1. Minimum wage revival in the enlarged EU: Explanatory factors and developments

Daniel Vaughan-Whitehead

1.1 INTRODUCTION

The minimum wage has returned to the top of the EU policy agenda. EU enlargement has certainly contributed to this. While only nine out of the former 15 EU Member States have introduced a statutory national minimum wage (NMW), the integration of the 12 new EU Member States has radically increased the overall proportion: 20 out of 27 (75 per cent) now have a national statutory minimum wage.

Symbolic of the revival of minimum wages was the decision by the United Kingdom to introduce a statutory national minimum wage in 1999 after the previous Conservative government had dismantled the system of industry minimum wages in the 1980s. Ireland immediately followed suit in 2000, despite the opening up of its economy, notably to foreign investment, and general deregulation of its labour market. Portugal, after years of low minimum wage increases, in January 2008 set up a special committee that has significantly increased the minimum wage and is planning new rises until 2011. Austria has also laid down – through an agreement between the social partners – a national monthly minimum wage of €1,000, which started on 1 January 2009. Other examples are provided in this volume.

The possibility of implementing a national minimum wage has also been debated recently in Germany and Sweden, where minimum wages are traditionally fixed by sectoral collective bargaining and are generally not binding. The issue remains open and lively public discussions are currently taking place in these countries to assess the pros and cons of such a shift for their economy and society, as well as for their industrial relations systems.

Among the candidate countries, Croatia in 2008 implemented a new law on minimum wages, although the minimum wage had been in operation since 1998 without a different legislative underpinning. Turkey also decided to give a new boost to minimum wages in 2008 by reducing taxes for minimum wage
The minimum wage revisited in the enlarged EU

Table 1.1 Current status of national minimum wage systems in Europe, 2008

<table>
<thead>
<tr>
<th>Minimum wage system in place</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>National minimum wage</td>
<td>Belgium (since 1975, set by collective bargaining and legally binding)</td>
</tr>
<tr>
<td></td>
<td>Bulgaria (1990)</td>
</tr>
<tr>
<td></td>
<td>Croatia (since 1998, new Act in 2008)</td>
</tr>
<tr>
<td></td>
<td>Czech Republic (1991)</td>
</tr>
<tr>
<td></td>
<td>Estonia (1991)</td>
</tr>
<tr>
<td></td>
<td>France (since 1970)</td>
</tr>
<tr>
<td></td>
<td>Greece (1953)</td>
</tr>
<tr>
<td></td>
<td>Hungary (1989)</td>
</tr>
<tr>
<td></td>
<td>Ireland (since 2000)</td>
</tr>
<tr>
<td></td>
<td>Latvia (1991)</td>
</tr>
<tr>
<td></td>
<td>Lithuania (1991)</td>
</tr>
<tr>
<td></td>
<td>Luxembourg (1973)</td>
</tr>
<tr>
<td></td>
<td>Malta (1974)</td>
</tr>
<tr>
<td></td>
<td>Netherlands (1969)</td>
</tr>
<tr>
<td></td>
<td>Poland (1990)</td>
</tr>
<tr>
<td></td>
<td>Portugal (1974)</td>
</tr>
<tr>
<td></td>
<td>Romania (1990)</td>
</tr>
<tr>
<td></td>
<td>Slovakia (1991)</td>
</tr>
<tr>
<td></td>
<td>Slovenia (1995)</td>
</tr>
<tr>
<td></td>
<td>Spain (1980)</td>
</tr>
<tr>
<td></td>
<td>Turkey (1974; before there were regional minimum wages)</td>
</tr>
<tr>
<td></td>
<td>United Kingdom (since 1999)</td>
</tr>
<tr>
<td>National minimum wage adopted</td>
<td>Austria (from January 2009 through national collective agreement)</td>
</tr>
<tr>
<td>Minimum wages set by sectoral collective agreements</td>
<td>Cyprus (for a few specific occupations)</td>
</tr>
<tr>
<td></td>
<td>Denmark (generally not binding)</td>
</tr>
<tr>
<td></td>
<td>Finland (extension to uncovered sectors)</td>
</tr>
<tr>
<td></td>
<td>Former Yugoslav Republic of Macedonia (two agreements in public and private sector)</td>
</tr>
<tr>
<td></td>
<td>Germany* (generally not binding)</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td>Sweden* (generally not binding)</td>
</tr>
<tr>
<td></td>
<td>Norway (extension to uncovered sectors)</td>
</tr>
<tr>
<td>No minimum wage at either national or sectoral level</td>
<td>None</td>
</tr>
</tbody>
</table>

Note: * Currently debating national minimum wage.

earners. The examples are thus numerous, illustrating the renewed interest of national policy-makers in minimum wage institutions. We shall also see if the economic crisis may halt this trend or if it corresponds to a longer term evolution.
Alongside the renewed interest in individual EU Member States debates have increasingly taken place on the possibility of a common minimum wage policy at EU level.

It is this renewed interest in minimum wage institutions in an era marked by the general deregulation of labour markets and working conditions that motivated this collective project, following an initial request to the ILO from the European Commission. This collective volume is the result of one and a half years of work by a group of high-level national experts on the minimum wage.

While we try in this introductory chapter to cover 30 European countries – the EU-27 plus Croatia, the Former Yugoslav Republic of Macedonia and Turkey – for practical reasons it was decided that national studies would be carried out on approximately half of them, the 13 countries covered in the following chapters.

The national authors represented in this volume provide concrete and systematic evidence on minimum wage policy changes and minimum wage developments in each of their countries, while also providing new evidence on minimum wage effects, notably through case studies carried out at enterprise or sectoral level. A number of “highlights” are also furnished concerning a few country-specific minimum wage issues in order to help to reconstitute, in each of the following 13 chapters, the specific “minimum wage story” of each country. By doing so we tried as far as possible to analyse the potential role that minimum wage developments could play within the new context brought by EU enlargement to CEE countries and globalization, notably liberalization of the movement of trade, capital and labour, as well as changes in employment, wages and industrial relations.

In the present chapter we seek to provide a first assessment of the dynamics of the minimum wage in the enlarged EU.1 In Section 1.2 we look at the factors that explain such renewed interest in statutory minimum wages, while in Section 1.3 we consider how this is reflected in comparative statistics on the minimum wage. In Section 1.4 we look at the most significant effects of minimum wage developments in the context of the newly enlarged EU.

1.2 RENEWED NATIONAL INTEREST IN MINIMUM WAGES: EXPLANATORY FACTORS

Below we identify four major reasons that help to explain why the minimum wage is being “revisited” in EU Member States.

---

1. Rather than providing an exhaustive list of differences in minimum wage fixing in each individual EU Member State on which literature is already available – see, for instance, Funk and Lesch (2005).
1.2.1 Increased labour and capital movements and social dumping

The first reason is the increased movements of labour and capital generated by EU enlargement to CEE countries, but also by intensified flows at the international level. The arrival of significant numbers of migrant workers, often hired on lower wages and under more intensive working conditions, has put the ensuing new labour reserve – and the risk of social dumping associated with it – in the spotlight.

In countries such as Ireland and the United Kingdom that immediately opened up their borders in 2004 to migrant workers from the ten new EU Member States the minimum wage has certainly played a role. Not only has it helped to reassure domestic workers that their pay will not be undermined by such immigration, but it has also protected workers from Central and Eastern Europe from excessively low wages. It also became an element in attracting them in a context of labour shortages.

In Greece, similarly, the minimum wage has returned to the centre of policy debates as a way of ensuring minimum standards in the face of a large and increasing influx of migrant workers.

It is striking that the arrival of migrant workers has posed a particular problem in those countries that do not have a national minimum wage but rather minimum wages fixed by collective agreements, such as Germany and Sweden (see Table 1.1). The new mobility options offered to employers within the enlarged European Union have changed the rules of the game somewhat.

In principle it should be possible to avoid social dumping since firms operating temporarily with their own personnel in other EU countries should, according to the Posted Workers Directive of 1996, adhere to the minimum wage legislation of the host country.

The *Laval* case, however, the first of its kind since the 2004 enlargement (and discussed in Chapter 12) has shown that the situation is much more complex for a country such as Sweden that has no statutory minimum wages (nor are the rates in collective agreements legally extended to uncovered sectors). The facts speak for themselves: the Latvian company Laval (known as Vaxholm in Sweden) which had operated with very low wages became involved in a labour dispute with the Swedish construction workers' trade union, which blockaded the company and subsequently put it out of business. In December 2007, however, the European Court of Justice ruled against the union, a decision based on the absence of clearly defined minimum wages in the host country and the fact that union action had been taken against a firm with a collective agreement in the country of origin. This decision has led to questions about the sustainability of the Swedish industrial relations system, especially if the inflow of posted workers continues to increase and spreads to other sectors, such as services. A special commission has issued policy proposals (Chapter 12).
Minimum wage revival in the enlarged EU

Similarly, the EC directives opening up the product markets of former public services – for example, postal services, telecommunications or local transport – have accelerated the arrival of new service suppliers, minimizing wages in, for example, Germany where there are no national or binding sectoral minimum wages. In the meat industry, too, German workers have progressively been replaced by lower paid posted workers (see Chapter 6 on Germany).

Interest in minimum wage developments has also emerged among countries of origin as a potential tool for limiting outward migration. It was presented in Latvia, Estonia, Poland and Romania as a possible tool for stopping the emigration of workers, a debate that is also currently going on in other new EU Member States. As an example, health-care workers’ representatives in Poland have called for the introduction of minimum pay rates to prevent the exodus of doctors and nurses seeking higher wages elsewhere in the EU.2

In Estonia, Latvia and Lithuania the objectives pursued by means of the minimum wage have changed over time. Introduced in 1991 mainly to cover low-paid workers, the minimum wage has also become a central policy tool for addressing outward migration. The case studies presented in Chapter 4 show how the minimum wage in Estonia has represented some sort of answer in this regard. In Latvia, the Employers’ Federation has clearly stated that “the minimum wage could help in stopping the emigration of the labour force”.

More generally, the minimum wage has increasingly been seen as a valuable tool in avoiding social dumping; not only preventing the employment of migrants on lower wages, but also helpful in fighting hidden pay practices. In the Baltic countries, but also in Hungary, Croatia and many other CEE countries, the minimum wage has been promoted to fight so-called “envelope wages”, a practice common among employers of paying workers the minimum wage and topping it up with unofficial cash payments in order to minimize social insurance contributions. This would help to explain why the proportion of employees on the minimum wage remains consistently higher in these countries despite a relatively high minimum wage compared to the average wage. An extreme case is Turkey where this phenomenon, also called “double payroll”, might explain the very high percentage of workers – one in two – on the minimum wage. The payment of higher official minimum wages would reduce the hidden part and thus limit such unfair competition. This was the motivation behind the new provisions for social security contributions for minimum wage earners introduced in mid-2008.

In Hungary the authorities also decided to increase the minimum wage, indeed spectacularly – doubling it in two hikes, in January 2001 and January 2002, from HUF (Hungarian forints) 25,500 to HUF 50,000 – mainly to make

---

2. See “Health care workers demand sectoral minimum wage”, in European Industrial Relations Review (November 2006), Issue 394, p. 11.
work pay, so reducing incentives to remain inactive and receive welfare benefits, not to mention fighting tax evasion resulting from envelope wages.

Finally, outsourcing of activities in countries where there is no national minimum wage has also been emphasized. The minimum wage could limit the phenomenon of large companies – also often within national boundaries – outsourcing part of their activities to smaller companies where lower wages and labour costs prevail.

1.2.2 New forms of employment contract

The second major source of pressure has been the new configuration of the labour market, with the reliance since the late 1990s on new forms of employment contract, such as part-time work, self-employment and temporary employment. In recent years this has taken the form of government intervention to boost employment at the lower end of the labour market.

While this has certainly increased employment it has also had the effect of confining certain categories of workers to more precarious employment and income insecurity (Eyraud and Vaughan-Whitehead 2007). These groups require more protection since they also have more difficulty in organizing and obtaining trade union protection. These atypical forms of employment are often associated with low pay (below two-thirds of the median wage), as shown in different chapters of this volume.

It is significant that in Germany the Hartz reforms, aimed at liberalizing and boosting the labour market, also resulted in a dramatic increase in the number of low-paid workers. Not only did the number of workers with so-called “mini-jobs” increase, but their share in the low-wage sector more than doubled between 1995 and 2006; 85 per cent of those with so-called “mini-jobs” were found to be low paid. The case is similar in Spain among workers on fixed-term contracts, or among interim agency workers in the Czech Republic. Low pay is also increasingly prevalent among part-timers in the Netherlands. In Estonia the risk of falling into poverty was found to be much higher among temporary workers, as well as for those in part-time employment (three and a half times and three times higher than for permanent workers, respectively). The self-employed were also found to have lower wages than employees, the majority of them in the first wage quintile, while only 7 per cent of employees belong to it. In Italy, workers with fixed-term contracts not only were found to work more hours but also to register hourly wages that were 10 per cent lower than those of employees under open-ended contracts. Similar findings are found in several other European countries.

The minimum wage may thus represent an important protective tool for these categories of workers. All the chapters in this volume show that the percentage of minimum wage earners is higher among employees under atypical
employment. As an example, in Estonia in 2005 11.2 per cent of temporary workers were paid at the minimum wage level as against 4.8 per cent of permanent employees. The proportion was also higher among part-time workers (5.7 per cent) than among full-time workers (4.9 per cent). In the Netherlands most minimum wage earners are in part-time employment.

The minimum wage is also a way of protecting other workers from unfair wage competition due to atypical forms of employment. Significant evidence is produced in this volume to show that temporary workers are often introduced progressively to replace the core labour force. This phenomenon was identified in the construction sector in Germany where workers who are not covered by collective agreements are often hired at lower wage rates - generally applied to posted workers from other countries. Trade unions have tried to respond to this by negotiating principles of "equal pay for equal work” in collective agreements. One case study in Chapter 6 on Germany also shows how they have negotiated two minimum wages in construction, one for unskilled and the other for skilled workers, to prevent the employer from hiring skilled workers at the unskilled minimum wage rate.

