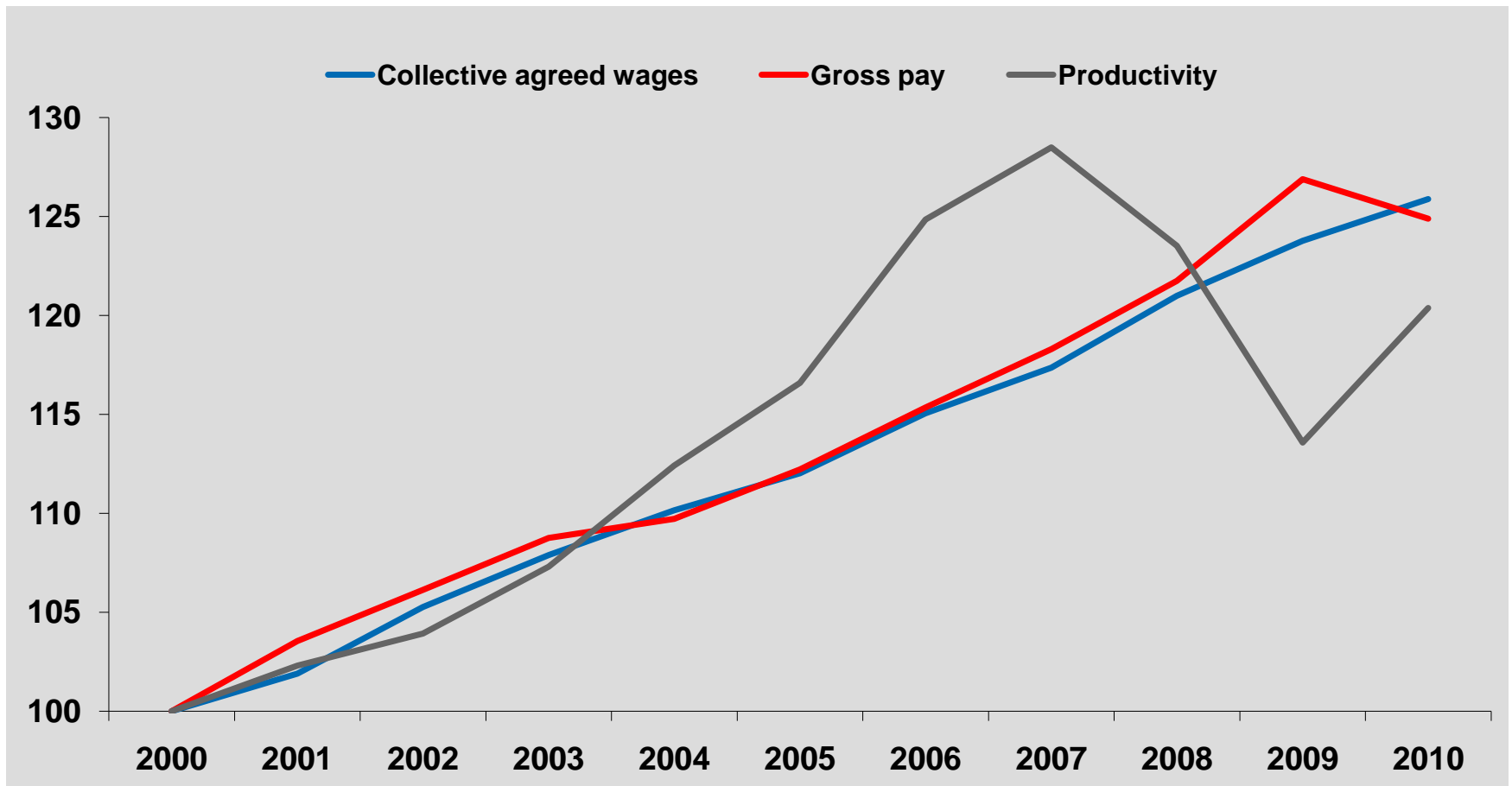
Sources: Statistisches Bundesamt; Institut der deutschen Wirtschaft Köln

