15. Towards an EU minimum wage policy?

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15.1 INTRODUCTION

Alongside the renewed interest in the topic in individual EU Member States, debates are increasingly taking place on the feasibility of a common minimum wage policy at EU level. This idea has been put forward by a number of EU political figures, such as Prime Minister of Luxembourg, Jean-Claude Junker, who supports "the creation of a European minimum wage"; and former EC President Jacques Delors, who called for "the introduction of a European minimum wage in the context of the European social dialogue" (Delors, 2006). He also – together with Poul Nyrup Rasmussen, President of the Socialist group at the European Parliament – called for the introduction of "an EU target for the minimum wage in terms of GNP per capita" (Rasmussen and Delors, 2006: 71). The idea of common EU action on minimum wages has also been expressed by several EU top officials, as well as by members of the European Parliament. The issue was discussed on 12 September 2007 during a hearing of the Parliament's Committee on Employment and Social Affairs on the "Role of the minimum wage in social inclusion in the European Union". This chapter addresses the issue of the EU minimum wage by highlighting only those findings that may be relevant for making progress in this debate.

15.2 WHAT VALUE ADDED AT EU LEVEL?

Most notably, this chapter attempts to tackle the issue by seeking to identify why an initiative at EU level might be necessary, and what value added it may eventually bring in the new context.

15.2.1 Low pay and poverty

Given its potential benefits for the low paid, the minimum wage is clearly a tool worth developing on an EU scale. The European Parliament hearing on this issue concluded that a European-level minimum wage policy would constitute a positive value added to limit the extent of poverty in the enlarged EU.

Although it is clear from other chapters that the minimum wage should not be considered as the only tool for fighting poverty, the development of a decent wage floor throughout the EU may certainly help to limit expansion of the low-wage sector. This is confirmed by the number of minimum wage earners in the EU: among the 20 EU countries with a statutory minimum wage more than 5 million workers are currently paid at the minimum wage (5,357,043

Table 15.1 Number of minimum wage earners, Europe, 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Minimum Wage Earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>n.a.</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>339,058</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>95,502</td>
</tr>
<tr>
<td>Estonia</td>
<td>31,000</td>
</tr>
<tr>
<td>France</td>
<td>2,097,084</td>
</tr>
<tr>
<td>Greece</td>
<td>346,943</td>
</tr>
<tr>
<td>Hungary</td>
<td>341,430</td>
</tr>
<tr>
<td>Ireland</td>
<td>56,368</td>
</tr>
<tr>
<td>Latvia</td>
<td>90,919</td>
</tr>
<tr>
<td>Lithuania</td>
<td>90,946</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>20,734</td>
</tr>
<tr>
<td>Malta</td>
<td>5,869</td>
</tr>
<tr>
<td>Netherlands</td>
<td>153,206</td>
</tr>
<tr>
<td>Poland</td>
<td>249,950</td>
</tr>
<tr>
<td>Portugal</td>
<td>214,621</td>
</tr>
<tr>
<td>Romania</td>
<td>533,574</td>
</tr>
<tr>
<td>Slovakia</td>
<td>30,060</td>
</tr>
<tr>
<td>Slovenia</td>
<td>27,081</td>
</tr>
<tr>
<td>Spain</td>
<td>129,398</td>
</tr>
<tr>
<td>UK</td>
<td>503,300</td>
</tr>
<tr>
<td>EU-20</td>
<td>5,357,043</td>
</tr>
<tr>
<td>Croatia</td>
<td>50,058</td>
</tr>
<tr>
<td>Turkey</td>
<td>5,214,569</td>
</tr>
</tbody>
</table>

*Note: Latest year available is 2006 for Czech Republic, Hungary, Poland and Romania; 2005 for the Netherlands.*

*Source: Cronos.*
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If the seven countries with no statutory system are added, the total rises to nearly 6 million minimum wage earners in the enlarged EU, a number that would automatically increase if more countries moved to a statutory system. In Turkey, 46 per cent of the working population are on the minimum wage—that is, more than 5 million workers. Beyond the minimum wage, the problem of low pay is an issue in all EU countries. The scale of the problem underlines the potential implications of common action on minimum wages at EU level.

15.2.2 Wages and equity

By protecting workers at the lower end of the labour market the minimum wage would also help to alleviate their current problem of falling purchasing power and consumption levels. Beyond low pay, this volume shows that wages are increasingly under pressure, with a declining wage share and growing wage differentials. This raises problems of equity and social cohesion within the EU, which could be harmful to the long-term effectiveness of the economy. EU enlargement has exacerbated wage differentials. Given these developments, it might be debatable whether national minimum wage systems alone would be able to deal with such increased wage disparity or whether some coordination on minimum wage policy would be needed. Some action to protect minimum wages might be even more necessary in the new economic context— inflation, economic and financial instability, international food crises—which may lead many actors to respond by adjusting their minimum wages downward (with the trade unions less able to intervene), a scenario that could increase the number of low-paid workers in the EU. The workers at the lower end of the wage scale are those most affected by food and energy price increases. This should reinforce the call for a more active minimum wage policy to ensure that the wage floor is increased accordingly.

