

STATUTORY MINIMUM WAGE REGULATION IN EUROPE

A necessary evil?

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EUROPE



10.5

Unemployment Rate



30.8

GINI



84.3

Wage and salaried
workers, total (% of
total employed)



39335

GDP per person
employed
(constant 1990 PPP \$)



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During the last decade, the topic of minimum wage regulation has gained new relevance in Europe. Massive labor mobility from east to west in the wake of the European Union enlargements in 2004 and 2007 have put pressure on existing national regulatory regimes, and the consequences of the financial crisis have had a brutal impact on several European labor markets. These developments have given rise to broad and fundamental questions about how employees can be ensured a decent wage level, and whether new approaches are required.

Both the European Parliament and the European Trade Union Confederation (ETUC) have

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frequently debated a possible EU-wide minimum wage. The European trade union movement is united in its desire for decent and fair wages, but there is a strong division within the ETUC when

it comes to the introduction of a European minimum wage policy. So far, the Nordic and Italian trade union confederations have strongly rejected this as a way forward. This chapter gives an overview of current-minimum-wage setting mechanisms in European countries and looks more specifically at why statutory minimum wage is causing such controversies in some

of the countries that have the strongest trade unions in Europe.¹

¹ The article is based on L. Eldring and K. Alsos. 2012. *European minimum wage: A Nordic Outlook*, and L. Eldring and K. Alsos. 2014. *European minimum wage: A Nordic Outlook – an update*. (Oslo: Fafo).

Regulation of minimum wages in Europe

Regulation of minimum wages in European countries is based on collective agreements and/or national legislation. We can distinguish between three main forms of minimum wages:

Statutory minimum wages: Statutory minimum wages refers to a minimum wage that is either determined by legislation or pursuant to legislation. A statutory minimum wage level defines a wage floor that can go up but not down. Statutory minimum wages are generally guaranteed for all employees of a country, though exceptions are sometimes made for certain groups. The specifics of how the statutory minimum wage level is determined vary from one country to another,¹ but the main point is that the legislature has determined a minimum wage or a procedure for fixing a minimum wage.

Collectively agreed minimum wages: Another form of minimum wage setting is via collective agreements, negotiated between trade unions and employers' organizations. Most often, the collectively agreed minimum wage is higher than a statutory

minimum. However, the collectively agreed minimum wages apply only to the parties to the collective agreement – trade union members and the employers' association. Employers who are party to the agreement may still be obligated by it with regard to unorganized employees in the enterprise, too. The number of employees who end up being paid at the collectively agreed minimum rate and how many will be paid above this floor – as a result of local wage variations – will vary from one sector to another.

Extended minimum wages: Many European countries have mechanisms for expanding the coverage areas for collective agreements by making them generally binding.² Most often, this takes the form of legal extensions of collective agreements, whereby wage rates and other collectively bargained provisions are expanded to cover a greater number of workers. The most common procedure is to apply the provisions not only to the parties of the agreement and their members, but to the entire

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industry or profession that falls under the scope of the agreement. An enterprise with non-unionized

employees must thereby conform to the extended minimum wage level, even though the employees' opportunities to bargain collectively for local supplements may be nonexistent or far weaker than in organized companies.

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In countries that have statutory minimum wages, this level will constitute an absolute lower limit to the wages that can legally be paid in an employment relationship. Statutory minimum wages are very common in Europe. They are applied in 23 of the 28 EU countries.ⁱⁱ The statutory rates amount to approximately 30 to 50 percent of the average wage level in the countries concerned. The coverage of collective agreements in European countries varies considerably (see **Table 1**). And this coverage does not necessarily correlate with the unionization rate. For instance, only 8 percent of French workers are members

Table 1

Statutory minimum wages, extensions, coverage of collective agreements and trade union density in the EU (and Iceland, Norway and Switzerland).