At a time when the EU is promoting flexicurity, the abovementioned labour market trends further complicate the attainment of balanced outcomes in terms of employment and wage contracts. Minimum wages should thus also be integrated into the current EU flexicurity programme.

1.2.3 Industrial relations developments

Another explanation must be sought in changes in industrial relations systems and the respective shifting balance of power between and the movement of targets being pursued by the trade unions, employers and the state.

One factor is the progressive decline in union membership and collective bargaining coverage experienced in most EU countries. To counter their declining influence in the wage-fixing process – especially in those countries without a statutory minimum wage – many trade unions have pushed for the introduction of such a statutory tool to help them to keep better control of workers’ real wages and purchasing power. It is also possible that this new interest in the minimum wage is due to the difficulties experienced by existing industrial relations systems in dealing with the combination of the two factors described above, namely increased mobility and new forms of employment. It is true that migrant workers are present mainly in unorganized sectors, such as construction, hotels and restaurants and hospital cleaning, which remain, like many service activities, traditionally less covered by collective bargaining.

3. In some countries, though, such as Germany, Denmark and Sweden, trade union density and coverage is high in construction because of many industry-specific regulations.
It is significant that in Estonia wages are lower and the percentage of workers at the minimum wage level is higher where there are no trade unions (5.2 per cent against 2.1 per cent in unionized companies), a state of affairs also encountered in other EU countries. This means that trade unions help workers to obtain better wages while the minimum wage helps to establish a wage floor in companies where there are no trade unions.

The situation is very diverse, however, according to specific national industrial relations systems. We can regroup these countries as follows.

**Minimum wages alongside decentralized collective bargaining**

First, some countries that not only did not have a statutory minimum wage, but also had a rather decentralized system of collective bargaining, mainly at enterprise level, together with low collective bargaining coverage, such as the United Kingdom and Ireland, decided to implement such a system, mainly to address the growth of low pay. In the United Kingdom since the abolition of wages councils in 1993 there had been no wage floor, including for the major low-paying sectors. The minimum wage has thus been employed in pursuit of fairness, alongside a clear intent on the part of the government “to make work pay”.

**Vulnerability of traditional centralized collective bargaining systems**

Second, a number of countries did not set up a statutory minimum wage at national level because they have traditionally enjoyed strong collective bargaining coverage, such as Germany, Sweden and other Scandinavian countries (Finland, Denmark, Norway) in which the social partners negotiate minimum wage levels by sector. However, these countries are increasingly confronted by difficulties that collective bargaining seems unable to resolve. In other words, traditional systems of collective agreements have become increasingly vulnerable to the new conditions.

For example, the non-binding system of collective agreements has been less successful following German reunification and the ensuing high unemployment, which induced employers to seek more freedom to pay lower wages. This is particularly prevalent in small and medium-sized enterprises (SMEs), where workers do not benefit from trade unions or works councils. The share of low-paid workers in SMEs exceeded 50 per cent in 2005, compared to 3 per cent in large enterprises.

Moreover, in these countries activities in highly unionized enterprises or sectors have been increasingly outsourced to sectors and enterprises lacking collective agreements where employers can have massive recourse to low-paid workers.

The European Court of Justice (ECJ) decision in the *Vaxholm-Laval* case in Sweden has underlined the limits of traditional collective bargaining without legally binding minimum wages.
Minimum wage revival in the enlarged EU

These new situations have led to a policy debate on the advantages that the shift to a national minimum wage might bring. Despite strong collective bargaining Austria decided to implement a national minimum wage – though fixed by collective agreement – from 1 January 2009.

Emerging bargaining systems leading to excessive wage disparity
Third, many new EU Member States from Central and Eastern Europe have experienced rapid growth in real wages after their initial – early transition – income crunch. However, the rapid real wage increases have been accompanied by a growth of wage disparity and a growing proportion of low-paid workers. While many of these countries introduced a national minimum wage a long time ago, it has declined in real terms and in proportion to the average wage. This was partly the result of liberal policies implemented early on in the transition that deliberately neglected minimum wages, as in Poland where the minimum wage was considered as a “labour market rigidity” that would limit employment and so was out of place in the shock-therapy policy conducted by the Balcerowicz government in the early 1990s (Standing and Vaughan-Whitehead 1995; Balcerowicz 2004). More recently the governments of these countries have started to use the minimum wage to curb such wage differentials, and have in many cases fixed a clear target for the ratio of the minimum wage to the average wage, as in Estonia (where a target of 41 per cent has been fixed), Poland, Latvia and Lithuania (all three with 50 per cent targets). The aim in Estonia was to provide more security to workers at the lower end of the labour market and more stability to employers, who on this basis can predict the level of the lowest skilled workers’ wages and their place in the wage scale.

Social dialogue in Central and Eastern European (CEE) countries is generally recognized as being rather weak (Ladó and Vaughan-Whitehead 2003). While there have been tripartite mechanisms since early transition, collective agreements remain poorly developed at company level in terms of both number and contents, while there does not seem to be much intermediate collective bargaining at sectoral level, which remains the missing link (Ghellab and Vaughan-Whitehead 2005).

There are of course some important differences between CEE countries. A few of them enjoy high collective bargaining coverage, above all Slovenia, with 100 per cent coverage alongside obligatory collective bargaining, but also Croatia, with possibly 80 per cent due to the widespread practice of legal extensions of existing collective agreements.

Wage bargaining systems around wage moderation strategies
Other countries have experienced a relative decline in their minimum wage, either because it was neglected as a policy tool, and so allowed to
progressively decline, or because it was used by the government to limit wage growth and budgetary expenditure. This is the case in Spain, where the minimum wage was only poorly adjusted in the 1990s and early 2000s.

In the Netherlands the government – sometimes in agreement with the social partners – allowed the minimum wage to progressively lose its influence, with a freeze for many years as part of an overall wage moderation strategy, and a 30-year progressive decline of the minimum wage in comparison with the average wage. We could also include Italy, where wage moderation and low wage increases were also achieved through a slow progression of minimum wage rates fixed at sectoral level. Some of these countries have recently decided to boost the minimum wage, for example, Spain, which increased it by 50 per cent in 2004 and is planning further increases (to €1,000) by 2010.

**Wage bargaining and minimum wage relatively stable**

Other countries have experienced relative stability in minimum wage fixing, such as Luxembourg and France, where the minimum wage has traditionally been used as a protective floor set at a rather high level through regular adjustments of the so-called “SMIC” (Salaire minimum interprofessionnel de croissance). This is combined with fairly strong collective bargaining coverage due to extension mechanisms. In fact, in order to relieve the burden on enterprises the government recently decided to reduce taxes rather than the minimum wage. Slovenia and Croatia could be classified as belonging in this category.

In some countries minimum wage fixing seems to be relatively independent of government intervention, such as Greece, Estonia and Hungary, where the social partners negotiate and the government intervenes afterwards, either to accept or amend the social partners’ decision. In practice, however, governments can always intervene despite the autonomy of the system, as in Hungary when the government took the unilateral decision to double the minimum wage in 2000 after the social partners failed to reach an agreement.

**1.2.4 Declining wage trends**

Wage trends in the whole economy also help explain the renewed interest in the minimum wage. In fact, in many European countries wage moderation, a falling wage share, increased wage differentials and a growing number of working poor have suddenly attracted attention to minimum wages due to the need to influence wage developments more positively.

**Real wages: the era of wage moderation**

Real wages on average have experienced limited growth in the EU since 1995 (a little more than 5 per cent). However, they have exhibited different trends in different European countries.
Minimum wage revival in the enlarged EU

Figure 1.1 Growth of real wages in European countries, 1996–2006 (%)

Note: 1996 is taken as index except for Czech Republic (2002), Norway and the UK (1998).

Source: Eurostat.

While former EU-15 member countries benefit from higher wage levels they have generally known some wage moderation over the past ten years. Real wage figures confirm the fall – as in Spain – or slow progression of real wages (as in Austria, France, Germany, Italy and Portugal). In Germany, real wages have declined particularly of late, with a 0.4 per cent increase in nominal wages in 2002–05 lagging behind price increases (3 per cent); this decline is particularly acute among the lowest paid groups (the lowest quartile has seen a 14 per cent fall in real wages since 1995), but it has also affected middle income groups (Chapter 6 on Germany).

In France, slow real wage growth was related to the introduction of the 35-hour working week. In Italy, real average wages receded by an average of 0.3 per cent a year between 1993 and 2006, the lowest progression – with Spain – in the EU. Of the former EU-15 countries, only Finland, Greece, Ireland, Sweden and the United Kingdom have seen substantial real wage growth over the same period.

The ten new EU Member States from Central and Eastern Europe have generally shown strong real wage decreases in the first period, catch-up in the second, and slow or moderate growth thereafter. In the first years of reform they experienced a sharp deterioration of real wages alongside serious economic contraction, a process that halted in the mid-1990s. Since the mid-1990s wages have benefited from rapid GDP growth – much higher than the EU-15 average – and have started to increase rapidly in real terms, to some extent
recovering their pre-transition levels shortly before EU membership. EU accession has further contributed to boosting economic growth, with real wages continuing their increase. Poland, for instance, experienced 2 per cent annual average growth in real wages between 2000 and 2006, with an increase close to 7 per cent in 2007. As a result, wages increased by 45 per cent between 1995 and 2007. Estonia experienced a 6–8 per cent annual increase in real wages between 1996 and 2006, and an almost 100 per cent increase over the period (as did Lithuania and Latvia). Recent data indicate that the increase in the three Baltic states was between 140 and 150 per cent between 1996 and 2008. It is interesting to observe that the highest real wage increases have been observed in the Baltic States, well above productivity increases, a process that is explained not only by GDP growth, but also by labour shortages and labour migration to other EU Member States, against which the minimum wage is now seen as a valuable tool.

Such wage increases would seem to have been slowing down recently, however, and some CEE countries also seem to be entering into a period of wage moderation alongside declining economic growth.

Neighbouring countries, such as the Former Yugoslav Republic of Macedonia, continue to experience very moderate real wage growth – only 2.8 per cent between 1998 and 2007 – despite rapid GDP growth. Croatia saw a rise in real wages in 1995–2006 of 30 per cent, but wage moderation thereafter. Real wages also experienced a significant fall in Turkey following the 2001 economic crisis, and have never fully recovered.

With the exception of some rapid increases in transition countries the EU has thus been characterized by general wage moderation over the past decade.

Wage share: the uncontrollable fall

Differences notwithstanding, a common characteristic of most EU countries is that real wage growth remains behind productivity growth. Wages have therefore experienced a declining share of economic growth, confirmed by data on the wage share in GDP.

The wage share in GDP declined in the EU-27 during 1996–2007, from 59.6 per cent to 57.1 per cent. Figure 1.2 shows the change in wage share over this period broken down by individual European countries. The wage share declined in 25 of the 31 countries studied presented in Figure 1.2 since 1995. What is more, the declines have been much more substantial than the – few – increases. The wage share declined by more than 15 per cent in Bulgaria, nearly 10 per cent in Poland, Austria, Slovenia and Norway, and more than 5 per cent in Spain, Ireland, Estonia and Hungary, with Germany not far behind.

The wage share increased only in Romania, Lithuania, Czech Republic, Sweden and Denmark, while it stabilized in the United Kingdom (mainly due to an increase in the wage share from 1997). The increased wage share may be
Minimum wage revival in the enlarged EU

associated with higher real wages in countries such as the United Kingdom and Sweden.

The wage share also declined in the Former Yugoslav Republic (FYR) of Macedonia (not included in Figure 1.2), by 14 per cent between 1997 and 2005, in a context of rapid GDP growth of 5.3 per cent on average. It has also declined in Turkey despite rapid economic growth after the 2001 crisis and also an increase in the share of wage earners in total employment.

When we look at the wage share level rather than its change over time, we see that it is particularly low in countries such as Bulgaria (where total employees' compensation represented between 32 and 42 per cent of GDP in the period 1995–2006) and the Czech Republic (32.3 per cent in 2006). The wage share seems to have increased in the Czech Republic, but also in Romania and Lithuania, which have also benefited from real wage growth.

Wage differentials: a sustained increase

Within a declining global wage share the evidence shows that differentials by categories of workers are also increasing.

Several different indicators monitor the increase in wage disparity: while the Gini coefficient and the quintile share ratio (measured as $S_{80}/S_{20}$ income quintile share ratio) give an indication of income disparity, wage disparity is generally calculated by the lowest decile over the first wage decile ($D_{91}/D_{1}$).

Statistics show that wage disparity has not increased uniformly in European countries over the past few years, due to different economic and social

Figure 1.2 Changes in wage share, European countries, 1996–2007 (%)

Source: Ameco.
The minimum wage revisited in the enlarged EU

conditions. Growth of wage disparity has been particularly rapid in transition countries which enjoyed relatively low wage differentiation under the communist regime. All CEE countries have faced increased wage differentiation, particularly high in, for example, Hungary and Estonia. In Poland, the ratio of the lowest wage decile to the highest increased from 3.33 in 1996 to 4.32 in 2006, and in the Czech Republic from 2.45 in 1989 to 3.13 in 2006. This can be explained mainly by a growing wage gap between manual and non-manual professions, but also structural changes in employment – notably higher and growing wages in the tertiary sector, a deterioration on the part of the secondary sector, and also lagging public sector wages. In Bulgaria, the wage differential between the highest and lowest paid sectors increased from three to four and a half times between 1995 and 2005. Wage disparity has also increased rapidly in FYR Macedonia and Croatia. Qualifications continue to explain the position of workers in the wage distribution.