15.2.3 Social dumping

A common or coordinated initiative on minimum wages at EU level may also help to limit social dumping. The Laval case is a concrete example of possible social dumping on wage issues. It is certainly only the beginning. Competition over wage costs may be exacerbated even further with the increasing liberalization of the European economy and labour market, particularly in the service sector. Low-wage competition may also be facilitated by labour market reforms aimed at further liberalizing employment conditions. Many examples in this volume show how low-wage competition brought by migration flows would have further depressed low wages in Europe without a statutory minimum wage. This effect of the minimum wage is not to be neglected in the
context of increasing migration on the basis of future EU enlargement – notably Turkey’s possible membership – as well as increasing migration from non-EU countries.

15.2.4 Anti-discrimination

Although there can be several reasons why employees might receive different pay for the same work – for instance, where young people are paid less than older workers for the same work – the evidence collected in this volume has confirmed cases which cannot be tolerated, for example, when immigrant workers receive lower pay than other workers for the same work, or when workers on atypical contracts do not have any wage floor. Another type of more indirect discrimination occurs because some categories of workers, particularly women, are often concentrated in low-paid jobs. An initiative on the minimum wage would thus complement the EU work programme against discrimination.

15.2.5 Employment

The minimum wage may also be encouraged for its potential effects on employment. Minimum wages were found not to have a negative effect on job creation if adjusted in a regular and progressive way. In some cases, indeed, the minimum wage was found to have a potential positive effect on the participation rate of certain categories of workers. The comparative study also revealed how minimum wages could play a role in influencing labour migration and responding to labour shortages in both sending and host countries. Finally, the minimum wage may contribute to achieving the Lisbon Agenda target of a knowledge economy that requires not only “more” but also “better” jobs. The European Commission has emphasized the fact that “improvements in productivity can only be promoted by encouraging firms to replace ‘low wage–low productivity’ employment with ‘high wage–high productivity employment’” and that “if wage levels are held down through underinvestment in education and training, as well as in capital, the economy will be condemned to relying on low grade employment increasingly under threat from more efficient competitors in the world economy” (European Commission, 1993: 3). Despite the absence of evidence of negative effects of minimum wages on employment, in the context of the financial crisis, in 2009 the decision was taken in many countries to freeze the minimum wage on the assumption that this would help employers to maintain employment. Minimum wage effects on employment will, therefore, need to be further investigated, especially in those countries that would have decided, in the face of the crisis, to use the minimum wage as an effective policy tool.
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15.3 WHAT IS ALREADY IN PLACE?

15.3.1 Many references to wages

The right to an adequate wage is enshrined in the 1989 Community Charter of the Fundamental Social Rights of Workers (Point 5), which stipulates that "all employment shall be fairly remunerated" and requires EU Member States to "assure [workers] an equitable wage, that is, a wage sufficient to enable them to have a decent standard of living". The Commission has also made some recommendations in an opinion on an "equitable wage", in which the Member States are asked to ensure workers' rights to adequate remuneration regardless of gender, handicap, ethnic origin, race, religion and nationality. Some references are also to be found in the work of the European Parliament (1993), the Council of Europe (Social Charter), the Universal Declaration of Human Rights (Article 23), as well as in the Conventions and Recommendations of the ILO (notably Convention 131 on the minimum wage). On the subject of wages, the EC opinions that have been issued on workers' financial participation schemes should also be mentioned. They confirm that the EU has begun to tackle a number of wage policy issues, such as equitable wages and financial participation.

15.3.2 Wages as a matter for Member States, but also a responsibility for the EU

Despite these initial steps and sporadic references to wage issues, wages have remained under the exclusive competence of the Member States. In its Action Programme relating to implementation of the Charter quoted above, the EC acknowledged that "wage-setting is a matter for the Member States and the social partners". It also recognizes that "the Commission has a responsibility for asserting its views on an important problem for a significant proportion of the working population" (EC, 1993: 7).

Some responsibility therefore attaches to wage issues at EU level. Moreover, at national level, provisions on a living or adequate wage exist in the constitutions of most European countries; for example, Belgium, the Czech Republic, Italy, Portugal and Spain. There is thus also a strong national basis for a coordinated initiative at EU level.

In this regard, some proposals have been made for a Europe-wide minimum wage policy, for instance by a group of French, German and Swiss researchers (Schulten et al., 2005).

The European social partners could play an active role at EU level, especially since their attitudes towards minimum wages seem to have changed slightly over time. While, in the past, the trade unions were in favour of a
national minimum wage and employers tended to see it as an unnecessary labour market rigidity, the current context has shifted the lines of demarcation somewhat. This volume presents evidence of many employers’ organizations favouring the introduction of a national minimum wage, for instance to limit migration, as in Latvia and Poland, or to promote inward migration and respond to labour shortages – as in Ireland, Sweden and the United Kingdom – in tighter labour markets. Similarly, the unions’ position is more diverse than before, with some national unions favouring a national minimum wage and others favouring collective bargaining on minimum wages, as in Sweden, despite the recent Laval case. Common ground and consensus may thus be reached at EU level on the usefulness of some sort of minimum wage policy. Social dialogue at EU level, which has become more and more independent over the years, may play a role in this process.

15.4 SHOULD A SPECIFIC MINIMUM WAGE BE FIXED AT EU LEVEL?

Some proposals for an EU-fixed minimum wage have already been made (for example, the proposal by the left-wing of the French Socialist party under which a uniform minimum wage would be established EU-wide). Is this proposal feasible and, even more importantly, practicable?