Country	Statutory minimum wage	Extensions of CA ⁺ possible	Scope of extension	CA ⁺ coverage (percent)*	Trade union density (percent)*
Austria		X	Low	99	28
Belgium	X	X	High	96	50
Bulgaria	X	X	Not used	18 **	20
Croatia	X	X	Low	60	35
Cyprus	X			52	49 **
Czech Rep.	X	X	High	41 **	17
Denmark				83	69
Estonia	X	X	Low	25	8 **
Finland		X	High	90	69

ii Including Cyprus, which has adopted statutory minimum wages in nine industries.

Country	Statutory minimum wage	Extensions of CA ⁺ possible	Scope of extension	CA ⁺ coverage (percent)*	Trade union density (percent)*
France	X	X	High	90	8 **
Germany	X	X	Low	61	18
Greece	X	(x)	(High)***		25 **
Hungary	X	X	Low	34 **	17 **
Iceland		X	High	99	85
Ireland	X	X	Low	36	42
Italy				85	35
Latvia	X	X	Not used	20 **	15
Lithuania	X	X	Not used	13	10
Luxembourg	X	X	Low	58 **	37 **
Malta	X			55	49 **
Netherlands	X	X	High	84	19
Norway		X	Low	67	52
Poland	X	X	Not used	29	14
Portugal	X	X	(High)***	90	19
Romania	X	X	Low	20 **	33
Slovakia	X	X	Low	35	17
Slovenia	X	X	Low	92	24 **

* Figures are for 2010/11, but are more recent for the Nordic countries, for which the data mostly stems from 2012.

Figures for 2008/09. *The situation in these countries is unstable/changing rapidly.

+ Collective Agreement

Table sources: J. Visser. 2013. ICTWSS Database version 4.0, Aprile (<http://www.uva-aias.net/207/>); T.Aa. Stokke. 2010. Allmenngjøring i Europa. I: T.Aa. Stokke (ed.) Allmenngjøring i Norge og Europa. Fafo-rapport 2010:14; Eldring & Alsos. 2012. T. Aa. Stokke, K. Nergaard and S. Evju. 2013. Det kollektive arbeidslivet. Organisasjoner, cavgtaler og lønnsoppgjør. (Oslo: Universitetsforlaget); S.K. Andersen, J.E. Dølvik and C.L. Ibsen. 2014. De nordiske aftalemødeller i åpne markeder – utfordringer og perspektiver. Fafo-rapport 2014:08; Eurofound. 2011. Extension of collective bargaining agreements in the EU. (Dublin: European Foundation for the Improvement of Living and Working Conditions); OECD Database on trade union density; EirOnline.

Country	Statutory minimum wage	Extensions of CA ⁺ possible	Scope of extension	CA ⁺ coverage (percent)*	Trade union density (percent)*
Spain	X	X	(High)***	73	16
Sweden				88	69
Switzerland		x	Low	49	17
UK	X			31	27

of a trade union, but 90 percent are covered by a collective agreement. This is because, like many other countries, France has applied broad extensions of collective agreements.

1, 2015. Only three countries in this cohort – Italy, Denmark and Sweden – have neither a statutory minimum wage level nor schemes for extension of collective agreements.

The most common practice is to apply both a statutory minimum level and schemes for extension of collective agreements. This pertains to 20ⁱⁱⁱ of the 31 European countries included in **Table 1**.

While Denmark and Sweden have collective agreements as their only mechanism for regulation of minimum wage levels, Finland, Iceland and Norway have the legal instrument to make agreements generally binding.