The gap between low- and high-wage earners has also increased in several EU-15 countries in the last ten years. This is the case in, for example, Austria (Guger and Marterbauer 2007; Rechnungshof 2007), but also in Germany where the relative gap between the lowest and the highest wage deciles increased from 3.2 in 1996 to 3.7 in 2005, with an increase in East Germany from 2.40 to 3.20 attributable to the rising wages of high-wage earners. In West Germany, by contrast, wage inequality is driven more by the fall of wages in the low-wage sector relative to the median. Also notable in Germany are the differences between East and West in terms of wages (29 per cent difference in 2005) and working conditions. There are a few exceptions, however, such as France, where wage differentials have diminished over the period.

In the EU the gender pay gap (for those working more than 15 hours per week) declined on average during 1995–2006; in Greece, Hungary, Ireland, Lithuania and Romania the gap decreased by more than 10 percentage points.

At the same time, in six of the EU-27 countries the gender pay gap increased over this period, if only slightly: it grew by 2 percentage points in Denmark and by 1 percentage point in Germany, Italy and Sweden. In other countries no progress in improving the gap is noticeable (for example, Spain). In 2006, the gender wage gap varied between approximately 4 per cent in Malta and 25 per cent in Estonia. The gap is particularly striking in Turkey, where males in manufacturing were found to earn twice as much as women.

To sum up, overall improvements in reducing the gender pay gap, a major political goal voiced around Europe by both governments and trade unions, remains slow, and in some countries things are actually getting worse.

Migrant workers also continue to be discriminated against on European labour markets. In Italy, non-EU workers were found to be paid 43 per cent less than other workers. In Sweden, 11 per cent of immigrants were found to
be working poor, and generally confined to self-employment contracts. In 2005 the income gap between people born in Sweden and people born elsewhere was 18 per cent.

The growth of atypical forms of contract – as we have seen – has also clearly contributed to labour market polarization. An increasing percentage of workers are employed under more precarious working conditions and confined to low-quality, low-paid jobs.

However, EU enlargement has also brought increased wage differentials between regions, with pressures particularly strong in the regions close to borders.

**Working poor and low pay: an increasing political concern**

The increase in the number of working poor noticed in the 2000s has also become a concern for many European governments. This phenomenon has helped to put the minimum wage at the top of policy-makers' priorities. The minimum wage has recently emerged as a potential solution to improve the situation of low-paid workers and so reduce their risk of falling into destitution.

Low-paid workers, for instance, were the main motivation for introducing the minimum wage in the United Kingdom and Ireland. Similarly in Turkey, progressive improvement of the minimum wage has been seen as a way of addressing low pay and poverty issues. Tackling the working poor phenomenon is also a major concern behind minimum wage discussions in Greece, especially in the context of a less-developed welfare policy. The new minimum wage policy in Bulgaria is also aimed at reducing the considerable number of low-paid workers.

In Germany, the political desire to expand the low-wage sector to boost employment in the early 2000s led to attention being diverted from a national minimum wage. More recently, however, the minimum wage has been a hot topic of debate, precisely to counter the adverse effects of the rapid increase in low-paid employment and the influence of greater wage dispersion on working poverty and inequality. The rapid increase in the number of low-paid workers seems to have been facilitated by the absence of a national minimum wage. By comparison, in 2006 in Germany 1.9 million employees were working for hourly wages of less than €5, much less than their counterparts in France and the United Kingdom who benefited from hourly minimum wages of around €8 (Bosch and Weinkopf 2008; Caroli and Gautié 2008; Lloyd et al. 2008). Similarly in the Netherlands, weak adjustments of the minimum wage coincided with an increase in the proportion of low-paid workers, a correlation that we shall investigate further in Section 1.4.

This growing share of low-paid workers – alongside the falling wage share – has led the European trade unions to mobilize workers around these issues. The European Trade Union Confederation (ETUC) launched its campaign for “fairer wages” in 2008, while the European Federation of Public Service
The minimum wage revisited in the enlarged EU

Unions (EPSU) has carried out a campaign against low pay in Europe, partly aimed at boosting minimum wage and collective bargaining policies.¹

1.3 MINIMUM WAGE DEVELOPMENTS: UPWARD, CONFIRMING RENEWED INTEREST

Statistics confirm this renewed interest in the minimum wage. There are variants according to country, however. Voluntary policies, as in France and the Baltic countries, led to positive minimum wage developments, while the minimum wage lost ground in countries where it was not regularly adjusted, as in the Netherlands or Poland. In fact, minimum wage developments often reflect the more general wage policy being pursued by governments, decreasing when there is a restrictive incomes policy – as in CEE countries early transition, a typical example being Bulgaria – or a wage moderation policy (as in some EU-15 countries, such as Germany, Italy, the Netherlands and Spain).

Overall, however, more recently the renewed interest has also contributed to disconnecting the minimum wage from overall wage policy, with the minimum wage being allowed to increase in real terms and much more than the average wage.

1.3.1 Minimum wage gaining in real terms

The most recent period, 2000–08

Globally, over the most recent period 2000–08, nearly all countries – 18 out of the 20 with a statutory minimum wage – have allowed the minimum wage to increase in real terms to improve the purchasing power of workers at the lower end of the labour market. The growth has been particularly impressive in the new Member States – Estonia tops the rankings with +94 per cent – but it has also been significant in some EU-15 countries – such as the United Kingdom (+25 per cent), followed by Spain, Ireland, France and Greece – and in Turkey (+22 per cent).

Trends since the mid-1990s

The figures on real minimum wages since 1995 are impressive. Although we do not have comparative data from Eurostat some data and evidence from national statistical offices are reproduced in the chapters of this volume.

Minimum wage revival in the enlarged EU

Figure 1.3 Minimum wages in real terms, EU countries with statutory minimum wage plus Croatia and Turkey, 2000–2007 (%)


The minimum wage has increased at a high rate in France – by 25 per cent since 1995 – and in the United Kingdom, where since its introduction in 1999 the minimum wage has increased in real terms by 32 per cent, that is, 3.5 per cent above inflation each year, on average.5 In contrast, countries such as Spain have not performed well over the longer period due to their initial restrictive minimum wage policy and only a very recent interest in minimum wage growth.

Data going back to 1995 show that the largest increases are even more striking in the new EU Member States. The minimum wage – in common with the average wage – gained in real terms in the Baltic countries, which in fact have registered the highest growth in Europe. This can be explained to some extent by their low starting level, but also by the active valorization policy pursued by the authorities; between 1996 and 2006 the minimum wage in real terms tripled in Estonia. While this increase was progressive in Estonia, with steady and thus predictable annual increases between 4 and 15 per cent, the

5. Using the Consumer Price Index or CPI; if the Retail Price Index is used instead – which also includes mortgage payments and is thus much higher – the increase was 19 per cent over the same period, or 2.3 per cent on average per year (see Chapter 14 on the United Kingdom in this volume).
increase was more irregular and less predictable in Latvia, with negative real minimum wage growth for many years and sudden high peaks, such as in 2007 when the real minimum wage was suddenly increased by 33 per cent. Minimum wage increase has also been rapid in Hungary, although not in a progressive fashion (hikes in 2001–02 and then progressive decline); the significant doubling of the minimum wage in 2000–01 involved a leap of the real minimum wage of 64 per cent. Increases were also significant in the Czech Republic. In contrast, the minimum wage was progressively allowed to decline in Poland, losing much ground in real terms over the longer period.

The minimum wage has also increased in Croatia, by 28 per cent since 1998. It increased in Turkey by 33.6 per cent between 1996 and 2006, but has remained well below productivity growth (+70 per cent over the same period). It was very much influenced by the 2001 crisis, when it fell significantly, before starting to increase again from 2004.

Within the EU-15 the largest increase since 1995 has been in Greece – Spain if we take 2000 as the reference as in Figure 1.3 – where the minimum wage increased rapidly in real terms from 1995 following a period in which it had been allowed to decline (it had fallen below its 1978 level in 1993) despite productivity growth.

Although minimum wages are set by collective agreements in Sweden they increased continuously in real terms in most sectors over the period 1995–2007 as part of overall wage growth in the economy. As a result, minimum wages in Sweden, as in Denmark, Finland and Norway today represent among the highest minimum wages in Europe.

The Netherlands also offers a typical example of a continuous decline in the minimum wage as part of the overall government wage moderation policy. It has fallen by 28 per cent in real terms since the end of the 1970s, despite stabilization since the mid-1990s. Since the minimum wage is linked to social benefits, these also fell in real terms.

In fact, countries in which it is used for calculating social benefits have a weaker tendency to increase the minimum wage because of its budgetary implications, something that happened in most CEE countries in their early transition, as well as in Spain until the government severed the link in 2004. Chapter 2 on Bulgaria offers a good illustration of a minimum wage which fell dramatically in real terms during early transition (by 70 per cent in 1990–97) when it was used as part of the country’s stabilization programme. When the link was removed in 1997 the minimum wage increased in real terms (by 97 per cent in 1997–2007), recovering its function at the bottom of the wage scale, consequently widening the gap with minimum social benefits and so making work more attractive. The link still prevails in the Netherlands, but also in Turkey where the minimum wage did not progress as much as it could
Minimum wage revival in the enlarged EU

have. In fact, most European countries have removed such a link – a process that the ILO has also encouraged worldwide.

1.3.2 Increasing more quickly than average wages

In order to assess its strength the minimum wage is generally analysed in relation to the average wage, a measure known as the “Kaitz index” (Kaitz, 1970), and less commonly as the “minimum wage bite”. This generally reflects the type of minimum wage policy pursued in the respective countries.

The Kaitz index reflecting national minimum wage policies

For example, the significant minimum wage hikes of 2000–01 in Hungary lifted the country from among the low to among the high minimum wage countries in Europe within the space of only 12 months; having fallen to 29 per cent of the average wage in 2000, the minimum wage increased to 53 per cent in 2003–04.

A similar example is offered by Bulgaria, where the restrictive incomes policy plunged the minimum wage from 43 per cent of the average wage in 1990 to 27 per cent in 1996. A reverse policy implemented from 1997 restored the ratio to 42 per cent in 2007.

Similarly, the active policy of strengthening the minimum wage pursued in the Baltic States led to a significant increase in the Kaitz index. In Estonia, after diminishing from 37 per cent in 1992 to 23 per cent in 1996 the ratio gradually recovered to reach 35 per cent in 2008. In Lithuania, the minimum wage increased rapidly between 1994 and 1997, from 17 to 48 per cent of the average wage, but has declined since then, to reach 37 per cent in 2008.

In Turkey, the minimum wage rose in real terms alongside a decline in real average wages, so that the Kaitz index increased from 42 per cent in 1996 to 49 per cent in 2007. In Croatia, regular adjustments of the minimum wage to average wage growth led to Kaitz index stability between 1998 and 2007, and recent legislation in 2008 led that year to an increase to 36.4 per cent.

In Ireland, the minimum wage has risen at about the same pace as average wages.

In the Netherlands, the restrictive minimum wage policy has obviously led to a fall in the Kaitz index, at 35 per cent, while Spain has remained among the laggards in Western Europe with a Kaitz index of 30 per cent until recently.

In the United Kingdom, the rather cautious policy during the initial years of the newly introduced minimum wage led to a fall in the Kaitz index from 37 per cent in 1999 to 34 per cent in 2001. A subsequent change of approach with the clear objective of increasing that ratio brought it up to 40 per cent by 2006. Of late a rather cautious policy seems to be the order of the day, due in particular to employers’ reservations.
The minimum wage revisited in the enlarged EU

We should emphasize that, in countries where minimum wages are fixed by collective agreement, the Kaitz index – with an average of 50 per cent – is no lower than in countries with a statutory system. In Sweden, for instance, the ratio of sectoral agreed minimum wage rates to average wages – already high – slightly increased over the period, reaching impressive levels, from 58 per cent in construction to 87 per cent in hotels and restaurants. These are among the highest in Europe, and put Sweden in top position compared to countries with statutory minimum wages.

In most of the European countries covered in this volume, the Kaitz index was found to be particularly high in low-paid industries, such as textiles and clothing (60 per cent in Turkey, 67 per cent in Croatia, 80 per cent in Bulgaria and 100 per cent in Greece), construction (70 per cent in Germany) or hotels (49 per cent in Spain, 67 per cent in Belgium and 93 per cent in Greece) – first, because these industries generally pay lower wages, and second, because they hire a larger proportion of minimum wage earners. This is also the case in SMEs (again, in Turkey, a Kaitz index of 60 per cent in enterprises with fewer than 50 employees and 35 per cent in large enterprises with more than 500 employees). The minimum wage policy is thus expected to play a greater role in these sectors and enterprises.

The comparative picture: a general improvement in 1995–2008

The more active minimum wage policy of EU Member States is illustrated by evidence of a rise in the minimum wage relative to the average wage in a majority of countries between 1995 (or later for those having introduced it later) and 2008 – 16 out of 20, that is, 80 per cent – with the EU average ratio increasing from 40 per cent to 41.5 per cent over the period (1995–2007 for EU). Two countries experienced an advance of more than 10 points – Estonia and the Czech Republic – followed by Lithuania and Hungary (Figure 1.4). Turkey has also experienced an increase of 18 points. The Kaitz index also increased in some EU-15 countries, such as the United Kingdom and Ireland. In France it remained stable over the period and even slightly increased since 1995 despite a decrease in the working week. It has grown particularly since 2000. In contrast, the index decreased in Belgium, Greece, Romania, the Netherlands, Portugal, Malta and Spain. However, among those countries that have experienced adverse minimum wage developments since the mid-1990s, a few shifted recently to a more active minimum wage policy, such as Spain, where the minimum wage in real terms has increased since 2000 by 26 per

6. In fact the hourly minimum wage has been increased so that there would be no decrease for minimum wage earners despite fewer working hours. If minimum wage earners had not experienced a decrease to 35 hours a week the same increase in the minimum wage would have caused the ratio of the minimum wage to the average wage to jump from 48 to 54 per cent.
Minimum wage revival in the enlarged EU

Figure 1.4 Changes in the minimum wage relative to the average wage, EU countries with statutory minimum wage plus Croatia and Turkey, 1995–2008 (percentage points)


Source: Eurostat complemented by national statistics.

cent, but also Greece (+14 per cent) and Poland (+11 per cent). EU minimum wage figures may thus continue to improve in the near future if such renewed interest in the minimum wage is confirmed.