Despite the good intentions behind such an objective, and despite the fact that it could be retained as a long-term objective, our conclusion is that this would create new problems, while not always solving existing ones.

Among Member States with a statutory minimum wage the levels vary greatly, reflecting mainly different stages of economic development. There is a group of countries in which the absolute minimum wage level is rather low, composed of the newest Members, Bulgaria and Romania, followed by the Baltic countries. In 2008, the highest minimum wage was in Luxembourg: at €1,609 nearly 14 times higher than the lowest in the EU (€120 in Bulgaria). Even if these absolute figures are converted into purchasing power parities (PPPs) there are still enormous differences in minimum wage levels across the EU.

If a minimum wage were to be established at EU level, it would have to be low so that it could be applied in all Member States; this means that it would certainly be fixed at the level of the Bulgarian minimum wage. Considering the gap with minimum wages in other countries, this would make no sense, above all in the more developed countries, such as France and Germany, where even the most vulnerable workers currently not covered by the national minimum wage are paid much more (for instance, self-employed, temporary agency workers, and so on). It may in fact have the opposite effect, and lead instead to a race to the bottom in the countries with higher minimum wages.
Table 15.2 Minimum wage levels in European countries (with and without a statutory national minimum wage), 2008

<table>
<thead>
<tr>
<th>Countries</th>
<th>Minimum wage level (€)</th>
<th>Percentage of full-time workers on minimum wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>1,000 (from 1 Jan. 2009)</td>
<td>5.1 (2006)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>120 (2008)</td>
<td>12.5&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>325 (2008)</td>
<td>2.3 (2006)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Estonia</td>
<td>278 (2008)</td>
<td>4.7 (2007)&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>France</td>
<td>1,321 (2008)</td>
<td>12.9 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Greece</td>
<td>680 (2008) based on 14 months</td>
<td>794 (converted into 12 months)</td>
</tr>
<tr>
<td>Hungary</td>
<td>279 (2008)</td>
<td>10 (2007)&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,462 (2008)</td>
<td>3.3 (2006)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Latvia</td>
<td>229 (2008)</td>
<td>9.2 (2007)&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Lithuania</td>
<td>232 (2008)</td>
<td>7.0 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,609 (2008)</td>
<td>11.0 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Malta</td>
<td>615 (2008)</td>
<td>4.2 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,357 (2008)</td>
<td>2.2 (2005)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Poland</td>
<td>332 (2008)</td>
<td>2.3 (2006)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Portugal</td>
<td>426 (2008)</td>
<td>5.5 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Romania</td>
<td>136 (2008)</td>
<td>8.2 (2006)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Slovakia</td>
<td>267 (2008)</td>
<td>1.6 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Slovenia</td>
<td>567 (2008)</td>
<td>3.4 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Spain</td>
<td>624 (2009)</td>
<td>0.7 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>UK</td>
<td>1,361 (2007)</td>
<td>2.0 (2007)&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Denmark&lt;sup&gt;*&lt;/sup&gt;</td>
<td>2,140–2,270 (2008)</td>
<td>(3 agreements)</td>
</tr>
<tr>
<td>Finland&lt;sup&gt;*&lt;/sup&gt;</td>
<td>1,420–1,460 (2008)</td>
<td>(3 agreements)</td>
</tr>
<tr>
<td>Sweden&lt;sup&gt;*&lt;/sup&gt;</td>
<td>1,440–1,940 (2008)</td>
<td>(7 agreements)</td>
</tr>
<tr>
<td>Norway&lt;sup&gt;*&lt;/sup&gt;</td>
<td>2,210–2,520 (2008)</td>
<td>(3 agreements)</td>
</tr>
<tr>
<td>(378 from July 2008)</td>
<td></td>
<td>7.6 (2008)&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>FR of Macedonia</td>
<td>90</td>
<td>(public sector)</td>
</tr>
<tr>
<td>(no statutory MW but</td>
<td></td>
<td>collective national agreement)</td>
</tr>
<tr>
<td>Turkey</td>
<td>335 (2008)</td>
<td>48.1 (2006)&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>(264 net)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * For countries with no statutory minimum wages the rates agreed in collective agreements are reported; source: Report by P. Skedinger to the Swedish Globalization Council.

Source: <sup>a</sup>Eurostat complemented by <sup>b</sup>national statistics.
In the least developed countries, under pressure from high-paying neighbours, there would be a tendency to catch up rapidly; perhaps too rapidly given their productivity and employment levels. The European trade unions have acknowledged that “the differences in skills, productivity, living standards and union policies are too great for a campaign on a common European minimum wage” (ETUC, 2007: 4).

It is because of the difficulty of pursuing such a symbolic goal in the short term that the discussion on EU minimum wage policy is crystallizing more and more around the establishment of common principles and guidelines on minimum wage fixing that could be respected by all Member States, in contrast to a quantitative common minimum wage level. However, such a move would not exclude an EU-wide minimum wage in the long term alongside economic development in the enlarged EU, since a degree of catching up is already apparent on the part of low minimum wage economies and there is some convergence of minimum wage rates in the enlarged EU. The EC opinion on “equitable wages” of 1993 already recommended promoting “a convergence of equitable wage policies within the Member States” (European Commission, 1993: 6).

