Will a minimum wage destroy German jobs?

PETER GUMBEL, *for Reuters*

GERMANY has once again become the world's favorite whipping boy, roundly criticized over the past few days by the US Treasury, a top International Monetary Fund official and the European Commission president, among others, for running record trade and current account surpluses that are supposedly detrimental to the European and global economy.

The arguments continue, with the Germans themselves saying [5] that the surpluses are simply the happy result of the nation's industrial competitiveness and don't hurt anyone else. Lost in the debate, however, is what's happening in Berlin right now. As Chancellor Angela Merkel seeks to form a new coalition government, she appears to be on the verge of throwing out some of the very policies that underpin the export boom of the past decade.

Most controversially, the new government to be formed is likely to introduce a minimum wage, a novelty for Germany, and a move that both symbolically and in reality would herald the end of the tough wage restraint that has characterized the past decade. A range of social policy changes, including a possible reduction in the retirement age, are also being discussed, as is higher government spending.

It's not clear whether such shifts would provide the boost to domestic spending that the US and Germany's other critics are demanding. But their very prospect is sending chills down the

REUTERS/FILE

German Chancellor Angela Merkel, the head of the Christian Democratic Union, arrives for coalition talks with the Social Democratic Party in Berlin.

spines of German business leaders. Ulrich Grillo, president of the Federation of German Industries, warns that "Germany can't afford a grand coalition of election gifts," and says that the politicians are acting as though Germany's continuing prosperity is a given, rather than something that needs to be worked at.

Deutsche Bank says flatly in a research report that the proposed minimum wage is "the wrong policy choice."

The shifts in economic policy are coming about as a result of political necessity. Merkel scored strongly in the September 22 parliamentary elections, but her Christian Democratic Union party didn't win enough votes to govern alone. The party's top officials have spent the past few weeks locked in negotiations with the opposition Social Democrats over the shape of a coalition government, and they have already given way on a number of points, including the introduction of a minimum wage of 8.5 euros per hour (about $11.50 at current exchange rates).

Germany is unusual in that it doesn't currently have a national minimum wage; pay scales for different industries are traditionally fixed by management and union organisations, in regular rounds of negotiations. Two elements of the planned minimum wage are notable. The first is the level being proposed, which is 45 percent above the US minimum wage—considerably higher than that in some other European countries such as Spain, although below France and the Netherlands. The Hans Böckler Stiftung's Institute of Economic and Social Research has a handy guide to minimum wage rates around the world here.

The second notable element is its expected broad application, across the whole of Germany, East and West, and including new entrants to the job market. This amounts to a rollback of the stringent policies put in place by Merkel's predecessor Gerhard Schröder, starting in 2002, at a time when the German economy was struggling to digest the impact of reunification after the fall of the Berlin Wall.

Schröder, a Social Democrat, worked together with the former head of human resources at Volkswagen, Peter Hartz, to devise policies that created jobs, in part through the introduction of low-paid "mini jobs" that were exempt from social security charges. These were designed to get hard-to-employ people back into the workforce. The result has been spectacular: Germany's current unemployment rate, of just over 5 percent, is half what it was a decade ago, and far below the 12.2 percent average jobless rate in the euro zone. And German productivity gains since then have far outstripped the modest rise in unit labour costs, propelling the current export boom.

Currently, about 12 percent of workers in Western Germany earn below 8.5 euros per hour, while in the eastern part, the figure is about one in four, according to research by the IWH institute in Halle.

Deutsche Bank is now predicting that the planned minimum wage would reverse some of the beneficial effect of the Hartz reforms and would likely increase labor costs generally, because the 8.5 euro level would be close to the median wage. The bank estimates that between 450,000 and one million jobs will be lost as a result.

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Marks & Spencer takes stylish bid to India

REUTERS, *Mumbai*

BRITAIN'S biggest clothing retailer Marks & Spencer wants to convince India's young and trendy that it is fashionable too as it looks to offset slowing profit growth and declining sales overall.

To succeed, it has to take on the world's biggest fashion retailer Inditex SA and its Zara brand, which has managed to outperform Marks & Spencer in India even though it set up shop in one of the world's biggest retail markets almost a decade later.

"Since they entered, Marks & Spencer has had one issue and that is getting their positioning right," said Harminder Sahani, managing director of retail consultancy Wazir Advisors.