On the other hand, the new economic context (inflation, economic slowdown) may also contribute to halting such positive developments (see Section 1.3.5).

Moreover, despite recent progress the minimum wage to average wage ratio remains well below 50 per cent in most European countries: only Ireland, Luxembourg, Malta and Turkey (followed by France at 49.1 – see Table 1.2). Despite their recent increases the ratio remains below 40 per cent in most new EU Member States, such as the three Baltic countries, Czech Republic, Hungary, Poland, Romania and Slovakia. Interestingly, many Central and Eastern European countries have experienced a rapid increase in the minimum wage in both real terms and compared to the average wage, but continue to exhibit a rather low Kaitz index. This dichotomy can be explained by the effects of stabilization packages on these countries’ minimum wages during early transition (Vaughan-Whitehead, 2003) and the fact that average wages have also increased rapidly, so limiting minimum wage catch-up. On the other hand, it shows that there is certainly considerable scope for improvement. If the employers can afford strong real wage increases they certainly could also
Table 1.2 Minimum wage compared to average wage, 1995 and 2008 (%)

<table>
<thead>
<tr>
<th>Countries</th>
<th>1995</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>52</td>
<td>40 (2006)²</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>38.1</td>
<td>42.0a</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>27</td>
<td>39.7 (2006)</td>
</tr>
<tr>
<td>Estonia</td>
<td>18.9</td>
<td>35.3a</td>
</tr>
<tr>
<td>France</td>
<td>48</td>
<td>49.1a</td>
</tr>
<tr>
<td>Greece</td>
<td>50</td>
<td>41.1a</td>
</tr>
<tr>
<td>Hungary</td>
<td>31.4</td>
<td>34.6a</td>
</tr>
<tr>
<td>Ireland</td>
<td>50 (2002)</td>
<td>53.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>31.1</td>
<td>35.3a</td>
</tr>
<tr>
<td>Lithuania</td>
<td>28.1</td>
<td>37.2a</td>
</tr>
<tr>
<td>Malta</td>
<td>52</td>
<td>50.6 (2006)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>38.1</td>
<td>42.0</td>
</tr>
<tr>
<td>Poland</td>
<td>40.6</td>
<td>37.3</td>
</tr>
<tr>
<td>Romania</td>
<td>39</td>
<td>32.6 (2005)</td>
</tr>
<tr>
<td>Slovakia</td>
<td>34</td>
<td>34.8 (2006)</td>
</tr>
<tr>
<td>Slovenia</td>
<td>43.2</td>
<td>43.5 (2007)</td>
</tr>
<tr>
<td>Spain</td>
<td>42</td>
<td>41.4 (2006)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36.7 (1999)</td>
<td>39.7a</td>
</tr>
<tr>
<td>Croatia</td>
<td>33.2 (1998)</td>
<td>36.4a</td>
</tr>
<tr>
<td>Turkey</td>
<td>31.1</td>
<td>52.2a</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td>32 (2005)</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>28 (2006)</td>
</tr>
</tbody>
</table>

Source: Eurostat; except United States and Japan; a Complemented by national statistics.

bear some catching up of the minimum wage. Many examples in this volume show that if there is a loss of competitiveness, as for instance in Croatia, it is primarily attributable to average wage increases rather than to the minimum wage. The current crisis seems to be leading to more minimum wage moderation.

We should also note that the renewed interest in the minimum wage has started to change this situation. Many CEE countries seem to have experienced three distinct periods: early transition characterized by a dramatic drop in both minimum wages and average wages, alongside a restrictive incomes policy until the mid-1990s in general (1997 for Bulgaria); a second period marked by a more liberal wage policy alongside strong economic growth,
Minimum wage revival in the enlarged EU

leading to average wage growth, as well as minimum wage increases but not to the same extent; and finally, a third period characterized by higher minimum wage increases compared to average wages.

1.3.3 Following productivity improvements more closely?

Minimum wage progression behind GDP growth...

Minimum wage developments confirm the findings obtained on the wage share: minimum wages – like average wages – did not keep pace with productivity improvements. In most European countries the minimum wage progressed in real terms, but not at the same rate as economic growth and productivity. This is clearly shown in Chapter 7 on Greece. Similarly, in Croatia productivity has been allowed to grow more and faster than wages and minimum wages. In Croatia, the minimum wage compared to GDP per capita declined from 59 per cent in 2000 to 46 per cent in 2006.

The available data on the ratio of the minimum wage to GDP per employee over time confirm a decrease in this ratio in 14 out of 20 EU countries with a statutory minimum wage. Only Bulgaria has registered a significant increase since 1999 (Figure 1.5), followed by the United Kingdom, Estonia, Ireland and Latvia. Turkey has also experienced an improvement.
...but more in line with productivity than average wages

Nevertheless the renewed interest in minimum wage institutions seems to have brought the minimum wage more into line with productivity than have average wages. This is shown in Chapter 2 on Bulgaria and Chapter 11 on Poland where the real minimum wage is found to follow GDP dynamics more closely. This result should be tested in other countries through further empirical research.

No significant correlation with the wage share

Even if the minimum wage has followed productivity improvements more closely than average wages, this progression has helped little to counter the overall decline in the wage share. It is, in fact, difficult to find any strong correlation between minimum wages and wage share developments. The correlation appears weak in almost all the European countries studied in this volume.

Although some positive correlation could be found in many countries over certain periods, with the wage share increasing alongside a significant increase in the minimum wage, for instance, in France between the mid-1970s and the mid-1980s, from then the wage share started to decline, although the minimum wage has increased.

The United Kingdom too, where the wage share has stabilized and even slightly increased over the period, does not show any strong correlation between the minimum wage and the wage share. After a continuous decline from the late 1980s, the wage share started to increase in 1997, that is, two years before the introduction of the minimum wage. It then declined again in 2007 during a period of significant increases in the minimum wage. In Croatia, although the minimum wage increased in real terms by 28 per cent during the period 1998–2007, together with real wages, the wage share has continued to decline.

In Hungary, despite huge minimum wage hikes in 2001 and 2002, the wage share, having fallen until 1999, started a period of slight increase in 2000 – that is, nearly two years before the first minimum wage hike. Nevertheless, the minimum wage increase alongside the average wage increase – especially in the public sector – may have contributed to keeping the wage share on an increasing slope in 2001–07. Similarly, in Turkey, the wage share started to increase slightly from 2002 alongside minimum wage increases. The same occurred in Greece when the fall in the wage share halted alongside the policy of increasing the minimum wage from 1994. The wage share in Sweden has increased alongside overall wage growth and, specifically, an increase in minimum wages. It is difficult to identify the specific contribution of minimum wage increases, however.

Conversely, the wage moderation policy that led to a fall in minimum wages in the Netherlands may certainly contribute to explaining the declining wage share.
Minimum wage revival in the enlarged EU

Although some correlations can be identified at the national level, results at the global level seem to show that the wage share is much more sensitive to collective bargaining than to minimum wage developments, a result that indicates the need not to base a wage policy exclusively on minimum wages.

We found that the minimum wage has an impact on the distribution of earnings within the wage share rather than a global effect on its level.

1.3.4 Insufficient progress on compliance

One issue where there is cause for concern in many European countries is non-compliance with the national minimum wage. This problem has been identified in CEE countries where labour inspection remains rather weak, but also in EU-15 countries. In the United Kingdom during 2005-07 more than one in four employers investigated were found to be non-compliant. Other investigations in 2005-06 by HMRC found (among 4,900 enterprises) a non-compliance rate of 32 per cent and underpayments estimated at £3.3 million. Evidence is also provided in this volume on low minimum wage compliance in Turkey and other countries.

There have also been multiple cases of exploitation of illegal migrant workers, including those hired through gangmaster agencies. Despite new efforts in the United Kingdom to root out exploitation among such agencies (see Chapter 14) recent research by academics at the University of Oxford still found that female overseas workers were more likely than any other group to be paid less than the national minimum wage, with 35,000 identified in this situation in 2008 (the probability is more than one and a half times higher for women compared to male migrant workers) (Anderson and Jayaweera 2008).

1.3.5 The effects of the economic crisis

We could have expected the minimum wage developments we described until 2008 – marked by a renewed interest in the minimum wage reflected in minimum wage trends – to be somehow halted in the context of the current economic and financial crisis. In fact, so far reactions have been very diverse. In many countries, the decision has been taken that the minimum wage will not be adjusted in 2009: this is the case in the Czech Republic and Lithuania, but also, to a lesser extent, in France, Hungary, Ireland and the United Kingdom. The decision not to increase the minimum wage has generally been taken in order to reduce the wage-cost burden on employers to help them to stay in business and maintain employment. By contrast, other countries in the face of the economic crisis have decided to strengthen the minimum wage as a way of

---

7. For the international level see ILO (2008).
The minimum wage revisited in the enlarged EU

<table>
<thead>
<tr>
<th>Country</th>
<th>Minimum Wage Change 2008-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.2%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.0%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2.7%</td>
</tr>
<tr>
<td>Romania</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.5%</td>
</tr>
<tr>
<td>Poland</td>
<td>5.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.8%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>3.0%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5.3%</td>
</tr>
<tr>
<td>Latvia</td>
<td>15.4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.8%</td>
</tr>
<tr>
<td>Greece</td>
<td>1.5%</td>
</tr>
<tr>
<td>France</td>
<td>0.4%</td>
</tr>
<tr>
<td>Estonia</td>
<td>2.8%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>15.7%</td>
</tr>
<tr>
<td>Croatia</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>9.8%</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

Figure 1.6 Minimum wages in the crisis, 2008–09 (up to first half of 2009)

protecting the wages and living standards of most vulnerable workers – who are also those hardest hit by the crisis. Countries such as Spain, but also Portugal and Belgium, have decided to increase the minimum wage, with increases in the minimum wage also being observed in Bulgaria and Latvia. In Portugal, the government has decided to accompany economic measures with an increase in the minimum wage through an economic and social pact.
According to Fernando Medina, Portugal’s Secretary of State and Minister of Labour and Social Solidarity: “It is not the minimum wage that will make Wall Street collapse ... In the current turmoil, the minimum wage should not be seen as a problem, but as a solution to help to avoid a total collapse of production.”

In other countries, a significant minimum wage increase in 2008 – as, for instance, in Croatia, but also Greece (in an agreement valid until mid-2010) – has so far prevented a fall in minimum wage indicators. So far, the minimum wage seems to have maintained its real value, despite the crisis. It seems to have played a role, even if, overall, in Europe we shall have to wait until 2010 before being able to identify what exactly the effects of the crisis have been on minimum wage developments.

1.4 MINIMUM WAGE FUNCTIONS AND EFFECTS

The minimum wage can affect a number of different aspects of the economy; for example, wages, incomes, employment, productivity and society at large, in the sense of poverty, equality and so on.

While there is an extensive literature on the employment effects, in this volume we shall address other minimum wage functions, such as its effects on job quality and career prospects, low pay and working poor, wage disparity, tax revenues and wage bargaining. Since the minimum wage has returned to policy-makers’ agendas to counter social dumping we shall also investigate the potential effects of the minimum wage on capital and labour movements.

1.4.1 Minimum wage and employment

The influence of the minimum wage on employment has certainly been the most debated issue. While discussions have focused on the quantity or level of employment, more recent studies have also tried to highlight the potential effects of the minimum wage on quality of employment, trying to reconcile the two dimensions of the EU’s Lisbon Strategy objective, “more and better jobs”.

The impact on employment level: no negative effect found
Many studies have claimed that the minimum wage would have a deleterious effect on employment, on the grounds that by artificially fixing a wage rate

---

above what employers can pay, the minimum wage may threaten the eco-
nomic viability of certain jobs at the lower end of the earnings distribution,
precisely that portion of the working population that the minimum wage is
intended to help.

Empirical studies based on time series of macro data, however, have so far
failed to find any significant negative correlation between the minimum wage
and employment. The effects found are often small and restricted to certain
segments of the market, such as teenagers and small enterprises.

Moreover, a minimum wage increase needs to be high to produce damag­
ing effects for employment. The example of Hungary in this volume is a good
illustration, with the doubling of the minimum wage in 2001–02 leading to
some employment adjustments. An innovative survey presented here by János
Köllö shows that exposure to the minimum wage has adversely influenced
some enterprises’ probability of survival. Employment cuts have been regis­
tered in low-pay businesses and the small enterprise sector was found to have
lost 3.5 per cent of its jobs in less than one year. Strong increases in the mini­
imum wage in Malta may also have led to some employment adjustments
(Funk and Lesch 2005).

The evidence provided in this volume, however, shows that, in most
European countries, less extreme increases in the minimum wage were poss­
ible without negative effects on employment.

The introduction of a high minimum wage in Ireland did not bring any
negative effects on employment but rather helped to generate strong econom­
ic growth. No Irish workers seem to have been “priced out of jobs” because of
a combination of migration and the minimum wage.

Similarly, the progressive increase of the minimum wage in the United
Kingdom has not brought employment adjustments either. On the contrary, the
evidence suggests that the United Kingdom labour market has been able to
incorporate the introduction and development of the minimum wage despite
an increasing labour supply due to a large number of migrants, especially from
Central and Eastern Europe (715,000 were officially registered from the eight
new CEE Member States between May 2004 and September 2007). Employment
has risen every year since 1999, while unemployment has
declined. The number of jobs has grown even among low-pay sectors –
although most migrant workers are to be found in those sectors. As in Ireland,
this process has not led to the substitution of British workers, with no
employment fall among them. The Low Pay Commission has confirmed this,
stating that there was “no evidence ... that the minimum wage has had a sig­
nificant adverse effect on employment since its introduction” (Low Pay
Commission 2007). In Chapter 14 on the United Kingdom Damian Grimshaw
concludes that “the minimum wage has thus been introduced and increased in
the United Kingdom without generating unemployment, while the increased
Minimum wage revival in the enlarged EU

supply of labour was successfully absorbed in the context of a rising minimum wage”. Since the economic boom may partly explain this positive correlation between minimum wage and employment, the period to come – less rosy in terms of economic performance – will have to be carefully scrutinized.