15.5 SHOULD THE MAIN COMMON PRINCIPLE BE A STATUTORY NATIONAL MINIMUM WAGE?

According to the EU’s Commissioner for Economic and Monetary Affairs, Joaquin Almunia, “every country in the EU should have a minimum wage” and “it would be theoretically possible and correct if we in the EU were to oblige each Member State to set their own minimum wage”.4

Similarly, the European trade unions are campaigning for common standards on minimum wages, and have demanded a minimum wage in all EU Member States.5 For some trade unionists, “if the EU Member States wish to take seriously their commitments in the Social Charter and the goals of the Lisbon Strategy, they have to make minimum wage regulation binding throughout Europe” (Zitzler, 2007).

The mandatory introduction of a statutory minimum wage has so far met with opposition from a number of different actors, mainly in countries that fix minimum wages by collective agreement rather than by legal regulation. Although this opposition may progressively disappear as new events – such as the Laval case – demonstrate the advantages of having a national minimum

4. “Every EU country should have minimum wage: Almunia” (in German), Die Zeit (4 July 2007).
wage, the question of whether there can be consensus on the common basic principle of a binding national minimum wage may arise.

This volume shows that there already is consensus in the enlarged EU around the minimum wage principle, since all Member States implement some form of minimum wage floor – 20 out of 27 (that is, 75 per cent of them) already have a statutory minimum wage. Among the candidate countries, there is a statutory minimum wage in Croatia and Turkey, while the Former Yugoslav Republic of Macedonia continues to fix minimum wages through collective agreements. The fact that discussions are taking place in Germany and Sweden may mean that more EU countries introduce such a statutory system in the near future. The almost universal application of wage floors signals that the use of minimum wages as a policy tool may be widely accepted at EU level. It is important to underline the fact that, even if a statutory minimum wage were introduced in one of these countries, it is probable that sectoral minimum wages through collective agreements would continue, so that the national minimum wage would act as a complementary tool (a base reference for additional, collectively agreed minima) and not as a substitute for the existing industrial relations system.

Of course, the countries without a statutory minimum wage could cope with their difficulties – notably social dumping, as illustrated by the Latvian Laval enterprise in Sweden – by other policy reforms. The coalition government in Germany agreed to declare minimum wages at sectoral level to be generally binding in response to an application by the two sides of industry using the Law on the posting of workers based on the EC directive. Through this process, collectively agreed minimum wages were declared to be generally binding in several sectors, such as construction. Nevertheless, there are limits to this approach, for example, due to the many sectors in which employers refuse to sign a collective agreement (hotels and restaurants and retail), or the many regions left uncovered by any collective agreement. Chapter 6 on Germany also presents the interesting case of competing collective agreements in postal services and temporary agencies. Similarly, in Sweden, the government, after having considered the legal extension of minimum wage rates for uncovered sectors, as is the case in Finland, has instead decided to give a monitoring role to the trade unions. However, this may not be sufficient to influence the behaviour of new foreign employers coming under the Posted workers directive; monitoring may also be difficult since most of these employers do not have trade unions; finally, Swedish SMEs seem to have remained outside the scope of the proposed solution.

A statutory minimum wage thus may well represent the ultimate solution, especially since it can readily be foreseen that the number of migrant workers, and in particular the inflow of posted workers, will continue to increase in these countries and spread to new sectors, such as services, even if the deep
economic crisis may temporarily limit them. With posted service workers increasingly employed through interim agencies operating in the host countries, it is not difficult to envisage a number of difficulties in regulating and monitoring minimum wages for posted workers from the new Member States.

15.6 SHOULD A TARGET MINIMUM WAGE TO AVERAGE WAGE RATIO BE SET?

This volume shows that an increasing number of countries are setting a target for the minimum wage to average wage ratio, such as Estonia (41 per cent), Latvia and Lithuania (50 per cent), Poland (50 per cent) and Croatia (39 per cent of the previous year’s average wage). In Estonia, the 41 per cent target corresponded to the EU-27 average in this ratio. Croatia has also used a predetermined minimum wage to average wage ratio for regular adjustments of the minimum wage level. Moreover, from 2009, Croatia will aim to increase this ratio by an automatic raising of the Kaitz index by the same percentage as GDP growth. Poland also has automatic adjustment of the Kaitz index to 50 per cent of the average wage. Bulgaria has fixed the ratio to the average wage as a major indicator (together with the poverty line) for adjusting the minimum wage. It is clear from the case of Estonia that it was considered a stability tool to help both workers and employers plan more effectively for the future in a consensual rather than a conflictual way. In contrast, the example of Ireland demonstrates that lengthy periods with no adjustment followed by sudden and substantial increases have created uncertainty, with businesses having difficulty planning for and coping with these increases. On the other side, in periods of recession the workers may suffer from infrequent minimum wage adjustments. A smoother, more regular and more predictable uprating process would be more satisfactory for both unions and employers.

Since the minimum wage to average wage ratio has been laid down as a policy target in many countries, it could eventually be maintained as a common indicator. In fact, this ratio is often used as a proxy for evaluating the strength of a minimum wage policy, under the hypothesis that this ratio is strong when there is an active policy of valorizing the minimum wage, and weak when the government neglects minimum wages.

It is important to note that there is a Council of Europe recommendation that proposes a minimum wage of 60 per cent of the average wage.

