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Pay in the 2000s: Development and outcomes

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Reinhard Bispinck

Pay in the 2000s: development and outcomes

The 2000s proved to be a decade of moderate increases in collectively-agreed minimum pay. Agreed pay in real terms rose by 6.7% over the whole period. However, by 2010 real actual earnings had fallen by 4% over the decade and were down to 96% of their 2000 level.

Assessing the long-term development of pay and the distribution of incomes between capital and labour is never a straightforward matter, in particular when approached from the perspective of collective bargaining, mainly due to the difficulty in choosing an appropriate yardstick against which change can be measured. Although raising wages and salaries remains one of the paramount objectives of collective bargaining, trade unions also have a number of qualitative targets that are open to regulation through collective agreements. These include working time, training and development, pensions and – in particular during a period of economic crisis – securing employment. It is not easy to gauge the precise importance of these objectives for trade unions' bargaining strategies. Furthermore, the immediate economic environment is rarely sufficiently favourable or the bargaining strength of trade unions sufficiently strong for all these objectives to be met at the same time. Consequently, the overall assessment of the development of pay and earnings set out below needs to be seen in this broader context.

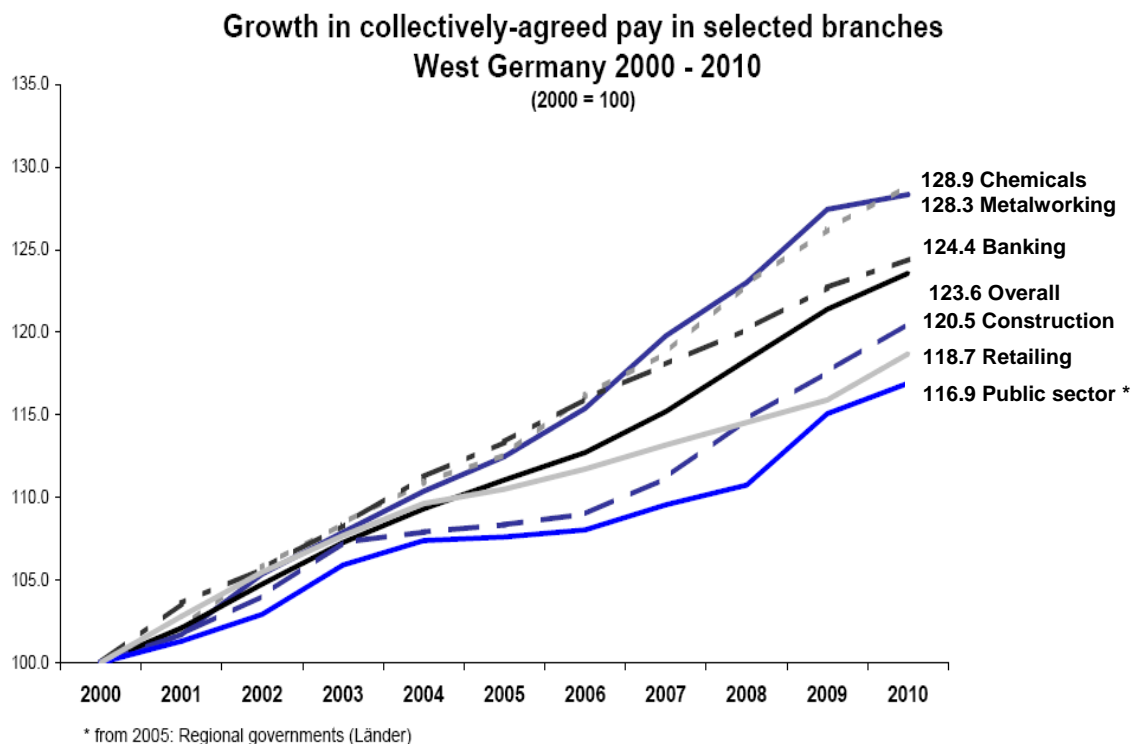
Collectively-agreed pay

The 2000s proved to be a decade of moderate increases in collectively-agreed minimum pay. Agreed basic pay rose on average by 2.2% a year, with a range from 1.5% (2005) to 2.9% (2008). This led to an overall increase in agreed pay of 24.2% for the whole period. Setting this against a rise in living costs of 17.5% for the period yields an overall rise in real collectively-agreed pay of 6.7%, or just 0.7% per year.