In its constitution, however, Italy has a provision stating that all employees are entitled to fair wages, which in practice has meant an extension of the wage rates defined in industry-level collective agreements. But recent

A significant development has recently taken place in Germany, where a statutory minimum wage (at € 8.50 / USD 9.30 per hour) was introduced, having taken effect January

court rulings have confirmed the validity of collective agreements that set a lower standard than the rates defined by industry-level

iii In Greece, the opportunity to extend collective agreements has been temporarily suspended because of the financial crisis (EirOnline 2013). In Portugal, extensions are still possible, but an austerity policy has reduced the practice considerably (M.P.C. Lima. 2013. Dramatic decline in collective agreements and worker coverage. EirOnline PT1302029). In Spain, legal amendments in the wake of the crisis have reduced the scope of collective agreements, which in turn have reduced the number of employees entitled to extensions (P.S. Miguel. 2013. One million workers to lose collective agreement protection. EirOnline ES1307011).

bargaining – a development that may weaken this mechanism.³ When it comes to statutory minimum wage, the proposed Jobs Act in Italy entails a possibility for introducing such a scheme, but so far it has not materialized.⁴

The Nordic model is characterized by a high unionization rate and high collective agreement coverage. Within this framework, however,

the countries have chosen different solutions. While Denmark and Sweden have collective agreements as their only mechanism for regulation of minimum wage levels, Finland, Iceland and Norway have the legal instrument to make agreements generally binding. None of the Nordic countries has adopted a statutory minimum wage.

Statutory minimum wages

National minimum wage rates, among those European countries that have set them, vary significantly, even when adjusting for differences in the costs of goods and services.^{iv} As of January 2015, hourly rates vary from € 11.10 (USD 12.69) (Luxemburg) to € 1.00 (USD 1.14) (Bulgaria).

Figure 1 shows the minimum wage in euros for all EU countries that have defined a statutory minimum wage level.

In **Figure 1** one observes that the eastern European countries clearly have the lowest minimum wages – most of them have rates of €

In terms of the ratio of the minimum wage to the median wage, the Nordic countries and Italy – where minimum wage is laid down in collective agreements – have higher relative minimums than countries with universal rates.

3.00 (USD 3.30) or less per hour. Among the western European EU countries, Portugal, Spain and Greece stand out in terms of their low rates, while countries such as France, Luxemburg, the Netherlands,

Belgium and the United Kingdom have far higher ones. Most countries undertake annual

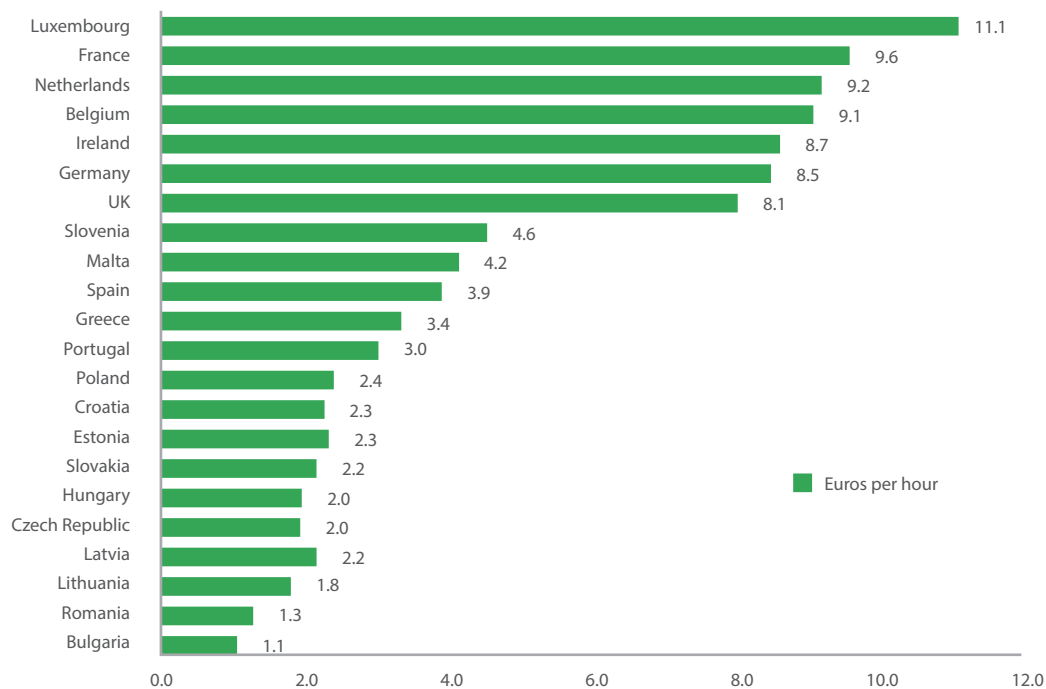
iv The relationship between minimum wages and working hours varies considerably among the countries, in the sense that some countries have defined a minimum pay for overtime, while others have left such issues to be settled in each employment relationship. The same applies to payment for work during inconvenient hours, shift-work supplements etc.