"They are now trying to become hot and happening and that is a very competitive segment," he said.

Marks & Spencer wants to grow in India, a market that sees $38 billion of apparel sales a year and where the biggest spenders are, on average, aged 35 and below. Chief Executive Marc Bolland is opening the retailer's biggest India store on Monday in a fashionable shopping area of Mumbai.

Regulatory filings, however, show the retailer has failed to turn a profit in India since 2009. Consultants say M&S has struggled since it set up shop in Asia's third largest economy in 2000, squandering its "first mover" advantage.

Bolland has built his global recovery plan for M&S around offering higher quality, more stylish fashion. Clothing sales, however, have fallen for nine straight quarters, the retailer said last week, and first half profits fell nine percent.

In India, Marks & Spencer Reliance Retail Ltd reported a net loss of 25.95 million rupees ($413,700) in the year ended March 2012 on gross revenue of 2.8 billion rupees, according to the most recent filing at the Registrar of Companies (ROC).

In the same period, Inditex Trent Retail India Ltd, which operates Zara stores in India, reported a profit of 383 million rupees on total income of 2.6 billion rupees, according to ROC filings. In the year ended March 2013, the three-year-old joint venture saw profits rise 18 percent to 452 million rupees.

Neither company discloses India sales figures.

"The management acknowledges that a lot of time has gone by trying to get India right," said an M&S consultant who declined to be named as he is not authorised to speak to the media.

Good money, danger galore in Colombia gold rush settlement

AFP, *San Antonio, Colombia*

HERNAN Pineda risks his life daily digging for gold, toiling in a dangerous, unlicensed mine in Colombia, in a crude settlement that has sprung up in a sort of modern-day gold rush.

Many here in San Antonio, located in the country's northwest, live in shacks made of plastic or wood. But the money to be made is irresistible.

And there are now amenities to ease the rough life in this two-year-old encampment -- barber shops, nightclubs, cell phone stores, and gold trading stores.

Colombia has more than 14,000 mines, 56 percent of which are unlicensed, the government says.

From January 2012 to June of this year, 86 people died in mining accidents and 39 were injured, according to the mining ministry.

Pineda, aged 40 and the father of eight kids, is one of 4,000 people, including women and children, that work scratching gold out of the side of a mountain in Antioquia department.

He has worked in illegal mines since he was 13. In San Antonio, he started off earning a percentage of what he mined each day. He has done well.

"I invested the money I earned in a drill, and became a partner in a mine," he said, adding that part of his revenue also goes to buying explosives for his work.

His job is to set off detonations to loosen earth, set up reinforcing beams to try to make things safe, and direct a team of 20 miners.

The gold fever has drawn many people from other parts of Antioquia, all zealously hunting for the shiny precious metal.

Life is hard but the money is indeed good. Some days people can make as much as the equivalent of $265, about 30-40 percent of the value of what they mine.

Pineda is much better off than grunt miners. He say he can earn up to $13,000 a month. He lives in a rented apartment about 30 kilometers (20 miles) from the mine, and each week travels to Medellin to see his girlfriend.

'The lure of gold is great'

But he is under no illusions. The job is dangerous, and he says his working life will be short because of the precarious safety conditions in the mines.

"It is always this way in illegal mining. The idea is to get as much as you can, and with people trying to mine more and do it faster and faster, it is chaotic," Pineda told AFP.

He said there is also the risk the government will shut everything down. Indeed, authorities have declared the zone dangerous and plan to get the miners out.

"It is an area with a lot of seismic activity. It is steep, and has geological faults. The more people work the mountain, the weaker it gets and there is a greater risk of landslides," said Cesar Hernandez, the Antioquia risk management director.

EU, US return to trade talks under spy scandal cloud

AFP

European Union (EU) chief negotiator Ignacio Garcia Bercero (R) and US chief negotiator Dan Mullaney arrive for a working session at the EU Headquarters in Brussels yesterday.

AFP, *Brussels*

THE EU and United States began a second round of talks Monday on the world's largest free-trade accord despite damaging revelations of US spying on its allies.

Chief negotiators, the EU's Ignacio Garcia Bercero and Dan Mullaney for the United States, stepped before the cameras for an official handshake but made no statement as they began a weeklong round of negotiations on the Transatlantic Trade and Investment Partnership (TTIP).

