Skill Premiums in the German Auto Industry - Convergence Big Time?

Foreign labour played a major role in West Germany’s post-war economic miracle. The paper investigates blue-collar wage developments in the German auto industry using a case study of the Bayerische Motoren Werke AG (BMW) for the period from 1955-1975.

For BMW the supply of foreign labour was vital in alleviating the impact of labour shortages. During the period from 1962-1975 the share of foreign workers employed at BMW rose sharply. Skill premiums evolved unevenly up until the early 1960s and remained constant thereafter.

The analysis of BMW’s experience sheds a positive light on foreign labour. Moderate wage increases for unskilled workers and stable skill premiums helped BMW and the German manufacturing sector grow throughout times of labour scarcity, even though the precise impact is hard to estimate quantitatively.

BMW’s experience is likely to be similar to that of other manufacturing firms in Western Germany. The importance of wage moderation has been highlighted by many scholars who emphasised that the foreign “industrial reserve army” did indeed help large corporations overcome labour scarcity.

Kindleberger, 1965

“cheap labor fed economic growth by holding down wages”