Since Greece has experienced among the highest European rates of female and youth unemployment, and is dominated by very small firms (978,000 with fewer than ten employees employing 57 per cent of the total work force), it was important to investigate the possible effects of the minimum wage. Chapter 7 on Greece concludes that no correlation has been identified despite the high percentage of workers employed at the minimum wage rate (20 per cent). The fall in the real minimum wage between 1984 and 1993 was not accompanied by a reduction in the unemployment rates of either the young or women, despite productivity increases throughout the period, as shown in the case studies presented by Eugenia Fotiota and Thomas Moutos in Chapter 7. And this despite the relatively high minimum wage level (Greece is ranked eighth among the 20 EU countries with a statutory minimum wage – see Table 15.2 in Chapter 15).

The results of new econometric analyses of Poland are provided in this volume and show that there has been no significant effect of minimum wage increases on employment and unemployment, a result that holds using different estimation techniques.

Chapter 12 on Sweden also provides an interesting discussion and results on the employment effects of minimum wages set up by sectoral collective agreements. Some slight adverse effects have been identified in the hotels and restaurants sector, explained by the high minimum wage bite or Kaitz index (87 per cent in 2006).

The example of Bulgaria is also significant since the minimum wage has risen by nearly 100 per cent since 1997. The labour market could easily adapt to this, however. No negative signs on unemployment were observed but on the contrary a growing participation rate, including for young people and women. Employment also increased in low-pay sectors, thus showing a positive stimulatory effect rather than a negative impact on employment. The case studies of diverse low-pay companies (wine, food, clothing and hotels) in which all the workers are often paid at the minimum wage level, clearly show no negative effect of minimum wage increases on employment levels.

Vassil Tzanov also emphasizes an important economic effect of minimum wage increases on consumption in Bulgaria. In a country dominated by low-paid workers the minimum wage hikes seem to have contributed to increasing consumption and stimulating retail sales (by more than 100 per cent in 1997–2007), thus contributing to economic growth.

This should encourage us not to forget that the minimum wage may have some positive effects on employment by stabilizing demand. Since employees
in low-wage sectors tend towards a particularly high consumption rate, increases in income led by minimum wage adjustment flow directly into consumption. The fact that wages have lagged behind productivity increases has contributed to weakening consumption, as shown, for instance, in Germany in the most recent period.

Voluntary progressive but significant increases in the minimum wage in both real terms and as a percentage of the average wage did not create any harmful effects on employment in Estonia, Latvia and Lithuania. The fact that these countries used uniform minimum wage rates across the labour force without introducing lower rates for younger or less skilled workers also did not have any detrimental effects on the latter’s employment. In Estonia, only very small effects were found for those directly affected by the minimum wage change despite significant real increases. This contradicts the mainstream view that a minimum wage should be systematically lower for this type of worker to ensure that they will be hired despite their lack of experience or skills. In fact, most other European countries use differentiated rates (Carley, 2006). We should add that employers’ organizations in the Baltic countries have always supported the minimum wage, but have recently warned that excessively high increases could start to endanger employment; they have also called for differentiated minimum wage rates by sector in order to link minimum wages more closely to sectoral productivity.

Another effect is worth reporting from studies on Latvia. They show that an increase in the minimum wage as modest as 5 per cent results in a 2.7 percentage point higher participation for women and of 1.2 points for men. In Estonia a similar positive effect was found to boost the participation of teenagers. The increase in the minimum wage can thus also play a positive role in integrating more vulnerable workers into the labour market who are otherwise discouraged by their expected wages, a finding that is confirmed for other countries in this volume.

In France, there have been debates on the possible employment effects of the high minimum wage level. But there was a political consensus among successive governments on not decreasing the earnings of the workers at the bottom of the wage distribution. This was done by preserving the SMIC (both hourly and monthly) – for instance, the hourly minimum wage rate was increased alongside a reduction of weekly and monthly working time in order not to reduce the monthly minimum wage.

It has been claimed that this minimum wage policy may represent a contributory factor in the high unemployment rates for unskilled labour, and also increase the risk of relocation and off-shoring (see Chapter 5 on France). To counteract the potential negative impact of the minimum wage on employment, alternative policies have been adopted, such as general social contribution reductions related to the use of low-paid workers – started in 1993 and further strengthened in 2008, and evaluated as costing 1 per cent of GDP.
(Roguet, 2008) – or tax credits to foster the consumption of household services, such as the “Employment service check”. In other words, it was decided to reduce labour costs at low-wage levels, successively, without decreasing the gross wages of low-paid workers.

The Netherlands is an interesting case since it provides a perfect example of the minimum wage being allowed to fall substantially. Did this policy contribute to employment growth? Chapter 10 shows that a lower minimum has clearly increased employment opportunities at low pay but the net effect on employment growth is dubious (see below on the topic of job quality). Similarly, in Germany, the substantial increase in low-wage workers did not bring an improvement in the overall employment situation since it took place to the detriment of middle-income employment (see Chapter 6 on Germany).

The evidence provided in this volume thus confirms that a carefully adjusted minimum wage rate does not have negative employment effects.

Although no studies have found convincing negative effects on employment, it may be that the increase in precariousness is one such effect, so that what has been gained by the workers in one respect has been lost in another. The case study in Chapter 5 (France) also shows that one result of the minimum wage increase in some sectors has been work intensification in order to allow employers to cope with adjustments, a result that in the end can be detrimental to workers’ health and safety. This leads us to address the job quality effects of the minimum wage.

What impact on the “quality” of jobs?
In order to estimate the impact of the minimum wage on the employment of vulnerable workers, one must estimate not only their current job and wage level, but also wages and employment over the whole lifecycle. A lower “entry” wage may be offset by a better wage profile and a low-pay or minimum wage job be more acceptable with the prospect of moving up into more highly paid employment.

More generally, an important potential effect of a minimum wage is its ability to transform the quality of jobs through an incremental upgrading of performance among firms in low-paying sectors. The Low Pay Commission (LPC) in the United Kingdom, for instance, has insisted on the role of the minimum wage in “encouraging firms to compete on the basis of quality as well as price; helping to promote employee commitment, reduce staff turnover and encourage investment in training, thereby boosting productivity and aiding company competitiveness” (Low Pay Commission, 1998: p. 15).

However, many European countries impose low-wage traps upon minimum wage workers whereby their wage profiles appear to be rather flat over time, as reported in the chapters on, for example, France and Germany in this volume. The employment policies followed in France through social
contributions reductions may also have increased the probability that low-paid workers fall into low-pay traps, since increases above the minimum wage may cause employers steep rises in social contributions in addition to increased direct wage costs.

Similarly, in the United Kingdom, there seems to have been slow progress for women in part-time work, with notably little encouragement from employers to allow them to move up into higher paid positions.

For the Netherlands, Wiemer Salverda argues in his chapter that the low employment growth may have “cannibalized better-paid jobs” instead of adding net employment growth. The data in fact show that between 1979 and 2005 the full-time equivalent (FTE) better-paid employment to population ratio fell by 2.4 percentage points, while the low-paid ratio registered a similar increase. This process has particularly affected the middle of the earnings distribution. Because of this prevalence of low-pay jobs there have been – for workers at both the bottom and in the middle – fewer opportunities to move up to higher levels. Better progression of the minimum wage may have helped to avoid such “cannibalization” of better pay by low pay.

Another problem in the Netherlands – explained in a case study on the issue – is the growing overlap between the minimum wage and working part-time, with the tax system providing little incentive to move toward full-time and better paid jobs (see Chapter 10).

A similar process known as “Milleurismo” is also observed in Spain, where, because workers both with and without qualifications are competing for the same type of jobs at minimum wage level, the trade unions are demanding a monthly minimum wage of €1,000 (“mille euro”). Among minimum wage earners it is notable that between 50 and 70 per cent have a university degree.

In Germany too, the high growth in low-wage workers has not improved the employment prospects of the low-skilled. Chapter 6 shows that the trend in upward mobility (employees who manage to change employment status from one year to the next) has in fact reversed, with only 15 per cent of low-pay earners managing to upgrade their employment and wage situation. As for the Netherlands the risk of downward mobility has expanded to the middle income group – also increasingly trapped in low-paid, low-quality jobs. Gerhard Bosch and Thorsten Kalina (in Chapter 6) highlight that low-paid workers are no longer only unskilled workers, with three out of four low-paid employees in 2006 being employees with vocational training or an academic qualification (compared to less than 30 per cent in the United States).

The general problem reported in this volume is that companies confronted by a minimum wage increase have two options: a high-road “quality enhancing” one, characterized by increased training, investment in new technologies, higher commitment to human resources practices and improved product or
service quality; and a low-road “cost minimizing” one, characterized by job cuts, use of a younger, less-skilled labour force, work intensification, cuts in training and minimal changes in the production process. Chapter 14 on the United Kingdom shows that a majority of firms seemed to have reacted to the minimum wage increases by following the second option, especially in hotels and restaurants, cleaning and security and small companies in general; 61 per cent of small companies in low-pay sectors reported having compensated for higher minimum wage costs through higher work intensity, a policy that they explained by a lack of skilled labour and of management skills, poor trust in national training capacities and increased international competition – low profit margins did not allow them to invest in improved job quality.

In contrast, Germany shows that it is the absence of a statutory minimum wage that has pushed enterprises to follow a model no longer based on innovation but on low wage costs, as for instance in postal services (see case study in Chapter 6).

In Hungary, the excessive and sudden minimum wage increases led rather to job losses among those workers previously paid at the minimum wage level. Most firms cut both employment and output so that productivity fell too. Another group increased labour productivity but through a considerable growth in their capital to labour ratio, thus implying significant employment reductions, especially among the unskilled. Only a minority of enterprises reacted by increasing both employment and investment, raising productivity.

At the same time, Chapter 14 on the United Kingdom presents a case study of a major company in the retail sector where the national minimum wage led the employer to improve pay rates and increase promotion opportunities in order to attract good quality recruits and to retain workers; in other words, to maintain a human resource advantage over its competitors.

Similarly, in Croatia, the minimum wage increase on the top of the difficulties faced by the textile sector as a whole pushed a company to restructure towards better value added products and even to develop their own brands (see Case study 2 in Chapter 3 on Croatia).

Other examples can be found of positive effects of the minimum wage on the quality of work (“Initiative Mindest-lohn 2006”). All this shows that the impact of the minimum wage on job quality and skill development depends on the interaction between wages and other essential labour policy aspects, such as enterprise training, national vocational programmes and provisions on working conditions, as well as national employment policies – for instance, whether they encourage job growth in low value added sectors. A mix of institutional and regulatory arrangements is required.

---

These effects also depend on the minimum wage strategy. A progressive and well planned policy of minimum wage adjustment was found to play a role in employers’ decisions, since it allows them to better plan investment in quality of jobs and production rather than reacting defensively to irregular minimum wage adjustments by trying to minimize other costs (such as training), an aspect we shall return to in Chapter 15 (Section 15.8) on policy recommendations at EU level.

Moreover, even if there are employment cuts in the short term, the increase in the minimum wage may help in the end to speed up structural changes by moving workers from declining low-paid industries to expanding better-paid industries. Though these effects have been discussed in relation to minimum wage increases, for instance in Hungary and Croatia, there is little evidence on such a long-term impact on restructuring and comparative research is needed.

Indeed, more research is needed on the potential effects of minimum wages on quality of employment, especially to ascertain how much this could contribute to the long-term Lisbon objective of generating growth in high-end, knowledge-based economic activities.

1.4.2 What are the effects on low-paid workers and the working poor?

Given the renewed interest in the minimum wage as a means of addressing low pay, the group of experts decided to examine it in detail. However, we extended the scope of the investigation to see not only whether minimum wages could contribute to reducing the number of low-paid workers, but also whether they were able to better cover the most vulnerable workers. We also tried to test the efficiency of the minimum wage as an instrument for addressing poverty in general.

A definite impact on low-paid workers
Low-paid workers are generally defined (on the basis of OECD standards) as workers whose hourly wage is lower than two-thirds (or 66 per cent) of the median hourly wage of full-time workers. In 2004 in the EU-15 more than 15 per cent of all employees – more than 20 million wage earners – were identified as working in the low-pay sector (European Commission, 2004).

Important studies have been done by a European network of researchers on low wages (LoWER) who have tried to identify the phenomenon in five countries: Denmark, France, Germany, the Netherlands and the United Kingdom.10

---

10. Project organized by the Russell Sage Foundation, New York; see the different publications in the references of the respective countries under study.
Figure 1.7 Evolution of rate of low-wage employment, 1973–2005 (% of employees)

Notes: For some countries these data are not directly comparable with the estimated shares of low-paid employment in the country chapters. In this chart the data for France are roughly estimated from OECD data on the earnings distribution of full-time workers only. For Germany the data refer only to full-time workers excluding civil servants; the calculations were derived from the IAB regional sample (IABS-R01) and the BA employee panel by Thorsten Kalina; the US data are approximated by linear interpolation from Mishel et al. (2007), Table 3.4.

Source: Mason and Salverda (2009), Figure 2.1.

Figure 1.7 summarizes their main results. It appears that the percentage of low-paid workers is particularly significant in the United Kingdom (22 per cent in 2005), Germany (18.7 per cent in 2005 and even 22 per cent in 2006 — see Chapter 6) and the Netherlands (17 per cent in 2005). It is lower in France (about 10 per cent in 2005) and in Denmark (8.5 per cent in 2005).

According to these studies, the proportion of low-paid workers in the countries under study rose more recently (since 2000) mainly in Germany and the Netherlands.

