



29/06/2022

RAP/Cha/DEU/39 (2022)

## **1961 EUROPEAN SOCIAL CHARTER**

Comments by the International Organisation of Employers (IOE)  
on the 34th National Report on the implementation of the European  
Social Charter

Articles 2, 4, 5 and 6  
for the period 01/01/2017 – 31/12/2020

submitted by

**THE GOVERNMENT OF GERMANY**

Report registered by the Secretariat  
on 29 June 2022

**CYCLE 2022**

# ***Alignment of German minimum wage policy on the median wage not the right approach***

**BDA observations on the European Committee of Social Rights' interpretation of article 4.1 of the European Social Charter**

June 2022

## ***Summary***

Germany enjoys an above-average material standard of living. The minimum wage constitutes just one element in a modern and highly evolved social protection system. The European Committee of Social Rights' view that the net minimum wage must be higher than 60% of the net median wage in order to be able to guarantee a decent standard of living is the wrong approach against this background. This inflexible mathematical interpretation of the concept of a "decent standard of living" as stipulated in article 4.1 of the European Social Charter is applicable only to a limited degree since it takes into account neither the specificities of a particular country nor the needs of companies.

Calculation of the minimum wage level using 60% of the median wage as a benchmark and assessment of the risk of poverty is not the right approach, because poverty can only be determined taking household size and composition into consideration. The statutory minimum wage is no more than the minimum remuneration for an hour's work irrespective of family situation or assets.

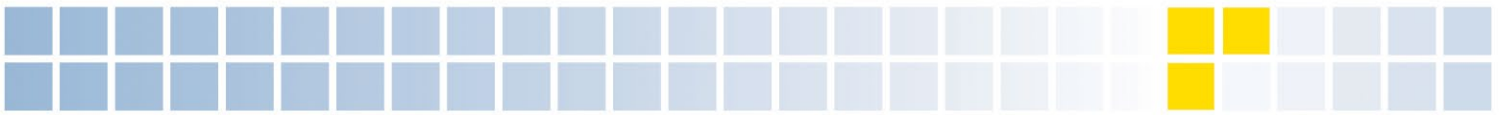
The decision on an adjustment of the statutory minimum wage in Germany is incumbent on the Minimum Pay Commission which involves representatives of the social partners. This ensures that the expertise of the negotiating parties entrusted with managing working and business conditions under the constitution feeds into decisions on the minimum wage. It is therefore particularly important that this methodology continues to be followed and respected.

## ***Detailed comments***

### ***High remuneration structures and a broad network of social protection systems ensure a decent standard of living in Germany***

On a European comparison, Germany exhibits an above-average material standard of living (source: Eurostat, 2019). In addition, from October 2022, Germany will have the second-highest statutory minimum wage level in Europe behind Luxembourg, at an hourly rate of 12 Euro. Moreover, the Minimum Pay Commission has already decided a further adjustment at the end of June 2023.

On top of this, the statutory minimum wage in Germany constitutes just one element in a finely meshed social protection network. Five compulsory social insurance schemes financed jointly by employers and workers covering accidents, sickness, pensions, unemployment and care, numerous labour-market social-policy measures such as basic income support which guarantees that everybody receives the minimum required to live with dignity, an education



system up to and including university which is free at the point of delivery coupled with a progressive tax policy ensure that everybody enjoys decent living conditions in Germany.

### ***Employees benefit from remuneration structures and vigorous pay increases***

Germany is one of the Council of Europe's countries with the highest wages and salaries. In 2018, average hourly earnings in Germany were 27% higher than average earnings in EU-27 countries (source: Eurostat, 2022). Furthermore, three quarters of employment relationships in Germany are covered directly or indirectly by collective agreements. In many sectors, in particular in craft industries and services, sector-specific minimum remuneration rules declared to be generally binding are applicable at levels which are sometimes well above the statutory minimum wage. To this is added the fact that collectively agreed and effective pay rates have developed in a positive direction over the last ten years. Thus, overall gross wages and salaries in Germany have increased by more than 30% since the financial and economic crisis, i.e. real wages have also risen steadily.