Trade unions basic aim in pay negotiations is to ensure that wage and salary increases are sufficient to offset increases in the cost-of-living, together with a further amount intended to enable employees to share in growing labour productivity. The sum of these two elements - the 'cost neutral' scope or margin for distribution - totalled 28.1% over the past decade, with pay growth lagging

behind this by some 4 percentage points overall. There were also marked differences between individual sectors. For example, while the cost-neutral scope was fully exploited in the metalworking and chemical industries, this was not the case, to varying degrees, in most other sectors (see next Figure).

It is often recommended that pay should be guided by the target inflation rate set by the European Central Bank (ECB) of (up to) 2% plus the rate of growth of productivity. Taking this as a basis, the cost-neutral scope for distribution¹ rose by 41% over the past decade. On this measure, collective bargaining has fallen even further short of its target.



Source: WSI Tarifarchiv, 31 December 2010.

Changes in earnings

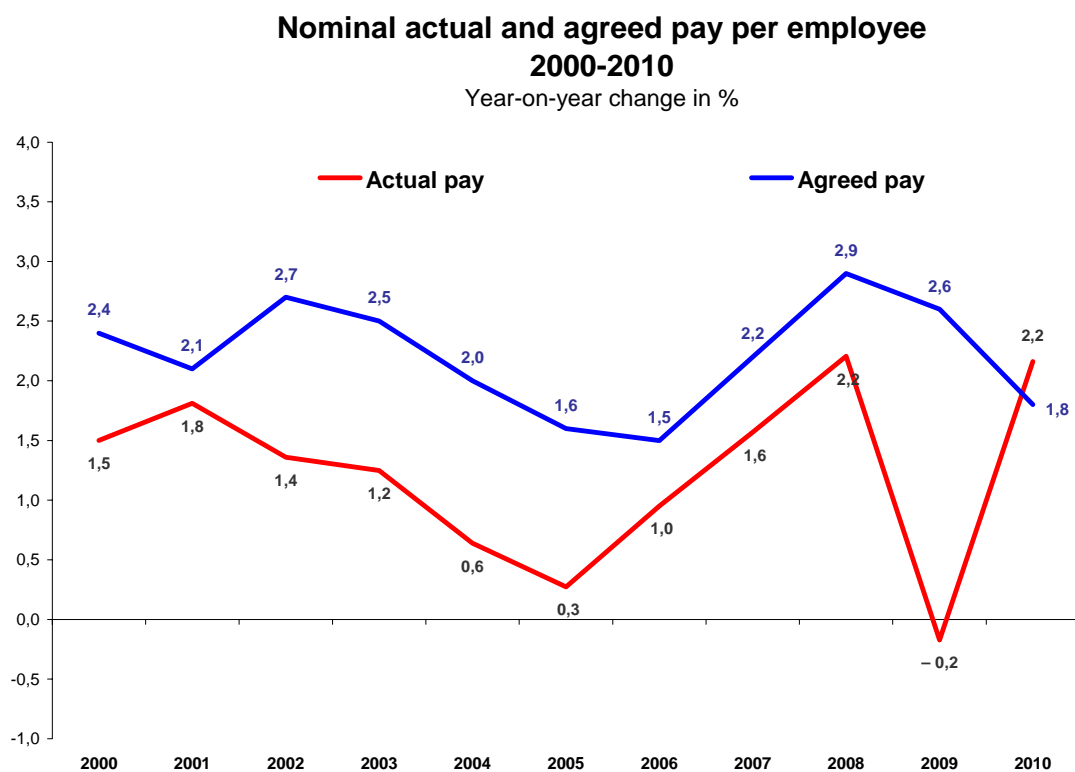
A negotiated increase in collectively-agreed pay will not automatically mean that contractual pay rates and earnings² will rise by the same amount across-the-board, for a number of reasons. Firstly, only 61% of the employed labour force are covered by collective agreements, and therefore benefit directly from any

¹ The rate of productivity growth is defined here as a five-year moving average of productivity per hour.

