

A Review on the Correlations among Labor Union, Wage Level and Productivity of Labor : in the case of Germany

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The labor movement and labor union in Germany

The history of labor movement in Germany has been grown, with the growth of economy solidifying their position as one of the industrially advanced countries in the world. Especially, various institutional systems to the labor movement and the labor rights have been developed due to the expansion of German democracy in the period of the *'Weimar Republic'* at sunrise of the 20th century. The repression of labor union and of socialism itself, however, began soon after Hitler's Nazi government took office, nevertheless, the labor movement in Germany has gradually recovered since the end of World War II.

A labor union in Germany, basically, is organized at the industrial level. It can be said that this has inherited a tradition of a craft guild, which is a trade association, since the Middle Ages. The German Confederation of Trade Unions (DGB), which represents nearly 8 million men and women organized within 8 member unions¹, is committed to the principle of the consolidated trade union. The major industry based unions, centering around DGB, are organized and they are being formed as a single organization on a nationwide scale. Especially, the collective bargaining, in the case of Germany, is completed by organizations at the industry level, therefore the practical power of labor union has been empowered by the labor unions by industry, and DGB, which is a sort of consultative group, takes on

¹ IG Bauen-Agrar-Umwelt (Union Construction, Agriculture, Environment), IG Bergbau, Chemie, Energie (Union Mining, Chemicals, Energy), Gewerkschaft Erziehung und Wissenschaft (Union Education and Science), IG Metall (Metalworkers Union), Gewerkschaft Nahrung-Genuss-Gaststätten (Union Food, Beverages and Catering), Gewerkschaft der Polizei (Police Union), EVG Eisenbahn- und Verkehrsgewerkschaft (Railway and Transport Services), ver.di - Vereinte Dienstleistungsgewerkschaft (United Services Union).

a role as the center of labor politics and policies in German labor union.

A labor union in Germany is organized by the trade unions, but this fact doesn't limit the qualification for being a member of a labor union. In fact, anyone who wants to be a member of a labor union in Germany can join the labor union spontaneously. This means that if a worker oneself wants to join a labor union, then he or she can be a member of a labor union without any constraint, as anyone can be a member of a civic organization voluntarily. The workers promise to pay 1% of one's wage for membership fee when they become a member of a labor union, and this fee will be paid via automatic withdrawal from one's bank account. The members of a labor union have an advantage to receive legal services in terms of employment problems, and they are allowed to be consulted by the labor union and can aggressively express their opinions when disputes or problems in terms of employment relationships arise in the work place. Consequently, such a process can be a major contribution, which helps a labor union to draw the most favorable results of negotiation in collective bargaining for unionists and workers.

The present issue

In recent years, an organization rate of a labor union in Germany has been dropping steadily. It can be said that this implies a decrease in the level of minimum wage in the end. Because, in the case of Germany, they adopt wage setting scheme, which the level of minimum wage is automatically determined through collective bargaining, therefore weakening social partnership, based on the power of union, implies deterioration of collective leverage for both labor and management group in wage determination process. In other words, this means that a collective agreement by industry has not been applied in the end.

Moreover, an increase in vulnerable group of workers is shown in German labor market in recent years. This situation is resulted from '*Hartz-reforms*', which has carried out in 2003, so that the number of various types of non-regular workers and that of vulnerable workers has steadily increased. Therefore, such a change in German labor market is a new challenge to Germany, which the labor movement has been grown based on strong industrial structure with regular workers. In this situation, the labor movement in Germany considers two ways as a countermeasure. One is the expanding and strengthening principal of declaration of general commitment² and the other is the compelling capitalists not to pay a wage below minimum wage by introducing Minimum Wages Law³. A labor union in Germany now, unavoidably, has decided to introduce Minimum Wage Law even though they sacrifice the autonomy of collective bargaining, and they is in agreement with the implementation of minimum wage --8.5 Euro-- from 2017.