adjustments, although the financial crisis caused many countries to freeze minimum wage levels in 2011 – namely Ireland, Latvia, Lithuania, Portugal, Spain and the Czech Republic. In the last couple of years, most countries have increased their rates at a measured pace.

This overview of nominal minimum wage rates conceals national differences in general levels of prosperity and average wage levels relative to the minimums. Minimum wage levels across diverse economic contexts measured in the same currency provide little information about the value of these minimum wages in the national

Figure 1

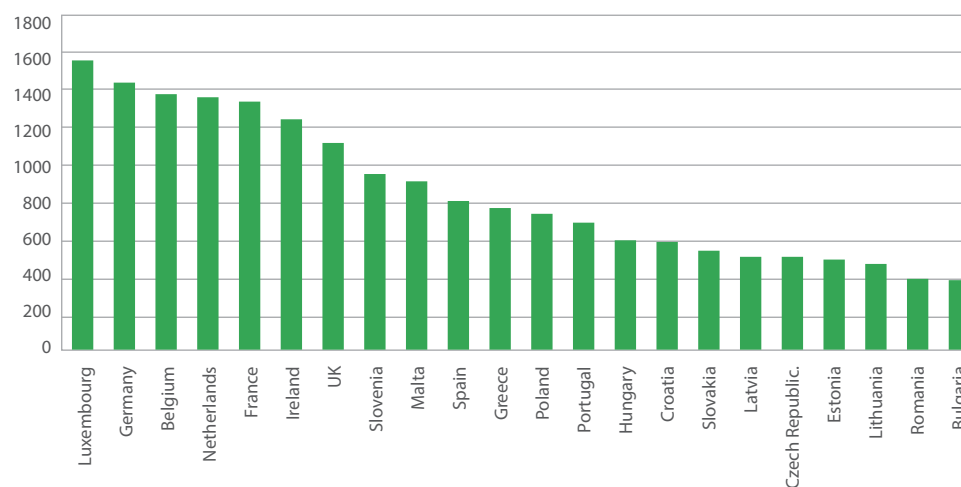
Statutory minimum wage rates in EU countries, in euros, January 2015



Source: WSI-Mindestlohndatenbank 2015

Figure 2

Minimum wages in purchasing power standards in the EU, 2015



Source: Eurostat. 2015.

* Numbers of 1 January (except Croatia July 1, 2008). PPS for 2015 estimated.

context. If price level differences are eliminated, disparities are considerably smaller. One way of measuring this is by expressing minimum wage in purchasing power standards (PPS)^v (Figure 2). Seen in light of purchasing power, the eastern EU countries had in 2013 seen the most positive development.⁵

Another commonly used method to understand the value of the minimum wage rates is to compare

them to national average wages or median wages.

^{vi} In Europe, a low wage is commonly defined as less than 60 percent of the median wage.⁶ Calculations from the Organisation for Economic Co-operation and Development (OECD) of national minimum wage rates as percentages of the national median wage level show that in 2013, the statutory minimum wage rates varied from 36 percent (Czech Republic) to 63 percent (France) of the median wage.⁷ The distinctions

^v Purchasing power parities are used to remove the effect of differences in price levels across countries. Household consumption expenditure in each country is used to convert the monthly minimum wages to an artificial common unit called the purchasing power standard (PPS) (Eurostat 2015 National minimum wages in the EU. Monthly minimum wages in euro varied by 1 to 10 across the EU in January 2015. 35/2015 – February 26, 2015.).

