



To the point!

Cross-Asset- and Strategy-Research

Wage settlement in the public sector

A good 10% more money.
Nevertheless a justifiable result

This week, public employers and the services workers union ver.di agreed on a new collective bargaining agreement for more than 2.5 million federal and local government employees in Germany. In essence, the proposal of the conciliation commission was accepted. Further labor disputes in the public sector can thus be avoided until at least 2025. It is expected that salaries for civil servants will follow the negotiated pattern.

But beware: if you're an intensive rail user like me, you can't breathe a sigh of relief just yet. This is because separate collective bargaining negotiations are taking place here. On Wednesdays those talks were broken off without result in the third round of negotiations. The threat of further trouble from strikes is therefore still present. And for air travelers, there may still be surprises at airports as well.

The wage settlement can just about pass as moderate

How is the wage settlement to be assessed? Too high? Too low? Just right? ver.di head Werneke says: "This is the largest wage increase in post-war history in the public sector." That's right. But it also falls short. This is because it ignores the fact that these negotiations took place in an environment of record inflation. It is therefore to be expected that wage settlements will also rise more strongly than in times of low inflation. And so far, wage settlements in Germany had been very low despite rapidly rising consumer prices: in 2022, average wage increases were just [2.9%](#) - with an inflation rate of almost 7%. Employees naturally see a need for action here.

The collective agreement is a complex web of staggered one-time payments, base amounts and percentage increases (see



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The results at a glance:

- **June 2023:** One-time €1240 tax-free
 - **July 2023 - Feb. 2024:** €220 monthly tax-free
 - **March 2024:** €200 plus 5.5% monthly, but at least €340 monthly.
 - Agreement over 24 months.
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overview). ver.di speaks of an average increase of [11.5%](#), possibly calculated somewhat generously. Not annually, but for the entire term of 24 months! Lower income groups benefit significantly more because tax-free one-off payments totaling €3000 and the base increase of €200 are more significant than for higher earners.

But that's less than it sounds at first glance: The tax-free one-time payments totaling €3000 are just that: one-time. So they will not sustainably inflate personnel costs or employees' incomes. And even when we are including one-time payments in the calculating: given the cumulative inflation from 2022 to 2024 of almost 16%, the bottom line will be a real loss of income. A scary price-wage spiral looks different.

Pressure to modernize is increasing for local authorities

But these pay increases should not be trivialized either. The vast majority of employees covered by the contract are on the payroll of municipalities. City treasurers will therefore face additional costs of [€17 billion](#) (about 5% of [revenues in 2022](#)). Of this amount, around €13 billion is permanent. For many of the financially strapped municipalities, this is certainly no small feat.

But it may still lead to something good: German public administration is lagging behind its European partners in terms of agility and digitization. Increased personnel costs are adding to the pain for local administrations. This should sharpen the incentives to make municipal administrative processes leaner and more digital. Business and citizens would certainly be grateful for such an outcome.

Despite "record increases", real income losses are foreseeable

The municipalities will have to try to save on personnel

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