The analysis in this volume has shown that, although the Kaitz index has increased almost everywhere, in many European countries it remains well below 50 per cent. This has led some experts to call for an intermediate EU target of 50 per cent and a long-term objective of 60 per cent of the average wage (Schulten et al., 2005; Schulten, 2008).
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While this ratio may represent totally different realities in different Member States – for instance, 60 per cent in a country such as France does not have the same meaning as 60 per cent in Turkey – it may be difficult to calculate both the net (after tax) Kaitz index and the gross index since minimum wage earners are not taxed in the same way in all European countries compared to other wage earners (see, for instance, Chapter 8 on Hungary for a comparison between net and gross indexes). This index may represent a sort of common target, however, not to be imposed but to be recommended to EU Member States among other indicators.

15.7 SHOULD THE MINIMUM WAGE BE RELATED TO ECONOMIC GROWTH OR TO OTHER MEASURES?

Chapter 1 highlighted the fact that the minimum wage increases have remained far below productivity growth in most countries. The proposal made by J. Delors and P. Rasmussen, to retain a target of a minimum wage proportionate to each state’s national wealth – that is, to GDP per capita growth – would help to establish a sort of minimum wage formula across Europe (Rasmussen and Delors, 2007). Moreover, it would help the minimum wage to follow economic performance more closely. It would also ensure that low-paid workers get a share of economic growth.

The GDP per capita indicator is also a simple indicator that could easily be used without too many definitional variants between EU Member States. Another possible variant would be the ratio of minimum wage to GDP per employee – used in Chapter 1 – rather than GDP per capita. This indicator would be in accordance with a minimum wage policy aimed at improving workers’ living standards and ensuring that each, especially the lowest paid, obtains a fair share of economic growth. Alternatively, this ratio may lead to a minimum wage that continues to increase even in case of employment reductions, a situation that may not be economically desirable (while a minimum wage related to GDP per capita would be less dependent on the employment level).

Different ratios could be recommended at EU level; it is interesting to see that recent minimum wage reforms in Croatia have linked the minimum wage to both the average wage and GDP growth. We also saw that the minimum wage should follow a social target related to the subsistence or poverty line.

6. This may be less feasible in the case of the average wage, the definition of which may differ considerably by country: it might include additional payments and bonuses, or cover certain atypical forms of employment, such as self-employment.
15.8 WHAT OTHER PRINCIPLES OR GUIDELINES MIGHT BE DEFINED AT EU LEVEL?

The various contributors to this volume show that the efficiency of minimum wage fixing depends to a great extent on the national specificities of minimum wage systems, adjustment methods and criteria. On this basis it may be useful to try to define optimal conditions for minimum wage fixing, in terms of coverage, criteria, adjustment process and so on, in order to attain different policy objectives, naturally to be determined within each EU Member State.

This will require more studies and more discussions at EU level on:

- the objectives that can be pursued through minimum wages;
- coverage (categories that might be left out of the minimum wage);
- minimum wage rates (monthly, hourly, gross or net);
- criteria for adjustment (inflation, productivity, and so on) and their frequency (yearly, every two years), as well as relevant indicators (minimum wage to poverty line, minimum wage over average wage, and so on);
- process/method of adjustment (tripartite, bipartite, and so on);
- enforcement of minimum wage implementation.

The intention here is not to develop these different items but to present some findings that confirm their relevance.

15.8.1 Objectives

We have seen that the minimum wage has been implemented in different European countries in pursuit of different types of policy objective. This also helps to explain why the process and tools for implementing the minimum wage have differed between countries. The process may be different if, for example, the minimum wage has been implemented to increase tax revenues rather than in pursuit of equity objectives.

If a minimum wage policy has to be decided at EU level, the concrete policy objectives to be pursued should be clearly defined. The EU could certainly look at the fields of (i) poverty, (ii) equity, (iii) industrial relations, (iv) employment and (v) social dumping.

15.8.2 Coverage (categories that might be left out of the minimum wage)

This volume provides examples of countries in which the minimum wage applies to all workers without exception – such as Estonia, Latvia and Lithuania – and others in which some categories are excluded – such as trainees in Belgium and France – or who receive different minimum wage
rates (such as the youth rate for those under 22 years of age in the United Kingdom, under 25 in Turkey, but also the Czech Republic, Ireland, Latvia, Malta, the Netherlands, Poland and Slovakia), as well as progressive sub-minimum rates for young workers - as in Belgium and the Netherlands - or lower rates in specific labour-intensive sectors - as in Croatia since 2008 - or those under interim agency contracts, as in Germany. The Netherlands is characterized by a “long tail” of youth minimum wages, amounting to as little as 30 per cent of the adult minimum wage at the age of 15, rising to 85 per cent for 22-year-olds. In Belgium, public sector employees are excluded. Obviously, the percentage of employees covered by the minimum wage differs according to the categories of workers excluded. Chapter 10 on the Netherlands highlights the drawbacks of the “long tail” of youth minimum wage, an issue that may also be raised in discussions at EU level.

It has also been shown that many workers are still not covered by the minimum wage, especially those with atypical contract forms who are also at higher risk of falling into poverty. Irregular workers are not covered by sectoral minimum wages in Italy. In Hungary, the self-employed are covered by the minimum wage, but not in the Netherlands and many other European countries. In the Netherlands, the legal extension of the minimum wage to include all small, part-time jobs in 1993 was a positive move. In Turkey, too, the 2003 law extended minimum wage coverage to all workers, whether or not covered by the Labour Code. The advantages and disadvantages of similar extensions from limited to full coverage of all workers could be discussed at EU level.