This second round was to have been held in October, but due to the US government shutdown had to be postponed just as the spy scandal worsened.

Since then a steady flow of surveillance revelations by US intelligence leaker Edward Snowden has angered European nations, prompting demands in some EU quarters that the TTIP talks be halted altogether.

Personal data protection is a hugely sensitive issue in Europe given its history of brutal dictatorship of the left and right, and there have been longstanding concerns that giant US tech companies see it as more of a commercial commodity than a sacrosanct human right.

An EU official close to the trade talks conceded "there may be issues of trust", but stressed that Europe would not compromise its personal data protection standards even as it must discuss the wider issue of information transfer.

"The transfer of data... is a key component of a modern economy," the official said, but as far as personal data is involved, it can "only be done so in compliance with (EU) legislation on data privacy".

US Secretary of State John Kerry last week urged European leaders not to allow the snooping row to disrupt the TTIP discussions which would create "one of the most powerful economic forces on the planet".

A third round of talks is scheduled for December 16-20 in Washington as both sides aim for a final accord by late 2014 which would cover some 40 percent of global economic output and 50 percent of trade.

The EU estimates a deal would bring annual benefits of 119 billion euros ($160 billion) for the bloc's 28 member states and 500 million people, and only slightly less for the United States.

As important, however, is that it sets the standards for global trade as years of liberalisation talks in the World Trade Organisation look destined to run into the sands.

Brussels and Washington have each engaged in a series of bilateral free trade deals with other countries given the WTO impasse, and last month Canada and the EU reached a deal hailed as helping pave the way to the TTIP.

This week's talks cover services, investment, energy and raw materials but the key objective is how to harmonise regulatory regimes so as to reduce barriers to trade.

The auto sector is a prime example where standards in such areas as safety and performance could be matched up, the EU official said, noting that regulatory differences can add 20 percent to the cost of a car, much more than current tariffs do.

The aim is not a 'one-size fits all' system, said the official who asked not to be named, but rather to get each side to recognise the other's regulations where possible.

That would mean for example that an EU company could comply with EU rules knowing that US authorities would accept them as valid for their home market too.

The chief EU and US negotiators are due to give a press briefing on the talks next Friday.

China to allow more private investment in state firms

AFP, *Beijing*

CHINA will open its state-owned firms to greater investment by private companies, a state-run newspaper reported Monday, as media raise expectations over a top Communist Party meeting on economic reforms.

According to the China Daily, private partners will be allowed to take 10 to 15 percent stakes in state-owned enterprises (SOEs).

The move would give such companies or investors a bigger say in decision-making, it quoted officials of the State-owned Assets Supervision and Administration Commission (SASAC) as saying.

The agency is a powerful body that oversees large SOEs collectively worth trillions of dollars, many of which enjoy monopolies in key sectors such as rail and energy.

The change appears to differ from existing partial flotations of SOEs. China's big four state-owned banks are all quoted in Hong Kong and other overseas markets, as are units of oil giants Sinopec, CNOOC and CNPC, several subsidiaries of conglomerate China Resources, telecom behemoths China Mobile and China Unicom, and scores of other entities.

But partnerships are rare, with the China Daily noting the "rare exception" of a 2003 deal that handed private industrial conglomerate Fosun Group 49 percent ownership in a joint venture with state-run China National Medicine Corp.

"All kinds of companies could join SOE restructuring," the paper quoted Bai Yingzi, director of SASAC's enterprise reform division, as saying.

The report came on the third day of a four-day gathering known as the Third Plenum at which leaders of the ruling Communist Party are expected to draw up a decade-long blueprint for the world's second largest economy.

The highly-anticipated meeting, held at a heavily-secured Beijing hotel, has been used in the past by China's leaders as a launching pad for economic reforms.

But despite much raising of expectations by state-run media, analysts say China is unlikely to embark on major reforms or privatisation of state firms, and that any reforms unveiled after the plenum will likely be limited to broad outlines rather than detailed policy changes.

The China Daily report said that "specific plans on SOE reforms are expected to be drafted after the third plenum".

In a major report in March, the Organisation for Economic Cooperation and Development said that China's progress on economic liberalisation had stalled since 2008.

Aside from opening up state-owned enterprises, other topics expected to be taken up at the four-day meeting include land and administrative reforms.