### **Need in Germany is not the result of low hourly earnings**

Persons at risk of poverty in Germany are not generally in gainful employment. Among persons from households at risk of poverty in 2018, around 71% were of working age but barely 25% were in gainful employment (source: vom Berge et al. 2020). In addition, those in Germany who earn only the minimum wage from their work are mostly not affected by poverty. Of those employees who earned the minimum wage or less in 2018, only around 28% lived in households at risk of poverty. As is also the case with need as defined in Social Security Code II (SGB II), a risk of poverty among those with paid employment often results not from a low hourly pay rate but from too few hours of work in the week (source: third report on the effects of the statutory minimum wage, 2020).

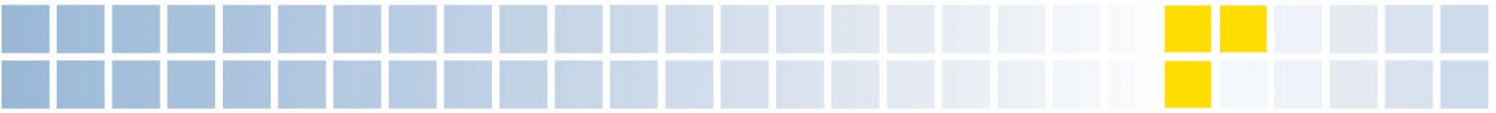
### **Adjustment of the minimum wage is based on the correct methodology**

Negotiating and agreeing wages in Germany is primarily the task of the parties to collective bargaining. Regarding the statutory minimum wage, the methodology set out in law provides that the decision on adjustments to the statutory minimum wage lies with the Minimum Pay Commission. Thanks to the involvement of the social partners in the Minimum Pay Commission, it is ensured that the expertise of the negotiating parties entrusted with managing working and business conditions under the constitution feeds into decisions on the minimum wage. Following state interference in this methodology with the statutory increase to 12 Euro from 1 October 2022, the route originally followed for the minimum wage must now urgently be reinstated with the Minimum Pay Commission involving representatives of employers and workers in future once more deciding exclusively on adjustments to the minimum wage.

### **Alignment of minimum wage policy on the median wage is not the right approach**

Calculation of the minimum wage level using 50 to 60% of the median wage as a benchmark and assessment of the risk of poverty is not the right approach. Poverty can only be determined taking household size and composition into consideration. The statutory minimum wage is no more than the minimum remuneration for an hour's work irrespective of family situation or assets.

To this is added the fact that the median wage is often determined only on the basis of the earnings of a full-time employee. Yet the income of part-time employees and those employed even more sporadically must also be taken into consideration since more than one quarter of all those in a dependent work relationship in Germany work part-time or just a few hours (source:



Destatis, 2022). Hence, the number of workers earning the median wage is not a dependable parameter, not least because the minimum wage applies for all categories of employees.

Measured against the median wage (17.99 Euro) or average wage (21.11 Euro) of all employees in Germany in 2021 (source: Destatis, June 2022), Germany meets the criteria of the European Committee of Social Rights requiring a minimum wage of at least 60% of the median wage or 50% of the average wage. Nevertheless, these guidelines should no longer be taken into account for assessment of minimum wage levels in Europe.

The range of minimum wages in Europe is very wide with a difference of around 10 Euro between the highest value and the lowest. Different wage levels reflect the fact that neither the economic conditions nor the labour market situations in individual EU countries are remotely comparable. Some countries with above-average minimum wages fall below the 60% of median wage limit while others with minimum wages of less than 5 Euro an hour do meet this criterion (source: Institute of Economic and Social Research, 2022)

**Ansprechpartner:**

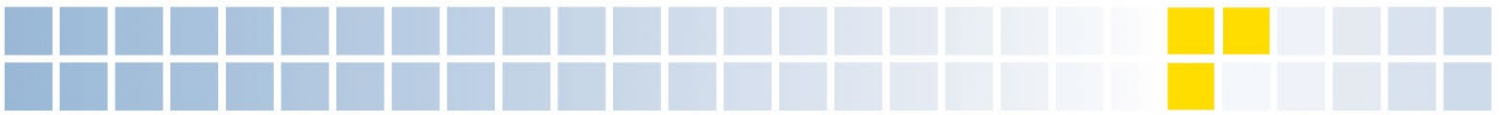
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Bundesvereinigung der Deutschen Arbeitgeberverbände

**Economic and International Affairs**

T +49 30 2033-1900

[volkswirtschaft@arbeitgeber.de](mailto:volkswirtschaft@arbeitgeber.de)



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