The percentage of minimum wage recipients in 2007–08 varied from 20 per cent in Greece and 17 per cent in France, to only 1–2 per cent in Spain, Czech Republic, Slovakia and the United Kingdom. Clearly, a higher percentage of minimum wage earners (excluding hidden practices, as in the Baltic States) tends to show that the minimum wage serves as a real and practical wage floor. It is significant that this percentage is particularly low in those countries which have allowed the minimum wage to fall and lose its basic functions. For comparative purposes it is also interesting to note that Japan and the United States would be at the lower end of the EU scale (1–2 per cent). In this regard, increasing the number and percentage of workers entitled to the minimum wage could be a useful objective of an EU minimum wage policy. In the United Kingdom, after it was realized that the minimum wage affected only 700,000 workers, the Low Pay Commission decided to pursue a more active policy in order to raise the number of minimum wage recipients to at least 2 million.

15.8.3 Forms of minimum wage rates

The minimum wage can vary according to its reference period; it can be fixed on an hourly, weekly or monthly basis. In France and Ireland, the minimum
wage is fixed on an hourly basis and can be converted into weekly and monthly figures in accordance with official working hours. In the Netherlands, the minimum wage is not defined hourly, but weekly, based on a “normal working week” as defined in the applicable collective agreement. The minimum wage then applies pro rata to part-time workers. In many countries, such as the Baltic states and France, among many others, there are both monthly and hourly minimum wage rates. In general, the hourly rate is calculated as the monthly minimum wage divided by the official working hours.

Since the most frequent method of paying wages under the legal minimum is the non-payment of overtime, it would make sense to recommend both an hourly and a monthly minimum wage, the latter corresponding to the hourly minimum wage multiplied by the number of official working hours in the month (as applied in most European countries). This would also help in counting the number of hours worked by workers under irregular, full-time contracts. In Hungary, from 2007, it was decided to complement the monthly minimum wage with weekly, daily and hourly levels.

Minimum wage mechanisms also vary according to the “reference” compensation; for example, whether such minimum payments include or exclude bonuses and premia of different kinds, such as seniority premia, bonuses for poor working conditions (such as overtime, night work and working in cold or hot environments), as well as earnings from profit-sharing or performance-related pay schemes. In France, the reference compensation is related only to the basic wage and, consequently, excludes all the above types of bonus. In the Netherlands, the minimum wage formally includes all regular payments, such as commission bonuses, inconvenience payments and payments in kind, but excludes overtime earnings.

The taxation of minimum wages is also subject to variation. Until recently, Turkey represented an extreme case, with the net minimum wage losing 30 per cent of its gross value. This led the government to reform the tax system in July 2008 and to reduce income tax on the minimum wage. The taxation environment therefore has great relevance for the minimum wage, as is well illustrated in the Dutch chapter on part-time traps resulting from the taxation system. If the minimum wage is considered at EU level as a policy tool worth developing, it would also make sense to minimize taxation so that it may play its proper role.

15.8.4 Criteria for adjustment

A number of chapters in this volume highlight the drawbacks of minimum wages that do not reflect clear and well-defined criteria. In Ireland, for instance, there has been no explicit policy stating how an appropriate minimum wage level should be determined, the rate being introduced at
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approximately half median hourly earnings. Elsewhere, the minimum wage has not been fixed according to criteria defined in advance, for example, in Lithuania and a few other countries. This results in too much uncertainty concerning minimum wage levels and their potential effects.

The type of retained criteria used is also critical. Living standards criteria (such as the poverty line or a minimum consumption basket) make it possible to ensure a decent wage floor and are mentioned in the ILO Convention on minimum wages.

At the same time, the integration of economic criteria should help to limit the negative labour market effects of minimum wage increases. In Estonia, for instance, economic criteria (consumer price index and labour productivity) play a greater role than in the other two Baltic countries. The minimum wage in France is indexed to both inflation and growth — in fact, growth of the average wage of blue-collar workers. This volume has also illustrated that major indicators, such as the poverty line or the minimum wage to average wage ratio could be used as targets for minimum wage fixing and adjustment processes.

It is also clear from the country studies in this volume that minimum wage effects will obviously depend on whether the minimum wage is adjusted on a regular basis or irregularly, in general according to political considerations, as shown in Chapter 4 on the Baltic States. While, in Estonia and Lithuania, the minimum wage has been adjusted once a year and has experienced a steady progression, in Latvia the minimum wage is adjusted every two years and has experienced ups and down in relation to the average wage, creating more uncertainty and labour cost instability for employers. In 2007, the Latvian government decided to shift to annual minimum wage adjustments. Similarly, in Croatia, the new Minimum Wage Act of July 2008 imposes regular annual adjustments in the minimum wage level by taking into account the average wage and GDP growth according to a given formula; changes in the minimum wage level would therefore be predictable. Infrequent changes also make it more difficult to pursue policy targets, such as the Kaitz index. In Ireland, intermittent adjustment — irregular but, on average, every 14–15 months, with some fairly sharp increases — has made it difficult for the minimum wage to follow wage increases.