Collectively agreed wages, gross pay and wage drift per hour; all sectors; Index 2000 = 100



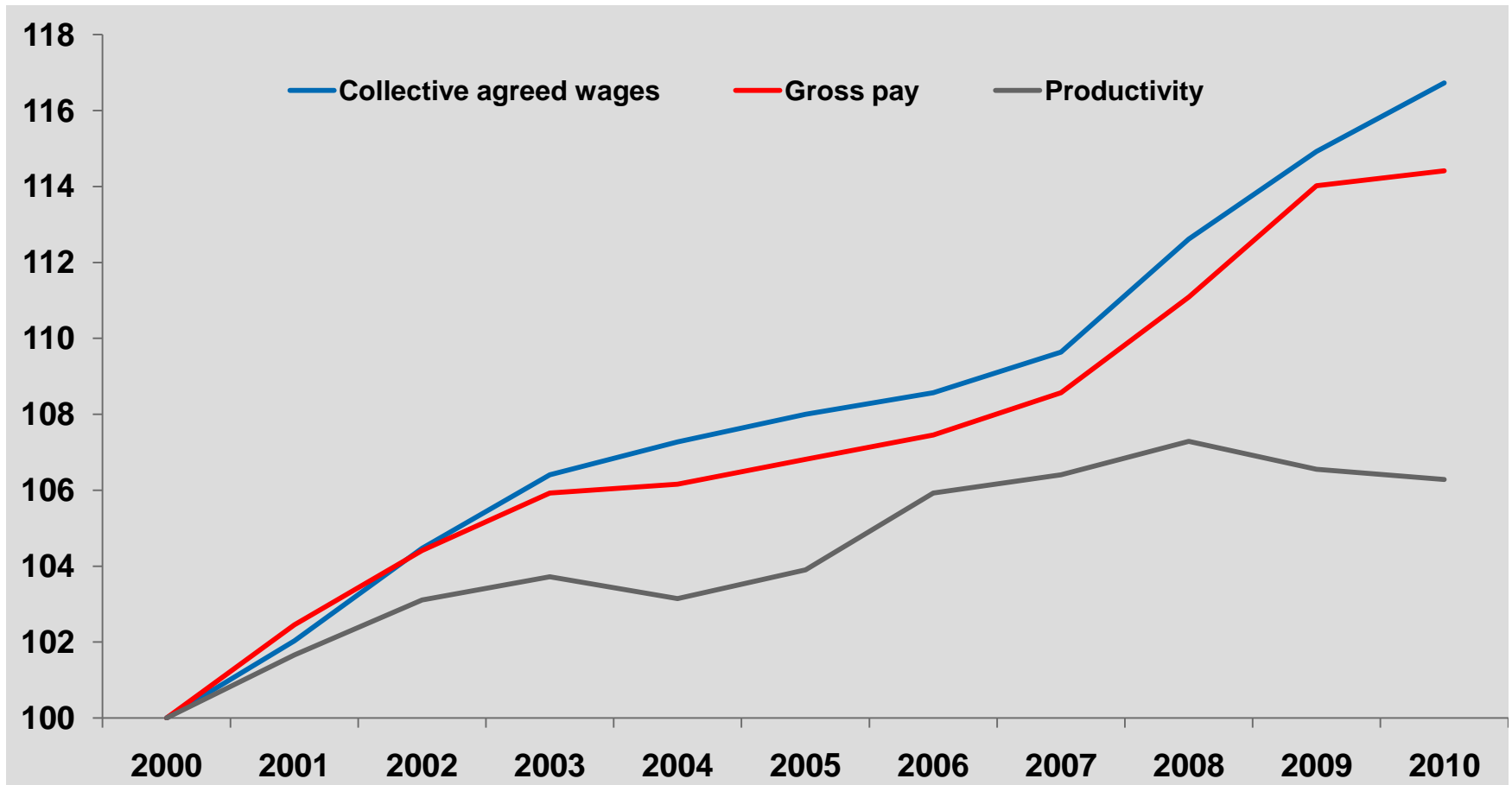
Sources: Deutsche Bundesbank; Statistisches Bundesamt; Institut der deutschen Wirtschaft Köln