^{vi} This measure is known as the Kaitz Index.

between the various regions of Europe are no longer as marked when these relative measures are applied. In terms of the ratio of the minimum wage to the median wage, the Nordic countries and Italy – where minimum wage is laid down in collective agreements – have higher relative minimums than countries with universal rates.⁸

Effects on employment are a key issue when it comes to statutory minimum wage levels. If the minimum wage is set “too high,”

Advocates for higher compensation see that an EU-wide wage floor could diminish the downward pressure on wages that has resulted from migration. Moreover, it could reduce the regional disparities that drive labor migration.

this may reduce the value of low-paid (and often unskilled) workers in relation to their productivity, and for this reason enterprises may reduce their staffing levels or refrain from hiring new labor. Even though this has become a kind of accepted truth in the European context, studies of the employment effects of minimum wage systems provide few unambiguous answers. Recent international empirical research on minimum wages takes the view that existing minimum wage regimes have minimal if any negative effects on employment.⁹

The case for a European minimum wage

Given that most European countries have already introduced statutory minimum wages, one might ask why some stakeholders are calling for a European minimum wage. This question is particularly confounding since the majority of those countries that do not have a statutory minimum wage do not wish to see one introduced at the European level.

One explanation is that the trade unions in countries with low minimum wage levels want to raise these levels above what can be achieved by way of national bargaining and consultations. Another factor is that some countries have had good experiences with their minimum wage schemes, and would like to see their national policies reinforced at the European level. One example is France, where the Ministry of Finance

recently published an article providing ideas for what the European minimum wage standards should be.¹⁰ Earlier campaigns in Germany on a national minimum wage also spurred the interest in a statutory minimum wage for the EU as a whole, and it remains to be seen whether the introduction of minimum wage in Germany may reduce the pressure for a common European solution.

Beyond these reasons, the reality of labor migration from eastern to western Europe also drives the case for an EU-wide minimum. The eastern enlargement of the EU and the

creation of a single market in 2004 stimulated major changes for many European countries. In increasing numbers, people left countries with low wage levels in the east to take up work in high-income countries in the west, leading to increasing competition for lower-wage jobs in most of the destination countries. This has troubled labor unions in EU member states, as advocacy around higher wages has become more difficult. Advocates for higher compensation see that an EU-wide wage floor could diminish the downward pressure on wages that has resulted from migration. Moreover, it could reduce the regional disparities that drive labor migration.

Is a European minimum wage a possible solution?

The EU's regulation of the labor market has two main elements: First, the regulations for the internal market and second, the "social dimension." The latter is comprised of rules for working environment, equal rights and employees' rights, plus coordination of entitlements to social benefits and cooperation on employment policy, social inclusion, poverty alleviation, social issues and health. Even though the competencies of the EU in the social arena have been considerably strengthened over the course of its history, matters pertaining to wages remain explicitly excluded. According to Article 153, no. 5 of the

treaty, the EU does not have the authority to issue directives or enact other regulations with regard to wage setting. Such regulations would therefore require the unlikely event of member states giving EU institutions increased authority in wage setting, or else would be issued as non-binding recommendations.

Nevertheless, recent years have witnessed a continuous debate in the Parliament on the need for European-level regulations on minimum standards for wages and incomes. And recent developments show that EU institutions do have

the power to shape wage policies across the union, through mechanisms that could ultimately be used to enact EU-wide minimum wage standards.

As shown by Schulten & Müller,¹¹ EU institutions such as the Commission and the European Central Bank have already regularly issued non-binding recommendations on wage policy. Following the 2008 global financial crisis and the European debt crisis that unfolded a couple years later, the institutions have focused on labor costs as

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a central adjustment mechanism for national competitiveness, and thus monitored the development of wages, employee benefits and collective bargaining systems. One could argue that the Commission's recommendations to member states on wage policies in recent years are a kind of European maximum wage policy. Whether this development in the longer term may pave the road for an implementation of a European minimum wage policy remains to be seen.