The minimum wage system and productivity of labor

The minimum wage system has been introduced in many countries like Korea and Japan, and the level of minimum wage is set by law. The minimum wage system is a system in which employers must pay more than the minimum wage formulated by the government on the basis of the Minimum Wages Law to employees. It is an institution (or policy), which is contributing to improvement of

² Allgemeinverbindlicherklärung

³ Gesetzlicher Mindestlohn

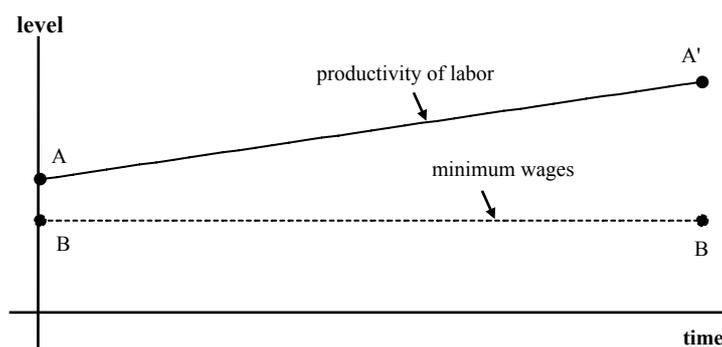
distribution, a decrease of poverty and amelioration of the lives of worker by raising the low paid worker's wage through labor market intervention by government. The discussion of whether or not the minimum wage system is introduced and implemented is becoming a serious issue in many countries like Germany.

In general, those who support the implementation of minimum wage system claim that this system will bring promotion of worker's welfare by guaranteeing over certain level of living for workers. In contrast, those who oppose the introduction of this system claim that it will cause welfare-reducing of workers due to involuntary unemployment. It is difficult to judge whether or not the very essence of the minimum wage system is right. The one thing that is clear is that the minimum wage system as a one institution in one country is influenced by various factors so that there is a limit to judge its effect without considering how it is interwoven with other factors. Therefore, an argument on the effect of the minimum wage system should be connected with the correlations between the productivity of labor and the power of labor union. And we, at least, can consider two conditions brought by the minimum wage system as follows.

The scenario I: Staidly increase in the productivity of labor

The first scenario we can assume is the case that the productivity of labor has been increasing steadily under the implementation of the minimum wage system. In the case that the productivity of labor has been increasing from A to A' under the level of minimum wage B , the gap between the minimum wage and the productivity of labor becomes greater from $A-B$ to $A'-B$ as below (Fig. 1). This can be inferred that the minimum wage system is the factor, which hinders the compensation for an increase in the productivity of labor. Therefore, the additional productivity of labor by workers will not be compensated with monetary incentive as wage, which is cause by an increase in the productivity of labor, and it will bring result to the capitalist exploitation of labor in the end.

Fig. 1

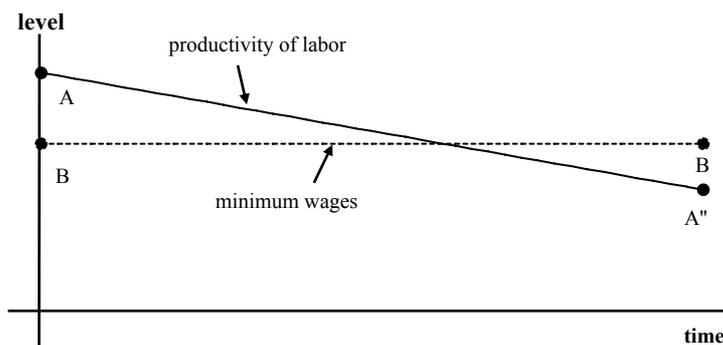


The scenario II: Staidly decrease in the productivity of labor

The second scenario we can assume is the case that the productivity of labor has been decreasing steadily under the implementation of the minimum wage system. In the case that the productivity of labor has been decreasing from A to A'' under the level of minimum wage B , the gap between the

minimum wage and the productivity of labor becomes smaller from $A-B$ to $A''-B$, and this gap, finally, may approach to negative as below (Fig. 2). This, of course, is just theoretical prediction and it doesn't exist and is not happening in reality. Nevertheless, if we think this in theoretical perspective, we cannot exclude the possible scenario, which capitalists will not be able to pay even the level of minimum wage for workers.