Collectively agreed wages, gross pay and productivity in manufacturing (incl. mining and energy)



Sources: Deutsche Bundesbank; Statistisches Bundesamt; Institut der deutschen Wirtschaft Köln

Collectively agreed wages, gross pay and productivity in services (incl. construction)



Ongoing wage moderation: main causes

- ▶ Decentralisation by introducing opening clauses
- ▶ Declining coverage rate of collective agreements
- ▶ Declining unionisation
- ▶ Structural weakness of unions in services
- ▶ High unemployment
- ▶ Wage pressure by expanding atypical employment (fringe-jobs, temporary work, fixed term employment)
- ▶ Union competition and wage pressure (christian unions)

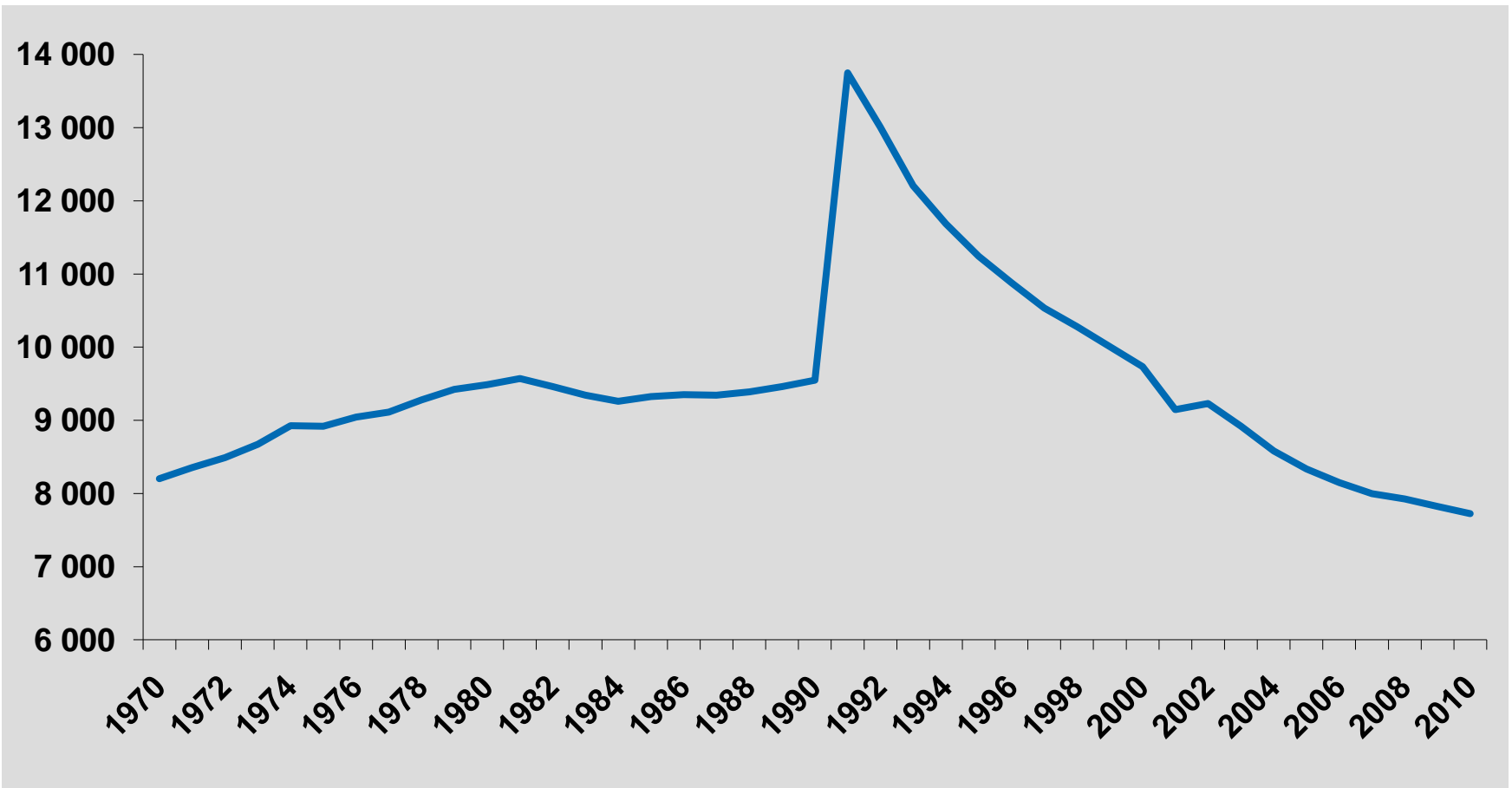
Opening clauses

- ▶ **Essential part of most collective agreements (after a long and hard road)**
- ▶ **Different kinds of opening clauses**
 - ▶ Working time: reduction of weakly working hours and wage cutting (since the economic crisis of 1993/94) in order to avoid layoffs
 - ▶ Wages: reduction of monthly wages or of collectively agreed bonus payments in order to avoid layoffs
- ▶ **Using of opening clauses in the past – different findings:**