Nordic resistance toward a European minimum wage policy

While the call for a European minimum wage policy has been welcomed by most trade unions in Europe, Nordic countries in particular have been strongly opposed. This is primarily based on a fear that a minimum wage will weaken the system of collective bargaining in these countries that succeeds in maintaining decent wage levels for the vast majority of workers. Any European measures and campaigns that aim at a statutory

regulation of wages in the member states are met with profound skepticism. Although the Nordic unions have voiced their resistance repeatedly in the ETUC and in several European trade union federations over the last years, they have experienced difficulties in getting their message across.

Strong organizations, high union density, high

collective agreement coverage, well-developed bargaining relations and cooperation between the social partners are core elements of the Nordic labor market model, even though the countries vary in some respects. The collective agreements have a pervasive effect beyond the unionized parts of the labor market, and trade unions maintain that a statutory minimum wage would represent a strong competitor to the collective agreements. It could become acceptable, they believe, for wage rates to follow an EU-wide statutory minimum as opposed to collectively agreed minimum rates, which are inexorably higher. Nevertheless, Nordic countries are considering new wage regulations to cope with labor migration from eastern Europe, which places downward pressure on wages. Denmark and Sweden in particular are increasingly debating the prospect

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of legal extension of collective agreements. However, it seems far more likely that they will introduce statutory minimum wages. In Norway there is still widespread disagreement regarding the functionality of the current extension scheme, and employers' associations have repeatedly

voiced their view that a statutory minimum wage would represent a better solution.

This contrasts with Germany, where unions eventually came to favor a minimum wage, with employers opposed. The German context also

differs because a statutory minimum wage there is not envisioned as an alternative to collective agreements. On the contrary, Germany's new minimum wage law creates the opportunity for new extensions of collective agreements to ensure that these remain the main basis for wage formation.

Outlook

There are clear signs indicating that the debates on a European minimum wage will continue. In his appointment speech as President of the EU in July 2014, Jean-Claude Juncker stated that

all EU countries ought to introduce a minimum wage or minimum income.¹² Juncker has also made similar statements on earlier occasions. The question is whether his statements signal

that EU institutions want to gain more influence over minimum wage policies in member states. If nothing else, Juncker's speech indicates that the topic of a "European minimum wage" may remain the subject of contentious debate.¹³

The increase in the numbers of working poor and low-wage workers in Europe in the wake of the financial crisis has revived the debate also within the European trade union movement.¹⁴ Most likely the discussions will continue at the coming ETUC congress in Paris in 2015. However, agreement on a common European strategy with regard to minimum wage will likely remain elusive.

In the view of this chapter's authors, the debates so far have suffered from a mutual lack of understanding of the different positions. To a certain extent, the Nordic trade unions have been perceived as egoistic and unwilling to grasp the magnitude of the low-wage problem in Europe. From their perspective, meanwhile, it seems almost impossible to support a policy they fear could threaten their current collectively agreed minimum wage-setting processes. Although the

Nordic unions now recognize that a statutory minimum wage may be a 'necessary evil' in some countries, most of them are still very far from supporting a European minimum wage policy. However, the situation in many EU countries calls for measures that can strengthen the position for those working at the low-income end of the

The only – and difficult - way forward is probably to develop a joint minimum wage policy that is strong enough to have an impact on countries with growing low-wage sectors and weak trade unions, but at the same time flexible enough that opponents are convinced it will not impair their high-functioning collective bargaining systems.

labor market. Such measures would have to accommodate the fact that wages are determined differently in different member states, and that changing these systems could affect ways in which national regulatory mechanisms function. The only – and difficult - way forward is to develop a joint minimum wage policy that is strong enough to

have an impact on countries with growing low-wage sectors and weak trade unions, but at the same time flexible enough that opponents are convinced it will not impair their high-functioning collective bargaining systems. A successful outcome will by all accounts require a measure developed and anchored among all three social partners - government, employers and workers - at both the national and EU level.

Endnotes

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