² 'Contractual pay' (Effektivlohn) refers to the basic pay that an employee is contracted to work for: it will consist of agreed pay for the grade plus any additional agreed supplements together with amounts paid at company-level but not provided for in an industry collective agreement. Firms may add such amounts 'voluntarily' as a recruitment and retention tool, for example. This figure is broadly equivalent to the official earnings data.

negotiated increase. Moreover, the rate of collective bargaining coverage has fallen over the past decade. Although firms that are not covered by a collective agreement can use collectively-negotiated increases and pay levels as a guideline, they are essentially free to determine their own approach to pay. And secondly, and in particular during periods of economic crisis, firms that are within the scope of collective agreements have made increasing use of the numerous options now included in such agreements to depart from agreed industry-level standards for varying periods and subject to varying conditions, depending on the sector. Finally, firms can also offset an agreed increase in pay against any amount of pay at company level that already exceeds the agreed minimum for that grade (see Footnote 2).

Overall, all these factors have combined to lead to ‘negative wage drift’ for almost the whole of the period 2000-2010: that is, contractual pay has grown more slowly than agreed pay.



Source: Destatis, WSI-Tarifarchiv

Between 2000 and 2010, gross monthly earnings per employee rose by 12.7%, that is 1.2% each year on average. In real terms, over this period gross earnings fell in seven years, stagnated in one year, and went up in two years (once by 0.1% and in 2010 by 1.1%). By 2010, this development meant that real pay stood at 96% of its 2000 level – in other words, had fallen by 4% over the decade.

Real actual and agreed pay 2000 - 2010

2010 = 100



Source: Destatis, WSI-Tarifarchiv

If the growth in contractual pay is measured against the cost-neutral figure of inflation plus productivity growth, then the gap is almost 16 percentage points. The shortfall is even more pronounced if the yardstick is the 'modified' scope for distribution based on the ECB's inflation target and the trend of productivity growth.

Table 1: Data on income distribution in Germany, 2000-2010. ¹

Year	Consumer prices ²	Hourly productivity ³	Agreed pay ⁴	Gross hourly earnings ²	Gross earnings per employee ²	Adjusted wage share ⁶	Real agreed pay per employee	Real gross earnings per employee	Nominal index of agreed pay	Real index of agreed pay	Nominal gross earnings	Real gross earnings	Index of scope for distribution (inflation + productivity growth)
	%	%	%	%	%	%	%	%	2000=100	2000=100	2000=100	2000=100	2000=100
2000	1.4	2.6	2.4	2.8	1.5	72.9	1.0	0.1	100.0	100.0	100.0	100.0	100.0
2001	2.0	1.8	2.1	2.7	1.8	72.6	0.1	-0.2	102.1	100.1	101.8	99.8	103.8
2002	1.4	1.5	2.7	2.0	1.4	72.5	1.3	0.0	104.9	100.2	103.2	99.8	106.8
2003	1.1	1.2	2.5	1.7	1.2	71.9	1.4	0.1	107.5	101.6	104.5	99.9	109.2
2004	1.6	0.6	2.0	0.4	0.6	69.3	0.4	-1.0	109.6	103.0	105.2	99.0	111.7
2005	2.0	1.4	1.6	1.0	0.3	68.2	-0.4	-1.7	111.4	102.6	105.4	97.3	115.4
2006	1.7	3.1	1.5	1.1	1.0	66.2	-0.2	-0.7	113.1	102.2	106.4	96.5	120.9
2007	2.2	1.0	2.2	1.4	1.6	65.7	0.0	-0.6	115.5	102.2	108.1	95.9	124.8
2008	2.6	-0.2	2.9	2.4	2.2	66.8	0.3	-0.4	118.9	102.2	110.5	95.5	127.8
2009	0.4	-2.2	2.6	3.0	-0.2	66.8	2.2	-0.6	122.0	104.5	110.3	95.0	125.5
2010 ⁶	1.1	1.0	1.8	-0.2	2.2	67.6	0.7	1.1	124.2	108.7	112.7	96.0	128.1

¹ All data, aside from the income share and index numbers, measure percentage change in relation to the previous year.

² Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Fachserie 18, Reihe 1.1, Wiesbaden 2011 [National accounts].

³ Statistisches Bundesamt Fachserie 17, Reihe 7, "Preisindizes für die Lebenshaltung" [Indices for consumer prices].

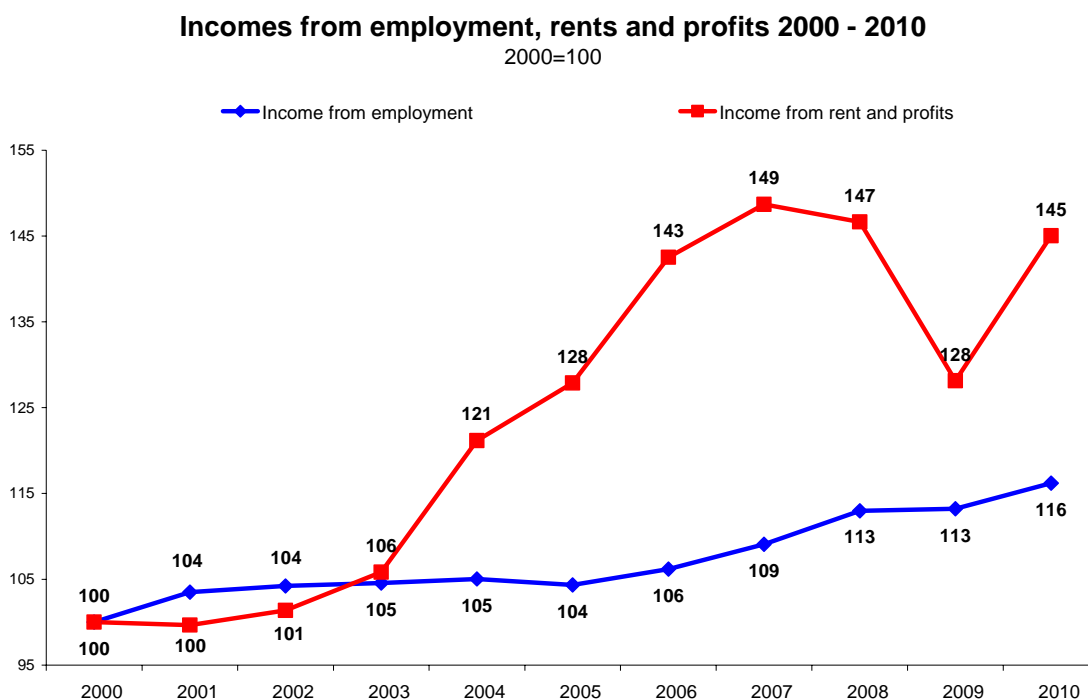
⁴ WSI-Tarifarchiv.

⁵ Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen (see footnote 2), WSI calculations.

⁶ Provisional figure.

Source: Destatis, WSI-Tarifarchiv, as at January 2011

Overall, the years 2000-2010 represent a 'lost decade' as far as pay is concerned. As a consequence, the distribution of income between labour and capital has shifted to the detriment of labour. Taking as a basis the share of wages in national income (adjusted wage share), the distribution of income has moved markedly to favour income from rent and profits. Over the past decade, the adjusted wage share has fallen from 72.9% to 67.6%, with only small rises registered in 2008 and 2009 as a result of the drop in profits caused by the economic crisis.



Source: Federal Statistical Office, National income and accounts, authors' calculations.

More about the current wage developments in Germany:

Reinhard Bispinck/WSI-Tarifarchiv (2011): Tarifpolitischer Jahresbericht 2010. Beschäftigungssicherung und gedämpfte Lohnentwicklung, Informationen zur Tarifpolitik, Düsseldorf 2011, 56 pp.

http://www.boeckler.de/pdf/p_ta_jb_2010.pdf

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