 - ▶ Up to 75 per cent of businesses with 20 and more employees (source: WSI works council survey)
 - ▶ Of businesses which are aware that opening clauses may be applicable, one in two made use of this instrument in 2005 (IAB establishment panel)

Declining coverage rate of collective agreements

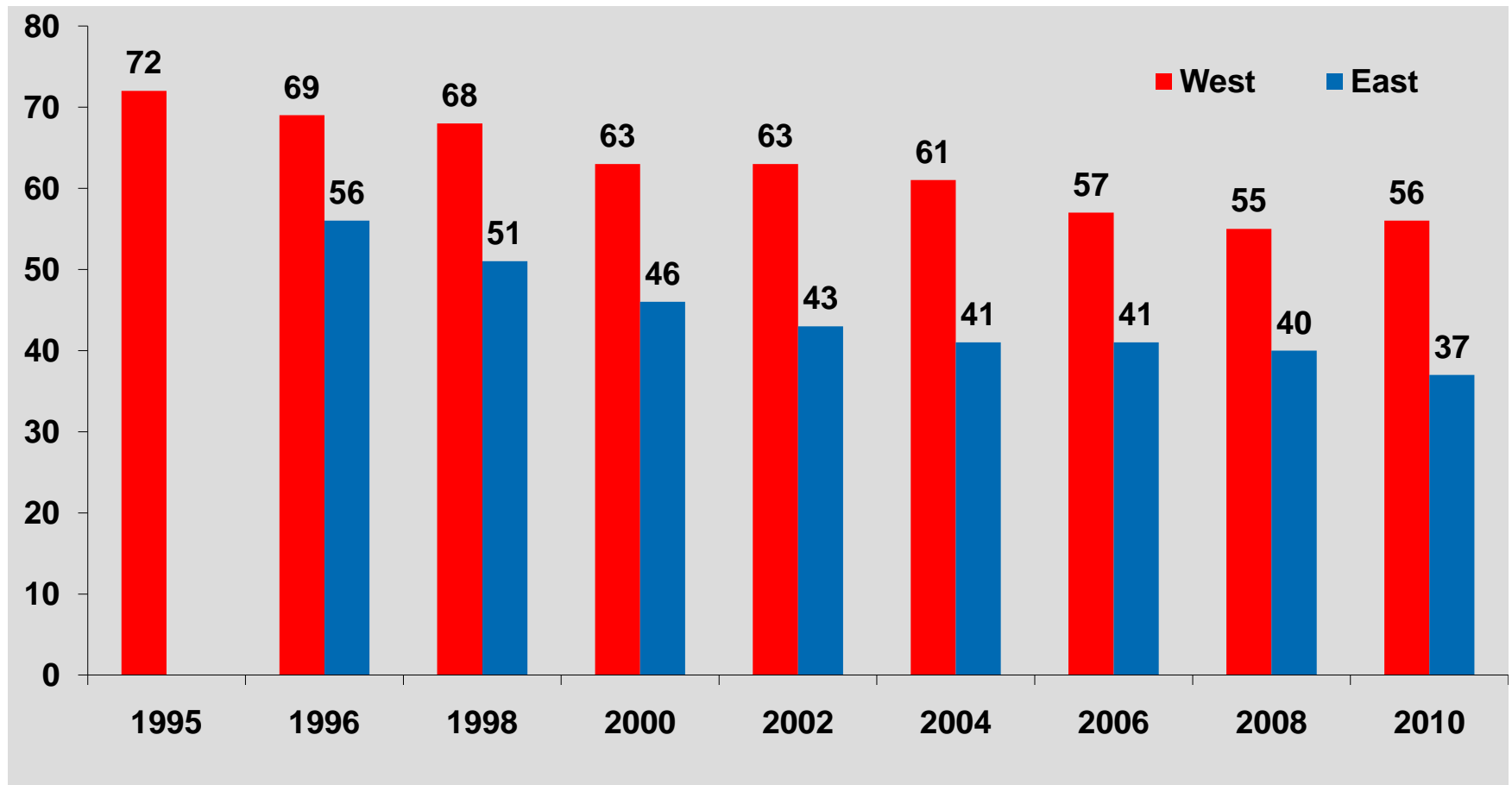
- ▶ Unions and employers federations lost a lot of members
- ▶ Formation of special employer federations without the obligation to use collective agreements (OT-Verbände)
- ▶ Termination of collective bargaining associations (in public service, banking industrie, vehicle trade, East-German construction industry)
- ▶ Sharp decline in coverage rates of sector-level agreements
 - ▶ West: 72 per cent coverage rate of *employees* in 1995, only 56 per cent in 2010; but stabilisation in recent years; 53 per cent coverage rate of *businesses* in 1995, only 34 per cent in 2010
 - ▶ East: 56 per cent coverage rate of *employees* in 1996, only 37 per cent in 2010; 28 per cent coverage rate of *businesses* in 1996, only 17 per cent in 2010
 - ▶ But: 40 per cent of these establishments not covered by collective agreements are voluntarily guided by collective agreements