We have tried to extend this analysis to a few more countries by using either exactly the same measure (two-thirds of the median wage) or alternative measurements, such as the percentage of workers below 60 per cent of the median wage (hourly or monthly), or alternatively 60 per cent of the average wage. Although the results are not fully comparable they help to identify a number of other European countries with a high percentage of low-paid workers, and which should therefore be more carefully scrutinized.

For Estonia, we found that the percentage of low-paid workers (two-thirds of the median wage) has steadily decreased, from 34 per cent of employees in
The minimum wage revisited in the enlarged EU

1998 to 29 per cent in 2005. The minimum wage may have contributed to this improvement, which must also be due to a general increase of average wages alongside rapid economic growth. The ratios of both the minimum wage and the average wage to the poverty line have increased significantly over the period. While from 1997 to 2000 the minimum wage was below the poverty line, it rose above it to attain a ratio of 1.44 in 2006, lifting many workers above the poverty threshold. The steady rise of the minimum wage has thus had an effect on poverty.

Similarly, in Greece, the percentage of low-paid workers (below two-thirds of the average wage) increased from 24 per cent in 2002 to 39 per cent in 2004 alongside the minimum wage decline, and decreased to 31 per cent in 2006 alongside the rise in minimum wage to average wage ratio.

In contrast, the percentage of low-paid workers (below 50 per cent of the average wage) has doubled in Poland alongside a progressive fall of the minimum wage, both in real terms and as a percentage of the average wage. While Chapter 11 on Poland did not find any significant effect of minimum wages on employment it identified statistically significant effects on low-pay decline and concluded that the minimum wage represented an important tool for reducing working poverty which is quite widespread.

The case of Bulgaria is also fairly convincing with regard to the effects of the minimum wage on low-paid workers (two-thirds of the median wage) who accounted for 39 per cent of workers in 2002. The dramatic fall of the real minimum wage (by 71 per cent between 1990 and 1997) during early transition plunged a large percentage of workers into destitution (Standing and Vaughan-Whitehead 1995), while the change of policy from 1997 brought immediate results with a progressive decline in the number of low-paid workers. In fact, the Bulgarian chapter shows how closely the periods of working poverty reduction match the periods of minimum wage increases. This may be explained by the fact that the minimum wage is very close to the poverty line so that any increase leads to some improvement in the poverty rate. This explains why the government continues to boost the minimum wage, and has linked it to the poverty line; low pay remains a serious concern in Bulgaria.

The percentage of low-paid workers is high in Ireland, at 23 per cent.

The number of low-paid workers has been found to be extremely high in Turkey, too, at approximately 50 per cent. The number of low-paid workers seems to be closely connected with minimum wage developments. It increased alongside minimum wage decline until 2004 and started to fall when the minimum wage was increased.

Table 1.3 shows that there seems to be a sort of inverse correlation between the development of the minimum wage (whose strength is measured by the minimum wage to average wage ratio) and the percentage of low-paid workers. In some countries, adverse minimum wage development seems to corre-
## Minimum wage revival in the enlarged EU

**Table 1.3 Minimum wage and low-pay developments**

<table>
<thead>
<tr>
<th>Increase in low-paid workers</th>
<th>No change</th>
<th>Increase in MW/AW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MW/AW decrease</strong></td>
<td><strong>Croatia</strong></td>
<td><strong>Hungary</strong></td>
</tr>
<tr>
<td>Netherlands: continuous fall in NMW and increased low-pay earners (especially from 1994)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland: fall in MW and low-paid workers doubled</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece (until 2004): increase in low-paid workers alongside MW decline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany: no NMW but fall in sectoral MW and increase in low pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey: first period until 2004: MW decrease and increase in low-paid workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria until 1997: dramatic fall in MW and increased poverty; started to decline from 1997 alongside real MW increases</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decrease in low pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland: increase in NMW but still not sufficiently high to reduce high percentage of low-paid workers</td>
</tr>
<tr>
<td>Estonia: due not only to MW but also to large AW increases</td>
</tr>
<tr>
<td>Bulgaria (from 2004): boosting of MW policy with MW/AW increasing and consequent fall in low-paid workers</td>
</tr>
<tr>
<td>Turkey second period (from 2004): significant increase in the NMW and consequent reduction of low-paid workers</td>
</tr>
<tr>
<td>Greece (from 2004): low-paid workers decreased alongside MW increase</td>
</tr>
<tr>
<td>France: decrease in low-paid workers</td>
</tr>
<tr>
<td>United Kingdom: decrease in low-paid since introduction of MW and its increase</td>
</tr>
<tr>
<td>Sweden: no NMW but continuous sectoral MW and very low percentage of low pay</td>
</tr>
</tbody>
</table>

Notes: MW/AW – minimum wage to average wage ratio. NMW – national minimum wage.
spond to an increase in the percentage of low-paid workers, such as Poland, but also the Netherlands and Germany.\textsuperscript{11}

In Germany, the number of low-wage workers has increased considerably, from 15 per cent in 1995 to 22 per cent in 2006, a rise of 48 per cent in 11 years. A different median wage threshold was used for West and East Germany; if a uniform low-wage threshold was used, however, it would yield a figure of 41 per cent of low-wage workers in East Germany, and 19 per cent in the western part of the country. But it is in West Germany that the proportion of low-paid workers has risen the most, by 54 per cent compared with 26 per cent in East Germany. Moreover the low-pay phenomenon has extended to more sectors (and so has not remained confined only to traditional low-pay sectors) and has increasingly affected both full-time and part-time workers – 6.5 million workers in total in 2006.

In other countries – such as Estonia, France, Estonia, Greece, Turkey and the United Kingdom – an active minimum wage policy seems to have contributed to a decline in the number of low-paid workers. In the United Kingdom there is evidence of a declining trend of low-paid workers over the past decade, from 34 per cent in 1999 to 27 per cent in 2007, suggesting that the introduction and development of the minimum wage has had a positive impact in reducing the share of the low paid, especially since 2002 (when it was still 33 per cent) and the recent acceleration of the minimum wage policy in 2003–06.

Chapter 5 on France explains that the increase in the minimum wage has clearly played a role. In fact, thanks to progressive minimum wage increases, its level even went above the low-pay threshold, at which low-paid workers should theoretically disappear. The fact that this is not the case could be explained by unpaid overtime – which would lead to effective hourly pay below the hourly minimum wage – or by measurement errors of working time.

Even in a country in which there is no statutory minimum wage, such as Sweden, but in which minimum wages fixed in sectoral collective agreements have continuously increased and are among the highest in Europe, the percentage of low-paid workers is extremely low, at less than 2 per cent (or 7 per cent on the basis of two-thirds of the average wage). This difference with Germany means that the problem may not be due to the minimum wage system (national or sectoral) but whether an active policy is being pursued or encouraged by the government and to which the social partners are committed.

\textsuperscript{11} While Table 1.3 highlights some possible correlation between minimum wage decrease and low-pay growth (and conversely between minimum wage increase and low-pay reduction) specific research would be needed to test such correlations.
There are countries in which such an inverse relationship between minimum wage and low pay is not found, and where an active minimum wage policy has not led – or at least not yet – to a decrease in the number of low-paid workers. In Hungary, the minimum wage increase does not seem to have had much effect on low-paid workers, the number of whom has continued to increase. A similar outcome is observed in Croatia despite a broadly unchanged minimum wage to average wage ratio.

In Ireland, the government’s initial objective in introducing the minimum wage of reducing the number of low-paid workers has not yet been realized. This might be due to the gap still prevailing between the minimum wage and the low-pay threshold (two-thirds of the median wage) which means that an increase in the minimum wage does not automatically lead to a decline in the proportion of low-paid workers.

An effective floor for wages of the most vulnerable workers
Low-pay jobs are unequally distributed by gender, sector of activity and employment status. The minimum wage thus may help to improve the situation of certain categories of workers most affected by low pay.

First, the minimum wage affects mainly unskilled employees, as in Croatia where their percentage is 9 per cent compared to 3.8 per cent for those with vocational qualifications. Second, the minimum wage affects women much more than men, as in the United Kingdom where two in three minimum wage jobs were held by women in April 2006, and 47 per cent of all minimum wage jobs were held by women in part-time jobs. In Ireland, 7.5 per cent of women compared to 4 per cent of males were at minimum wage or below.

One key reason for this is the higher share of women in part-time jobs – often involuntary part-time – and the greater risk of low pay among part-time employees, mainly due to the lower number of hours despite a comparable hourly minimum wage.

Low-paid workers – and thus also minimum wage earners – are concentrated in particular sectors. According to the UK Low Pay Commission, nine out of ten low-paid workers are employed in just four sectors: retail (46 per cent of all low-paid workers), hotels and restaurants (29 per cent), residential social care (7 per cent) and cleaning (7 per cent). Other low-paying sectors in the United Kingdom, as in other European countries, include agriculture, hairdressing, security and textiles, clothing and footwear. The minimum wage has thus helped to provide a wage floor in these sectors. In Sweden, for instance, it has pushed up the lowest wages in hotels and restaurants and retail. Minimum wage earners are also prevalent in SMEs, generally in the same sectors as described above.

Migrant workers are also concentrated in low-pay activities. In the United Kingdom, 70 per cent of CEE workers were employed in low-pay occupations.
Ethnic minorities are also overrepresented in minimum wage jobs (8.6 per cent in October 2006 compared to 6.5 per cent of white employees). The Netherlands shows double the incidence of the minimum wage among ethnic minorities.

Another determinant of low pay is employment status. Full-time workers are, in principle, out of danger, while poor workers tend to be found among those working less than full time or those not working throughout the year. This was the case in France, where the probability of being working poor was highest among involuntary part-time workers and was due to their precarious employment status. In Ireland, part-time employees (15–17 per cent of all workers) are much more likely to be at or below the minimum wage rate compared with full-time workers (2–3 per cent). Similarly, in the Netherlands, part-time workers make up about half of minimum wage workers, while those on flexible contracts account for another quarter. Also, a majority of working poor in Germany are to be found among those in mini-jobs (Eyraud and Vaughan-Whitehead, 2007). A case study presented in Chapter 10 (the Netherlands) describes the risk of workers falling into a “part-time trap”. In Croatia, the proportion of minimum wage earners is 7 per cent among those on fixed-term contracts compared to 2.7 per cent among permanent employees.

This shows that it is essential at least to have the minimum wage cover workers with atypical forms of contract, such as temporary or part-time workers, to ensure them a decent wage during their periods of employment. A case study in Chapter 14 on the United Kingdom shows how the public services trade union, Unison, built on the success of the national minimum wage by negotiating an agreement with the National Health Service to improve the position of outsourced workers delivering services to public sector hospitals.

The limits of the minimum wage in the fight against poverty
While reducing the number of low-paid workers may help to reduce working poverty – since the risk of poverty is higher among the low paid – it has its limits. According to Eurostat the working poor are those persons who have worked at least for some time during the year and who are members of a poor household, that is, a household whose adjusted income is below the poverty threshold and falls below 60 per cent of the equivalized median disposable household income (in the country in question).

But many low-paid workers are not in poverty because they do not belong to a household in poverty, as in the United Kingdom where a large proportion of low-paid workers do not live in poor households. Similarly, in Ireland, only 13 per cent of low-paid workers were in households at risk of poverty. Households at risk were found generally not to contain an employee, but if they do, this employee tends to be low paid.

In Croatia, working poverty is not a major phenomenon, with only 4 per cent of persons in paid employment living in poor households in 2006, as
opposed to 34 per cent of the unemployed, 25 per cent of pensioners and 29 per cent of other inactive persons. This means that the minimum wage cannot really contribute to reducing poverty in Croatia.

In Hungary, the large increases in the minimum wage in 2001–02 considerably improved the income position of minimum wage earners living in poor households, but this affected very few people – minimum wage earners tend to be in middle-income households. Moreover, in some cases the worst scenario occurred with the minimum wage hikes leading to job losses, with detrimental effects on the income of minimum wage earners’ households.

At the same time, this volume offers examples of increasing the minimum wage in comparison to the average wage that clearly raised the wage level of those at the bottom and thus lifted some above the low-pay threshold (two-thirds of the basic wage).

Chapter 10 on the Netherlands highlights the fact that the stabilization of in-work poverty during the second half of the 1990s coincided with the stabilization of the minimum wage (after a period of prolonged fall), while the decreases in poverty before and after this period coincided with a weakening of the minimum wage. A recent report in the United Kingdom reveals that, where one parent is in low-paid work, 2.5 million families are still living below the poverty line, and highlights the need to increase the minimum wage more in line with average wage growth in order to ensure that work is a route out of poverty (Cooke and Lawton 2008).

Another important indicator is the ratio of minimum wage to the subsistence minimum to make sure that the minimum wage earners can survive and have decent living standards

First, governments must provide an official calculation of the poverty line – Bulgaria did so in 2006, for example. Second, they should adjust the minimum wage to at least this poverty line in order to provide a decent wage floor for the most vulnerable workers and so contribute to reducing the phenomenon of working poor. However, in a number of countries especially among the new EU Member States from Central and Eastern Europe, such as Latvia, the minimum wage is set at too low a level to provide a means of protecting employees. Similar views have been expressed in Turkey where the minimum wage is fixed mainly on the basis of the subsistence minimum (according to calorie intake and a basket of food and non-food items) of one worker but at a lower rate when converted into a gross and not a net figure. As a result, the minimum wage was still below 70 per cent of the subsistence minimum in 2006.

It also means, however, that other instruments of social protection would be needed to complement the minimum wage to assist the working poor.