Even more extreme sudden minimum wage hikes, as in Hungary, were found to have no lasting effects on wage disparity and to have potential negative effects on the employment of unskilled workers. The impact on wage equality can be positive if a gradual policy is used within a long-term wage policy strategy. Longer adjustment periods can only have a detrimental effect on the evolution of the minimum wage in real terms — especially in a period of growing inflation — as well as on the stability necessary for both workers and employers.
It must be added that not only the frequency but also the sequence of minimum wage adjustments might be considered for policy guidelines. Obviously, if minimum wage increases take place before the wage bargaining round, the spillover effect might be greater. In contrast, the spillover effect will be limited if the minimum wage increase takes place after collective bargaining. In the Netherlands, the minimum wage has been automatically related to the negotiated wage with a certain time lag.

15.8.5 Process/method of adjustment (tripartite, bipartite, and so on)

There is great diversity among minimum wage fixing processes in the EU (Eurofound, 2007). Even among the Baltic countries, which have experienced similar minimum wage developments, there is only an advisory role for the social partners in Lithuania, while in Estonia they reach bilateral agreements that are afterwards legalized by government decree. In Latvia, the government decides upon the recommendations of the tripartite council. Clearly, minimum wage fixing processes are to be determined by individual EU Member States, but there can be an exchange of good practices in this regard.

As an example, the Low Pay Commission (LPC) set up in the United Kingdom to oversee the introduction, uprating and monitoring of the minimum wage, has become a best-practice model for other countries. Its strengths lie in substantial commissioned research, regular (annual) reports and the contact of the nine Commission members (three employers, three trade unionists, two academics and a chairperson) with key stakeholders, and incorporating visits to establishments in low-paying sectors. The LPC model has been considered in Germany in relation to the possible introduction of a national minimum wage. It has also recently been followed in the course of minimum wage reforms in France as a possible means of isolating minimum wage adjustments from continual government intervention (the “coupes de pouce” or boosts described in Chapter 5 on France) and so of more closely reflecting economic and social trends, such as unemployment/employment, inflation, productivity, consumption and living standards. In Ireland, the model is also seen as superior because it recommends increases every year, taking into account on-the-ground experience in the sectors most significantly affected. The “Low Pay Commission model” has also been recommended to play a role – in the context of assessment and monitoring – at EU level (Zitzler, 2007).

15.8.6 Enforcement of minimum wage implementation

The effective coverage of the minimum wage often differs from its theoretical or legal coverage, since many workers may be excluded despite their entitlement, as seen in the Baltic states, Greece, the United Kingdom and elsewhere.
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Judging by previous developments, it is useful to start by emphasizing that a simple minimum wage form (say, a certain amount per hour) could aid enforcement.

The first issue that might be discussed at EU level is that of making minimum wage compliance legally binding; this is not the case in certain countries, such as the Netherlands, where the minimum wage is not legally enforced, although the Labour Inspectorate regularly investigates underpayment.

Enforcement requires significant effort – and resources – to collect appropriate data on the number and types of workers who continue to be paid less than the minimum wage. As seen from the case studies, this practice is widespread among migrant workers in sectors such as construction, hotels and restaurants and new services. It often takes place by means of unpaid overtime or other illegal practices. At the same time, such data collection should try to capture the phenomenon of envelope wages – which takes place on a significant scale in the Baltic countries – to try to quantify the number of workers ostensibly paid the minimum wage but, in fact, receiving substantially more. There are good practices already in place in this regard, such as the regular reports on minimum wage earners prepared every year by the Ministry of Labour in France and other countries.

More resources need to be put into labour inspection. The minimum wage is bedevilled by poor enforcement. Monitoring the implementation of minimum wage requirements should be among the core tasks of labour inspectors; furthermore, there should be many more of them: in the majority of European countries they are very thin on the ground, such as in France where, in the mid-2000s, there were fewer than 1,500 inspectors for approximately 1.5 million firms and more than 15 million employees in the private sector. The proportion of labour inspectors is even lower in Central and Eastern European countries, such as Bulgaria and Romania, as well as in Turkey.

Finally, a system of penalties has been found to be efficient in changing the behaviour of employers not applying minimum wage regulations. In Lithuania, non-compliant employers are fined up to €3,000, but no such penalty exists in Croatia, Estonia, Latvia and many other European countries. Obviously, the incentive to comply will be very different according to the penalty system in place. In the United Kingdom, there is currently a debate on increasing the penalties for non-compliance.

One of the greatest challenges for an EU campaign on minimum wages would therefore be to tackle non-compliance.
15.9 WHAT TOOLS ARE AVAILABLE FOR EU MINIMUM WAGE POLICY?

A series of minimum wage policy initiatives could be envisaged at EU level.

15.9.1 Collection of comparative information

The preparation of this report involved compiling all the available comparative statistics and information on minimum wages at EU level. While reliable comparative information was available from Cronos (on the wage share) and Eurostat (on real wages and minimum wages), it became apparent that a great deal was missing from these databases. The data were complemented as far as possible from national statistics, but there is clearly a need for more systematic information on minimum wages at both national and EU level. Each EU Member State could, for instance, publish an annual minimum wage index (regardless of whether or not a national minimum wage is in place), which could be used as a reference for wage indexes and price indexes. Harmonized data are essential for more detailed comparative figures and for drawing minimum wage policy conclusions.