Trade unions: membership since 1970; in thousands



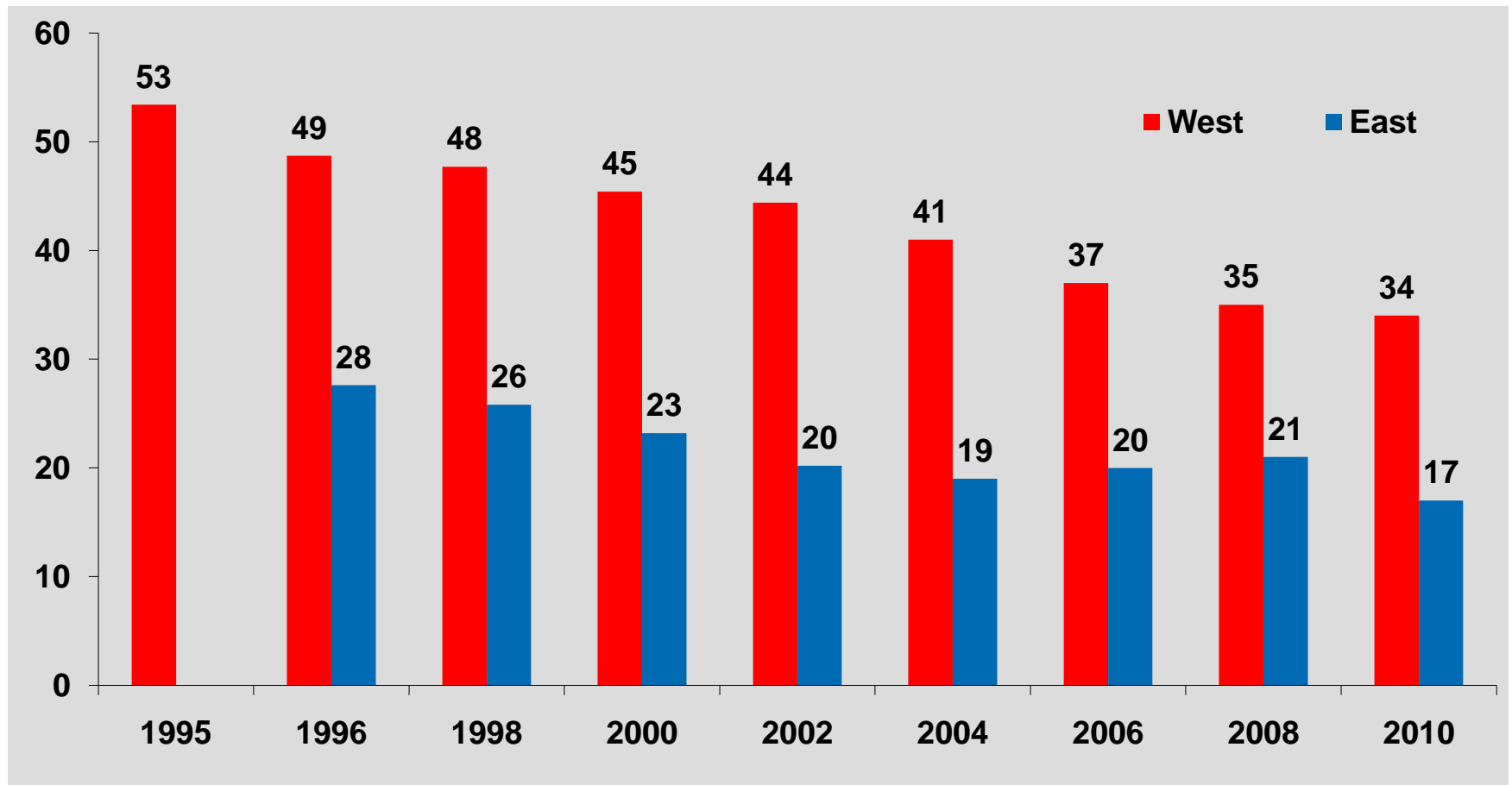
Sources: Unions; own calculations

Coverage rate of sector-level agreements, wage and salary earners; as percentage of all wage and salary earners



Source: IAB establishment panel

Coverage rate of sector-level agreements, businesses as percentage of all businesses



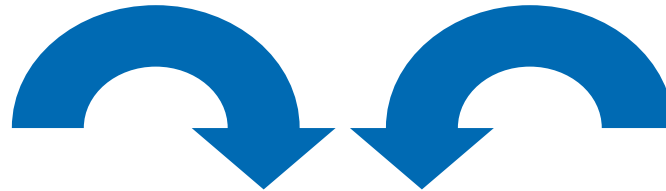
Source: IAB establishment panel

Union competition

- ▶ First kind: union competition if the types of labour will be referred as substitutes (unions compete for organising the same types of labour)
 - ▶ Example: IG Metall competes with the christian metal union; there is a danger of wage underbidding
- ▶ Second kind: union competition if the types of labour are sufficiently complementary (each group acting independently of the other)
 - ▶ Example: Service-sector union competes with craft unions (pilots, train drivers, doctors etc.); there is a danger of wage overbidding

Recent trends

**Fragmentation of
the collective bargaining
system and growing
trade union competition**



**Declining collective
bargaining coverage**

**Destabilisation of
collective wage bargaining**



Call for legislation



Minimum wages

Tariff unit

Political discussion

- ▶ **Ongoing call for an introduction of a legal minimum wage (8,50 € per hour) to fight against the extension of the low-paid-sector**
- ▶ **Protection against wage competition by:**
 - ▶ Implementing more extension rules: this aims to force outsiders, who are not covered by the collective agreement, to comply with collective bargaining standards (only 1 per cent of all collective agreements are declared universally binding)
 - ▶ Introducing sector-based minimum wages (on the legal basis of the Act on Posting Employees Abroad); currently these wages cover more than three million employees
- ▶ **Protection against complementary union competition**
 - ▶ Employers fear wage pressure and the formation of further craft unions
 - ▶ Sector-level unions fear competition
 - ▶ The Collective Agreements Act should implement the principle of tariff unity