Finally, the effectiveness of the minimum wage as a tool to combat poverty depends not only on the share of low-paid workers who live in poor house-
holds but also on the sometimes complex tax and benefits system as it relates to different household types. The minimum wage can also play a different social role according to the tax and social protection framework in which it takes place. For instance, the payment of the minimum wage in many European countries involves workers’ coverage by the health system, which is not the case for instance in the United States. Similarly, there is a difference between for instance the United Kingdom, where a series of fringe benefits such as health plans have been removed, and France, where such health plans are included in the mandatory social security system (see Chapter 5 on France). Moreover, in the United Kingdom, the minimum wage as a tool to combat poverty is used alongside the policy of in-work benefits or Working Tax Credits. The government has recognized that, without a national minimum wage set at a suitable level, wages could fall, thereby making the in-work benefits paid by government unaffordable and hindering wider efforts to reduce poverty among families with children. Chapter 10 on the Netherlands and its explanation of “part-time traps” also clearly shows that the effectiveness of minimum wages – especially in lifting workers out of low pay – clearly depends on the tax system.

1.4.3 The equity function: lowering wage disparity?

It has been argued that the minimum wage, by increasing the starting wage at the lower end of the labour market, would help to improve the situation of workers at the bottom of the wage distribution compared to workers further up the scale. The minimum wage would thus play a sort of “wage compression” role.

The spillover effect

In fact, this “wage compression” effect depends directly on what is called the “spillover effect” of minimum wage increases. More precisely if a certain percentage increase in the minimum wage induces the entire wage structure to go up by the same amount, then the spillover effect is 100 per cent and therefore the wage compression effect is null, while the impact of the minimum wage on wage inflation is maximized. At the other extreme, if only the wages of those on the minimum wage are increased after the minimum wage hike, while the wages of other categories remain unchanged, the spillover effect is zero and thus the wage compression effect is maximized.

The effect thus depends on the elasticity of wages to minimum wage increases. This effect is generally higher for those categories just above the minimum wage, which tend to have the increase incorporated in their wages, too. The effect is lower for upper wage categories.

Estimation of the spillover effect is also important in assessing the impact of minimum wage increases on the proportion of minimum wage earners.
Large minimum wage increases tend to increase the percentage of workers at the minimum wage level, but this proportion tends to decrease in the long run as wages above the previous minimum wage tend to incorporate at least part of the increase. Nevertheless, even if there is some spillover effect, it is generally far from being 100 per cent, so that there is something of a wage compression effect.

Many national stories show that the minimum wage has tended to follow wage increases rather than the other way around. The story in Central and Eastern Europe often concerns real minimum wage increases alongside rapid real average wage increases, both following economic growth. Similarly, in Ireland, although the minimum wage has served as a reference point for wages, as shown in the enterprise case studies, minimum wage increases seem, in reality, to have followed rapid average wage increases rather than the reverse. The relationship between the two variables is thus much more complex than normally predicted by the theory, and clearly depends on the national context, such as economic growth and the specific features of industrial relations systems.

Minimum wage and lower wage disparity: the cases of France, United Kingdom and Nordic states

Since France is the country that has implemented a minimum wage policy most actively – with the minimum wage increasing both in real terms and in relation to the average wage – it is worth examining the story of wage differentials there and how they interact with minimum wage developments. It is significant that France has not experienced an increase in wage differentials in the past three decades, in contrast with many other European countries. Since the mid-1990s, the ratio of the highest to lowest has fluctuated between 2.9 and 3.1 (similar stability is observed in income disparity, with a stable Gini coefficient over the same period). At the same time, there has been a slight compression at the bottom of the wage distribution, with the D5/D1 ratio falling from 1.55 to 1.47.

In the United Kingdom, which is characterized by very high wage inequality – albeit stable since the late 1990s – the national minimum wage seems to have had some impact in raising the lowest decile relative to the median, especially during the more active minimum wage policy in 2003–06, when the Low Pay Commission pursued an explicit commitment to raising the relative value of the minimum wage. However, some evidence is presented in this volume that wage rates have not gone further up the wage distribution following successive minimum wage upratings; something that can be explained by the low presence of other institutional mechanisms for increasing wages, such as collective bargaining – the data suggest a collective bargaining coverage of 34 per cent in 2006. In other words, the spillover effect of the minimum wage will be higher with collective bargaining (European Commission, 2008).
The case studies in the United Kingdom chapter also show that there has been some compression of the bottom half of the wage structure after some companies consolidated multiple low-pay scales into a single rate in response to minimum wage development. Similarly, in Ireland, the minimum wage has managed to bring up the bottom 4–5 per cent to a higher wage level. In the United Kingdom, the second period of minimum wage acceleration also saw a larger improvement in women’s relative wages (see Chapter 14).

The case of the Nordic countries, which have the lowest wage dispersion, is also instructive. In Sweden very high and continuous minimum wage increases do not seem to have impeded growth in wage differentials. At the same time, increases in wage dispersion seem to have taken place mainly in sectors that have experienced a move towards more decentralization of wage bargaining and more individualized wage formation, while less disparity was found for those workers (for instance, manual workers) covered by highly centralized agreements that include minimum wages. Large increases in minimum wages do not seem to have been associated with equally large wage increases for all workers, confirming a limited spillover effect.

In contrast – as shown by Seyhan Erdogdu in Chapter 13 – in Turkey, income disparity decreased alongside minimum wage increases from 2002. The minimum wage also allowed private sector employees to limit the rapidly increasing gap with wages in the public sector.

Bulgaria showed increased wage disparity in the first years of transition alongside a restrictive wage and minimum wage policy, followed by a period of decline in income and wage disparity. That corresponded to a period of significant minimum wage increases. The minimum wage seems also to have played a role, notably from 2004, in limiting the increasing gap between workers’ wages in different sectors – for instance, by helping wages in education, health and public administration not to lag too far behind. It has also played a role in reducing the gender pay gap (down from 31 per cent in 1996 to 17 per cent in 2006) by boosting the wages of women, who mainly work at the minimum wage level in low-pay industries.

**Minimum wage not playing a protective role: the Netherlands**

In contrast, in the Netherlands the continuous fall in the minimum wage has led to a deterioration of the minimum wage in the wage distribution, which fell from 80 per cent of the median wage to 56 per cent. The minimum wage also fell below the low-pay threshold. It dropped well below the first wage decile, too, which means that it no longer provides a bottom for wage formation – and so protection for those at the lower end of the labour market, a result confirmed by the lower percentage of youths and women at the minimum wage level. Even they are now paid above the minimum wage, although they remain among low paid workers precisely because of this downward effect of the poor
adjustment of the minimum wage on wages in the first decile. As a result, Dutch wage disparity has widened significantly, the ratio between the ninth and first deciles rising from 2.54 to 3.22, or by 27 per cent, with more than half that increase affecting the lower level of the distribution (16 per cent). Dutch wage moderation has thus been most detrimental to those on the lowest pay.

Increased wage disparity alongside a too low minimum wage
The increase in low pay in Germany, to which the lack of a national minimum wage has contributed, has also led to a more extensive redistribution of incomes from the bottom to the top, with an increase in the ratio of the highest to lowest wage deciles (D9/D1) from 3.13 in 1995 to 3.86 in 2006. In Greece, wage differentials – including between regions – increased alongside the decline in the minimum wage.

In the Baltic States wage disparity, in common with other CEE countries such as Poland and Hungary, significantly increased in the early 1990s. The ratio of the top to the lowest decile increased to four and a half times in the three Baltic countries compared to an EU average between two and three (European Commission, 2005), making them the EU countries with the most extreme wage inequalities (Eamets et al., 2007). One explanation of this high wage disparity was that the minimum wage was too low. Tripartite discussions led to a decision to instigate an active policy to raise the minimum wage.

This active minimum wage policy certainly contributed to compressing the wage distribution, with the ratio of the last to the first decile being reduced to 3. Chapter 4 on Estonia explains, however, that the minimum wage effects on wage compression can only be limited due to some obvious spillover effects, the average wage being influenced by the increase in the minimum wage. Similarly, in Croatia, increases in the minimum wage in real terms and a stable minimum to average ratio over time did not have much effect on wage disparity, which increased over time from 2.7 in 1998 to 3.0 in 2005. This increase is not as dramatic as in other countries in the region, however, which may be due to the minimum wage.

No long-lasting effects in Hungary
The impressive minimum wage hike in Hungary – with a doubling of its level in 2001–02 – also proved to have a direct effect on wage compression. While it helped to reduce wage differentials – notably through a very marked increase in wages at the bottom – its effects were rapidly dissipated, the previous wage disparity returning in 2004–05. Minimum wage effects on wage disparity and overall equity may thus also depend on the frequency of adjustments, progressive but moderate increases as in France being more effective in this regard than one or two huge minimum wage hikes, as in Hungary. This consideration will be addressed in the concluding section of this Introduction.
1.4.4 Raising tax revenues: a realistic objective?

The minimum wage has also been debated in some European countries in relation to increasing tax revenues, either to stop illegal practices or simply to raise more revenue.

A way of fighting “envelope payments” in the Baltic countries?
The Baltic countries are strongly affected by wage under-reporting, in particular the phenomenon of “envelope wages” described earlier. This would explain why the percentage of workers at the minimum wage is particularly high (10.3 per cent in Lithuania and 12 per cent in Latvia), although workers are in reality paid much more. In this context the minimum wage has been used as a way of increasing tax revenues in Latvia and Lithuania, and especially to stop such hidden payments. “Increasing tax revenues” was clearly stated as one of the government’s objectives in minimum wage development. Increasing the minimum wage ensures that employers will pay more contributions because it automatically limits the cash part of wage payments. In fact, the phenomenon did diminish to some extent. Similarly in Croatia and Turkey, the minimum wage has helped to increase the basic wage compared to other sources of payment, including unofficial ones.

A way of increasing tax revenues in Hungary?
The objective of fighting tax evasion was clearly stated by the Hungarian government as a major objective when doubling the minimum wage between January 2001 and January 2002: first to reduce fake minimum wages – “under the counter” payments estimated by some analysts in Hungary to affect nearly one-third of employees – in order to make possible a significant increase in tax revenues from labour income; and, second, to reduce social costs by increasing the gap between the minimum wage and social benefits and so inducing more people to shift from inactivity to work. This was included in a general policy aimed at tightening welfare programmes, with new means tested social assistance, more restrictive eligibility criteria, and so on.

However, various studies have so far concluded that the minimum wage has not played such a function, and that its effects on the total state budget have been rather negative than positive. On the first expected effect, the minimum wage increase might have contributed to some reduction in fake minimum wages or “under the counter” payments (as in the Baltic countries) – since official payment increases due to the higher minimum wage – though this potential gain is estimated to be modest by János Köllö – below 1 per cent of GDP – and one that might be better achieved through presumptive taxation, which is better designed for tax evasion purposes. On the second expected effect there was no evidence that the minimum wage has made work pay or that the higher minimum wage has increased job search.
A minimum wage to limit top-up benefit payments in Germany?
In the general enthusiasm for increased employment in Germany, the minimum wage was seen as an element that could hinder the potential employment boost. Instead of a minimum wage, a series of needs-based wage top-ups were thus encouraged in order to prevent working poverty. In the context of the Hartz reforms in 2004, such means-tested benefits to complement low wages were further promoted and the number of employees receiving them rapidly multiplied, exceeding 1 million employees – including 400,000 full-time earners – in 2007. In other words, much of the burden has been shifted from employers – through low-wage employment – to the state (through increased basic security benefits).

Such a high increase of public expenditure has highlighted the potential effect of a binding lower limit such as the minimum wage in reducing state involvement.

To sum up, low-pay expansion has a cost for the state which a minimum wage can reduce by limiting excessive rises in low-wage segments of the market.

1.4.5 Boosting or crowding-out collective bargaining?

One issue that has received little attention in the literature is the minimum wage’s potential effects on collective bargaining. This is surprising given the close correlation that exists between these two wage institutions.

Stimulating collective bargaining has often been presented in the literature as one possible function of the minimum wage. By bringing the social partners together to negotiate, minimum wage fixing could, in turn, stimulate collective bargaining. While experience clearly shows that this has indeed been the case in some places, other examples point in the opposite direction, with the minimum wage reducing the relevance of collective bargaining and so eventually crowding out collective bargaining developments. Complicating the picture even further is the fact that the minimum wage has often been implemented in order to compensate for the absence of collective bargaining.

In countries in which minimum wages are set by collective agreements, this process has clearly motivated wage bargaining between employers and trade unions, not only on minimum levels but also on all wage rates. This has been the case not only in the Nordic countries but also in Germany, Italy and other countries. The relationship is more complex when a national minimum wage is in place.

Interestingly, in the United Kingdom sectoral minimum wages were fixed from the 1960s by the Wages Councils. In the late 1960s the unions began to oppose them, however, precisely because they thought that such a legislative or centralized approach would hinder collective bargaining. Paradoxically, when the Wages Councils were removed by the Thatcher government in the
The minimum wage revisited in the enlarged EU

name of the free market, this did not lead to more but, rather, much less collective bargaining, which in turn led the unions to call for a national minimum wage.

Similarly, in Germany, the trade unions were initially opposed to a national minimum wage because it might undermine their negotiated wage agreements; a lower minimum wage level pulling down the much higher wage rates obtained through wage bargaining. A shift in the trade unions’ position occurred only recently. In 2006, confronted by the adverse effects of low pay, the unions affiliated to the German Trade Union Confederation (DGB) made a joint request for a statutory minimum wage. Employers in Germany have also changed their attitude on the issue, and nuanced their traditional opposition to minimum wages, especially in those industries most affected by low wage levels and social dumping.

Interestingly, in Sweden the unions have reacted to the *Laval* judgment by confirming their opposition to a statutory minimum wage, arguing that it would be lower than negotiated minimum wages and could also reduce incentives for union membership. The employers have been less critical of the proposal, however, and the Confederation of Swedish Engineering Industries even came out in favour of a national minimum wage. It is significant that the *Laval* case also had the effect of boosting the introduction of minimum wages in some collective agreements – even in new sectors, for example, for nurses – and also led to relatively higher minimum wages (see Chapter 12 on Sweden).