15.9.2 EU recommendations on minimum wages

One might wonder whether common recommendations on minimum wages were feasible, for instance in the form of an EC opinion or other declaration. The European Commission Opinion on “an equitable wage” is one model that might be followed to achieve a similar common text – in one form or another to be decided between EU Member States – on minimum wages. The initiatives pursued to promote workers’ participation in profits and enterprise results by the European Commission and the European Parliament may also serve as models. The PEPPER reports, too, were produced in order to draw up a general assessment of these schemes’ scope and effects in EU Member States (see, for instance, European Commission, 1997). On the basis of these reforms and these schemes’ expected positive effects on productivity, recommendations were made in the form of an EC opinion and a European Parliament resolution that recommended the adoption of such schemes and even encouraged governments to enshrine them in national law and promote their development through fiscal incentives.

Would it not be possible to do the same with regard to minimum wages? That is, to recommend that EU Member States adopt statutory minimum wage systems and encourage their development? Could a certain number of principles (along the lines of those listed earlier) not be laid down on minimum wage fixing mechanisms and adjustment criteria?
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15.9.3 Exchange of good practices

Institutional experiences are important for countries seeking the right form of minimum wage fixing. Best practices in minimum wage fixing with regard to particular minimum wage functions can also be useful for policy-makers. We have already noted that in Germany and Sweden they are carefully studying the functioning of the UK Low Pay Commission. The new law on the minimum wage in France which came into force in September 2008, has set up a similar Commission.

To take another example, past experiences – in most Central and Eastern European countries during transition (Standing and Vaughan-Whitehead, 1995) – have shown the advantages of removing the link between social benefits and the minimum wage in order to allow the latter to perform its expected functions. The Netherlands is one of the few countries that has maintained this coupling of the minimum wage to social insurance and social provisions, resulting in a sharp decline in the minimum wage. Judging by these experiences, one EU guideline on minimum wages might consist of recommending such delinking of the minimum wage and social benefits.

An exchange of best practices would therefore be particularly useful.

15.9.4 Coordination of minimum wages

A group of French, German and Swiss academics have proposed EU-wide coordination of national minimum wage policy through the open method of coordination (Shulten et al., 2005), shown to be successful on employment and social inclusion (Vaughan-Whitehead, 2003). This method, based on target-setting, benchmarking, peer reviewing and non-binding policy recommendations, would have the advantage of leaving wage competences in the hands of the Member States – it remains the responsibility of Member States to implement European guidelines in accordance with their own circumstances. Of course, this cooperation between Member States would remain voluntary, with little room for individual sanctions, but only warnings. However, previous experience of the open method of coordination has shown that peer-review monitoring can be a strong incentive for EU Member States to comply, especially in an area such as the minimum wage, which is related to social dumping and is seen as important for both social progress and economic development.

15.10 CONCLUSIONS

The new economic and social context described in Chapter 1 – explaining the renewed interest in the statutory minimum wage within individual EU
Member States – also helps to explain why the minimum wage has also recently been revisited at EU level.

Considering its large scope – more than 5 million workers are covered by a statutory minimum wage – and its potential effects on low pay and social cohesion across the EU, initiatives at EU level in this area seem to be increasingly on the policy agenda.

While fixing an absolute minimum wage at EU level seems unrealistic – at least in the short term – given the huge gaps in growth and income between countries, common principles or guidelines may be discussed and defined at EU level.

In particular, the EU might recommend that Member States introduce a statutory minimum wage, or that they link its development to certain economic indicators, such as the minimum wage to average wage ratio, or the minimum wage to GDP per capita, and to social indicators, such as the proportion of low-paid workers or the minimum wage to the subsistence minimum or poverty line.

Such initiatives could help member countries, currently engaged in minimum wage reform, to pursue specific policy objectives more effectively, such as curbing low pay in Germany or reducing minimum wage taxation in Turkey, strengthening the legal basis of the minimum wage, as in Croatia, or targeting an increased minimum wage to average wage ratio, as in Croatia, Estonia, Hungary, Latvia, Lithuania and Poland. We hope that this volume will motivate policy-makers, economic and social actors and researchers to study further such reforms in a comparative fashion at EU level in order to identify optimal conditions, best practices and policy lessons in this area.

In this context, the new economic configuration – characterized by economic recession, international food crises and financial instability – should not be forgotten.

We have seen in this volume that the solutions to the economic crisis seem to differ greatly between Member States. Some are inclined to lower minimum wages and labour costs to maintain competitiveness and economic growth. Others will continue to protect workers at the bottom and eventually also opt for qualitative competitiveness in which minimum wages would have a place. These different policies may conflict with each other and generate increased social dumping.

A minimum wage policy at EU level may help to ensure coordination rather than causing conflicting minimum wage policies in the enlarged EU. It may help to avoid a potential “race to the bottom” that would contradict the objectives that the EU set for itself in the Lisbon Agenda.

Recently, in a discussion on the crisis, Pierre-Paul Mater, State Secretary at the Ministry of Labour of Belgium, clearly stated: “In the crisis, we would clearly need to avoid a perverse concatenation of competition over wages, and to shift from a competition paradigm to a cooperation paradigm. We need a
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'political voluntarism' and more coordination on minimum wage, why not of the type we had through the monetary snake for ensuring coherence between our national currencies and within our European Monetary System.'  

More generally, coordination on minimum wage policy could ensure social cohesion and solidarity within the enlargement and liberalization of EU markets. It would also represent an important symbolic move, giving substance to Social Europe.

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