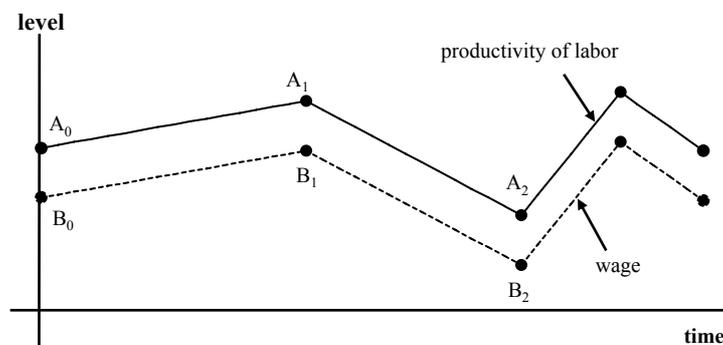
Fig. 2



The scenario III: Wage linked with the productivity of labor

Therefore, the most desirable alternative is that wage level should follow the same pattern with the level of productivity of labor as below (Fig. 3); if the productivity of labor increases from A_0 to A_1 , then wage level should increase from B_0 to B_1 , and the gap between wage and the productivity of labor A_0-B_0 and A_1-B_1 becomes equal; and if the productivity of labor decreases from A_1 to A_2 , then wage level should also decrease from B_1 to B_2 , and the gap between wage and the productivity of labor A_1-B_1 and A_2-B_2 becomes equal. We consider this is the most desirable alternative. However, the linkage between the productivity of labor and wage level is never easy in reality. This is because there is a constant conflict between capitalists who always pursues cost reduction and workers who mainly pursues wage increase. The thing that helps to smoothly arbitrate in such a dispute is an institution, and it can be said that it is a labor union in this case. And the most important thing is how much level of bargaining power a labor union has.

Fig. 3



The correlations: wage, the productivity of labor and bargaining power of labor union

We consider that the bargaining power of labor union has a great effect on the issue whether or not the minimum wage system is introduced in one country. In the case of the country like Germany, which still has a strong labor union, the implementation of the minimum wage system may decrease workers' welfare. Under the condition that a strong bargaining power is guaranteed by a strong labor union, the determination of wage level linked with the productivity of labor is the answer to increase worker's welfare. In other words, it is desired that the gap between the productivity of labor and wage level is maintained at the same consistent level.

In contrast, the implementation of minimum wage system is absolutely vital in the case of the country, which has a weak power of labor union. If a labor union doesn't have a strong power that its bargaining power is weak, then it is difficult to maintain wage level linked with the productivity of labor without fixing wage at a certain level. Instead, capitalists will be free of monitoring by a labor union so that they are more likely to exploit workers' wage. Therefore, in this case, an institutional framework supporting workers to receive their wage at a certain level in law must be created in order to increase workers' welfare by guaranteeing them a certain level of livelihood. However, if the power of labor union has gradually strengthen, then the minimum wage system needs to be abolished immediately and it should be changed to the structure of wage determination, which is linked with the productivity of labor. If not, there is a possibility to face with either the scenario I or the scenario II, as mentioned above.

Conclusion

The ideal relations between wage level and the productivity of labor can be concluded in a reasonable payment of wage for labor, which is provided to capitalists as much as workers work. Unfortunately, however, the workers in most countries have not received a reasonable payment of wage for labor except a few labor movement advanced-countries in which a strong labor union has institutionally formed. Therefore, the correlations among wage level, the productivity of labor and the bargaining power of labor union should be considered. The consideration on reasonable level of wage and social agreement on it must take precedence, apart from whether or not to introduce the minimum wage system, and then we need to think carefully how much level of the bargaining power a labor union has. If there is a labor union, which has a strong bargaining power to reach wage level linked with the productivity of labor, then the minimum wage system is meaningless; but if a labor union, which has a strong bargaining power to reach wage level linked with the productivity of labor, doesn't exist, then government should guarantee a certain level of living and welfare for workers through the minimum wage system.