Nevertheless, the fact that collective bargaining may become weaker is currently calling into question the future efficiency of such a model, as discussed by Per Skedinger in Chapter 12 (see Table 1.4). The move away from large collective bargaining deals that traditionally assured employees certain wage levels and the progressive fall in unionization rates may lead to some return to the minimum wage as a tool for complementing rather than crowding out collective bargaining. In Germany, for instance – where extension mechanisms are poorly used compared to Finland and Italy – there are some sectors with only a 36 per cent minimum wage coverage rate (such as health and social work) and regions (mostly in new eastern Länder) with lower coverage rates and where wages are not set by collective agreements (Eurofound, 2007).

At the same time, in other countries, where, in contrast, collective bargaining has been rather weak, as in most of Central and Eastern Europe, but also the United Kingdom, the legal minimum wage has appeared as a necessary substitute to protect the most vulnerable workers. More recently, however, there have been claims that the causality could be in the other direction, namely that a high minimum wage may also have contributed to “crowd out” collective bargaining over low wages (Aghion et al., 2008).

In Chapter 5 on France, Jérôme Gautié presents some evidence that the very active minimum wage policy may have contributed to crowding out collective bargaining over wages – as illustrated by many bottom wage levels in
pay scales in many collective agreements that are below the SMIC and as shown in his case study on the retail trade; but at the same time, as unions are very weak in some sectors, without this minimum wage policy the outcomes would have been much less favourable for workers. Similarly, in Croatia, due to recent significant minimum wage increases, several basic wage rates fixed by collective bargaining fell below the minimum wage, highlighting the need for collective bargaining revitalization.

The French government decided to intervene in 2008 – though the proposal is still under debate – by conditioning social contributions reductions on bargaining over low wages (such reductions are provided only if starting pay as defined in the collective agreement is above the minimum wage), with the need to reach a wage agreement and to raise basic starting wage scales above the SMIC.

We have tried to investigate this potential crowding-out effect in the different national studies in more depth. In Estonia and Lithuania the trade unions have complained that the minimum wage could crowd out sectoral collective bargaining and have called for the establishment of minimum wage rates in collective agreements in individual sectors. At the same time, the trade unionists interviewed at company level were much more positive and stated that the national minimum wage, because not set too high, served as a useful reference for collective bargaining. A case study shows precisely how the national minimum wage and decentralized collective bargaining usefully complement each other to improve final wage outcomes. Similarly, in Hungary, the minimum wage does not seem to be used as a benchmark for negotiations on wage rates because they are much above minimum rates, a situation that may change with the new proposal to implement minimum wage rates for skilled and unskilled.

The different enterprise case studies in Chapter 9 on Ireland show that although the basic rate is much higher, the prevailing minimum wage is taken into account when pay levels are negotiated each year.

### Table 1.4 Correlation of national minimum wage and collective bargaining

<table>
<thead>
<tr>
<th>Weak CB</th>
<th>Strong CB</th>
</tr>
</thead>
<tbody>
<tr>
<td>No NMW</td>
<td>Cyprus, UK, Ireland 1999, 2000</td>
</tr>
<tr>
<td></td>
<td>Italy, Denmark, Finland 2009</td>
</tr>
<tr>
<td>With NMW</td>
<td>UK, Ireland, Most CEE countries, Turkey (strong CB only in the public sector)</td>
</tr>
<tr>
<td></td>
<td>Austria, (private sector MW)</td>
</tr>
<tr>
<td></td>
<td>France (strong CB due to extension)</td>
</tr>
<tr>
<td></td>
<td>Croatia (strong CB due to extension)</td>
</tr>
<tr>
<td></td>
<td>Slovenia</td>
</tr>
</tbody>
</table>

Daniel Vaughan-Whitehead - 9781781000571
Downloaded from Elgar Online at 07/30/2019 11:53:40AM via free access
In the United Kingdom, in the absence of collective bargaining many firms have used the minimum wage not as a floor for wage rates, but as the going rate for many occupations. However, one case study shows how the major British retail sector union has managed to negotiate adult and youth rates considerably higher than the national minimum wage rates. In another case study, the national minimum wage helped the major union in the National Health Service to negotiate better pay for the low paid, even if the gap between the national minimum wage and negotiated wages has progressively shrunk.

In the Netherlands, the very low national minimum wage induced the social partners to stick to the higher rates in collective bargaining. The government, however, intervened to encourage enterprises to maintain their lowest pay scales at the minimum wage level in order to boost low-pay employment. The result was that many enterprises followed this policy in theory but, in practice, finally used higher scales, especially in hiring.

Croatia is another example of the minimum wage and collective bargaining developing simultaneously. While the minimum wage increased substantially in real terms, collective agreements multiplied, particularly at enterprise and sectoral level. The fact that the minimum wage was relatively low compared to the average wage left sufficient space for collective bargaining over higher wage rates. The increase in the minimum wage in 2008, however, may reduce the incentives for collective bargaining in low-pay sectors in the future, as shown in one case study. This means that extending the role of the minimum wage may boost collective bargaining only up to a point, after which it would start to hamper its development.

The minimum wage was also found to stimulate collective bargaining in Bulgaria, notably by inducing new agreements at sectoral level. At the same time, the minimum wage is essential to protect workers in low-paid sectors characterized by a total absence of collective bargaining. In Spain the minimum wage is also found to play such a role for domestic workers who are excluded from collective bargaining and thus have no collective agreement.

In Turkey, the minimum wage to average wage ratio is much higher in enterprises without collective agreements (Kaitz index of 54 per cent) than in enterprises with them (Kaitz index of 33 per cent). This shows that the minimum wage is a complementary tool which can increase wages in the absence of wage bargaining.

1.4.6 Effects on foreign direct investment and labour migration

In the different chapters of this volume the authors have tried to identify possible effects of the minimum wage on both capital and labour movements. First, the evidence collected seems to point to the conclusion that the minimum wage does not play an essential role in attracting or deterring foreign
Minimum wage revival in the enlarged EU

direct investment. In Ireland, for instance, although its economy relies to a great extent on foreign direct investment (FDI), the introduction and development of the minimum wage did not have any impact on investors’ location decisions; first, because these firms seem to have very few employees at the minimum wage level, and, second, because labour costs – at least for foreign companies in Ireland – represent only a minor proportion of total costs. Similar conclusions about the disconnection between foreign investment and minimum wages are drawn in countries such as Turkey, Croatia and Bulgaria, whose economies are strongly reliant on FDI. The low impact of minimum wages on FDI, however, does not mean that wages do not have an effect, as shown in some chapters, for instance on Croatia.

Since many governments, especially from Central and Eastern Europe, have started to discuss the potential role of a national minimum wage in reducing outward migration, we also tried to investigate this issue, examining both sides of the story: the sending countries, with interviews with Polish migrant workers, and the host country, notably with interviews with employers in enterprises hiring Polish workers in Ireland.

Jacek Wallusch, in Chapter 11 on Poland, presents two important results. First, the Irish minimum wage has been taken into account by Polish migrant workers: 73 per cent of them acknowledged having researched the minimum wage in Ireland, and 41 per cent had also compared it to the minimum wage in other countries. Second, the minimum wage in Poland was found to be important in retaining migrant workers. This was reported in the medical sector, from interviews with fifth-year medical students at Poznań University of Medical Sciences, 72 per cent of whom had already seriously considered the option of going to work abroad. However, 82 per cent reported that they would reconsider their decision if the proposal put forward by the Convention of Doctors to increase the minimum wage in the medical sector to twice the average wage was implemented. The students who had already decided to stay also reported that such a minimum wage level would influence their motivation and career prospects.

Such an impact on the part of the minimum wage should be considered particularly relevant in a context in which migration is generating a serious crisis, with long-term generational implications, in key sectors such as health care in Poland and other new EU Member States.

In other words, not only does the minimum wage in the host country play a role in attracting migrant workers, but the minimum wage in the sending country can help to limit such migration.

Chapter 9 on Ireland also provides some interesting results. All the employers interviewed reported that the minimum wage has had a significant effect in attracting migrant workers to the country due to its high level and visibility, so confirming the Polish interviews. Irish employers in the service
sector reported that this had allowed them to fill jobs rapidly and to expand. They explained that Irish workers are very hard to recruit into low-pay sectors such as hotels and restaurants, so that the availability of migrant workers - to fill jobs that the Irish “don’t want anymore” – became critical for continuing their business.

This should be seen in light of what we have said about employment. In addition to the net effect of the minimum wage on employment we should keep in mind that in many European countries there is significant demand for migrant workers, whom the minimum wage may help to attract, so addressing labour shortages. This shows the employment effects of minimum wages in a totally new light, where there may be excessive demand and insufficient supply.

As shown by Jaan Masso and Kerly Krillo in Chapter 4 the reduction of the wage gap between Estonia and the main target countries of Estonian labour migration – Finland, the United Kingdom, Ireland, Sweden, Denmark and Germany – has contributed to a decrease in labour migration, especially in sectors such as construction. In contrast, for Bulgaria, despite its recent increases, the minimum wage was assessed as still too low – and thus the gap with potential host countries much too large – to play any effect in motivating workers to stay in Bulgaria.

The Estonian health care case study shows how much the minimum wage of care workers was voluntarily increased – by an annual average of 25 per cent between 2002 and 2008, the minimum wage increasing to 82 per cent of the average wage – in order to limit their migration and respond to labour shortages.

The minimum wage can thus play a role in migration in the enlarged EU. We should add that the minimum wage – in both the host and the sending country – is important not only for migrant workers’ decision-making but also for workers in the host country: a national minimum wage protects local workers from unfair competition from migrant workers who – in the absence of a statutory minimum wage – would be hired at much lower wages.

1.5 CONCLUSIONS

The present volume confirms that the minimum wage has had a new lease of life in the enlarged EU, with 75 per cent of its members having introduced a statutory minimum wage. In those countries without a statutory minimum wage there are lively debates to determine whether introduction should be considered in the future, as in Sweden and Germany, while Austria has already opted for a national minimum wage from January 2009.

This renewed policy interest is confirmed by the statistics. Between 1995 and 2007, the minimum wage increased relative to the average wage in a
Minimum wage revival in the enlarged EU

majority of countries – 16 out of 20, or 80 per cent. Over the most recent period, 2000–08, nearly all countries – 18 out of the 20 with a statutory minimum wage – have allowed the minimum wage to increase in real terms, growth being particularly impressive in the new EU Member States. Although the minimum wage has not kept pace with productivity gains, it has generally evolved more favourably than average wages.

The new context – with four major determinants – explains such renewed interest. The first factor is the increased movements of labour and capital generated by EU enlargement to Central and Eastern Europe and intensified flows at international level. The second major pressure has come from the new employment configuration, with some sectors and economies being increasingly confronted by labour shortages, while we are also witnessing general growth – with the aim of reducing unemployment – in new forms of employment contracts that often lead to more precarious employment conditions and lower wages. Another explanation must be the evolution of industrial relations systems themselves, notably with a progressive decline of trade union membership and, to a lesser extent, of collective bargaining coverage. Worrying wage trends constitute another explanatory factor – in the form of declining wage shares, growing wage differentials and an increased number of low-paid workers – that has captured the attention of policymakers and has also led trade unions to mobilize.

This volume confirms that the minimum wage may fulfil a number of new functions in this new context. While the minimum wage – on condition that it is adjusted in a progressive and regular manner, in contrast to Hungary in 2001–02 – has not been found to adversely affect employment (as witnessed by parallel minimum wage and employment growth in the United Kingdom, Ireland and other countries and no significant disemployment effects elsewhere, even in low-paid sectors and SMEs) it was found to help employers in some cases to shift towards higher quality production. The minimum wage has also been found to have a definite role in reducing the number of low-paid workers and wage disparity in general, although it might not be a panacea for reducing poverty as such. It seems, moreover, to represent an appropriate instrument for dealing with both inward and outward migration: while the minimum wage helps the host country to attract migrant workers, especially in sectors which are characterized by labour shortages – as has been shown for Ireland – a progressive increase in the minimum wage in the sending country may help to limit labour migration abroad – as shown by the Polish case. The minimum wage also represents an important defence against social dumping, by protecting both migrant and local workers from excessively low wages, an aspect that may become increasingly relevant alongside the liberalization of services within the enlarged EU, and as illustrated to some extent by the Laval case. Finally, under certain conditions the
The minimum wage revisited in the enlarged EU

national minimum wage may help to complement rather than crowd out collective bargaining.

The new economic and financial uncertainty has brought new conditions for minimum wage fixing, however. The upward minimum wage developments presented here refer to a period of low inflation and relative economic growth that may also have contributed to the positive effects found in this volume.

In the future – more uncertain – economic context, will the renewed interest of policy-makers in minimum wages progressively vanish? Or will it highlight even further the potential role of minimum wages, in particular in protecting low-paid workers?

The evidence available so far points to very diverse minimum wage policy responses within the crisis. While certain countries have decided to freeze the minimum wage in order to help employers to overcome the crisis and maintain employment, other countries have followed the opposite route, by deciding to use the minimum wage as a tool in their anti-crisis reform package to protect the most vulnerable workers’ purchasing power. While it is too early to say for sure what the effects of the crisis will be on the minimum wage, it is already interesting to observe that, in many European countries, the minimum wage has been given a specific role, thus confirming the renewed interest in minimum wage institutions as effective means of fighting against low pay, limiting wage disparity and preserving social cohesion, even in turbulent times. Anyway, the tensions brought about by the economic crisis will render more difficult a progression of the minimum wage in the manner experienced in the past few years. In order to help such negotiations to take place in the best possible conditions and not to be too much influenced by ideological or political considerations, more independent criteria should probably be laid down, together with more empirical research and an extended view of minimum wage functions as presented in this volume. Only in this way will the minimum wage be able to realize its full potential, while helping to keep a balance between economic and social considerations.

BIBLIOGRAPHY

Minimum wage revival in the enlarged EU


ETUC. 2007. Input to the draft PES European election Manifesto on a New Social Europe, p. 4.


The minimum wage revisited in the enlarged EU


