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Back on the agenda: a European minimum wage standard

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Policy recommendations

The failure of the current supply-side policies in generating growth and employment illustrates the need for a macro-economic re-orientation towards a demand- and wage-led model of growth. A central element of this re-orientation is the implementation of a European minimum wage standard. In order to combat poverty and to foster internal demand, such a standard should: (1) ensure decent wages for all workers; (2) specify not only a relative level ideally close to the OECD's low wage threshold of two thirds of the national median wage; but also (3) incorporate a range of measures to strengthen national collective bargaining systems.

Introduction

Against the background of the far-reaching social repercussions of the current crisis –and in particular of the chosen mode of crisis management – the debate about the introduction of a minimum wage in all European countries is back on the political agenda. One of the prominent supporters of this idea is Jean-Claude Juncker. Addressing the European Parliament on 15 July before the vote to confirm his appointment as new President of the European Commission, he explicitly called for a minimum wage in all EU countries (Euractiv 2014).

The idea of a Europe-wide coordination of minimum wage policies is not new (for a more detailed account of the development of this idea over time, see Schulten 2012). Moreover, although critics persistently emphasize the negative employment effects of minimum wages more generally, recent internationally comparative empirical research demonstrates that existing minimum wage regimes have not led to negative employment effects (for a summary of the debate see Schmitt 2013; Bosch and Weinkopf 2014).

In the context of the current crisis, the idea of a European minimum wage is increasingly put forward as part of a broader macro-economic re-orientation, one that is intended as a move away from the current supply-side policies and towards a demand- and wage-led model of growth, thereby taking into account the important role played by wages in boosting internal demand and social cohesion as well as in averting prolonged deflation.

More recently, new impetus to the debate concerning the introduction of a European minimum wage has been generated by, in particular, the French Socialist government. In order to promote the European-level debate about a European minimum

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wage, the French ministry of economic affairs – under its former minister Arnaud Montebourg – published a conceptual paper outlining some ideas for a "European minimum wage standard" (Brischoux *et al.* 2014). What is more, during the recent European Parliament election campaigns, the idea of a European minimum wage policy found its way into the discussions of all the major political parties (Sanial 2014).

However, in contrast to the lively debate about the more general idea, discussion of the concrete meaning of a European minimum wage and its implementation within the existing political and institutional structures – at both EU and national level – has remained rather vague. This is not surprising, because any attempt to implement a European minimum wage has to come to terms with the great variety of national minimum wage levels and minimum wage regimes, that is, with the institutional arrangements and instruments used at national level to determine the minimum wage.

Against this background, the intention of this policy brief is to provide a brief but systematic overview of the different minimum wage regimes currently found in the EU as a basis for formulating some potential contours of a European minimum wage policy.

Minimum wage regimes in Europe

Universal vs. sectoral minimum wage regimes

Currently existing minimum wage regimes across Europe can be broadly grouped into two categories depending on the instruments used to set the minimum wage and – closely linked to this – the scope of the minimum wage (Schulten 2014). Whereas universal minimum wage regimes define a general wage floor, usually set at the national level and applying, as a rule, to all employed workers, sectoral minimum wage regimes set a minimum wage for specific branches and/or occupational groups.

As Figure 1 illustrates, the majority of EU Member States (21 out of 28) belong to the first of the above categories, i.e. universal regimes with a generally applicable national minimum wage. The remaining seven EU countries – Cyprus, Denmark, Finland, Sweden, Italy, Austria and Germany – currently belong to the second category, i.e. sectoral regimes. Germany, however, with the introduction of a national minimum wage from 2015, will shift from a sectoral to become a universal regime, leaving only six countries with a sectoral regime.

Furthermore, minimum wage regimes across Europe vary with respect to the instruments used to determine the minimum wage. In this respect, there exists a broad distinction between countries in which the minimum wage is set by law and those in which it is determined by collective agreement or by tripartite arrangements concluded among state, trade unions, and employers. As Figure 1 shows, in most countries with a universal regime, the minimum wage is determined mainly by law. By contrast, in the majority of countries which have a sectoral regime, collective and tripartite agreements are the main tool used for setting the minimum wage, the sole exception in this respect being Cyprus which has statutory minimum wages for certain occupational groups.

Absolute versus relative minimum wage levels

Another important factor to be borne in mind when considering the possibility of a European minimum wage is the wide variation in the level of the minimum wages currently in force in individual countries (Kampelmann *et al.* 2013; Schulten 2014). The EU countries with a universal minimum wage regime can be divided into three groups depending on the absolute level of the national minimum wage (see Figure 2). The first group, with provision for relatively high minimum wages, includes six western European countries, ranging from Great Britain with 7.43€ per hour to Luxembourg with 11.10€ per hour. (However, without the 30% devaluation of the British pound against the euro in recent years, the minimum wage for the UK would

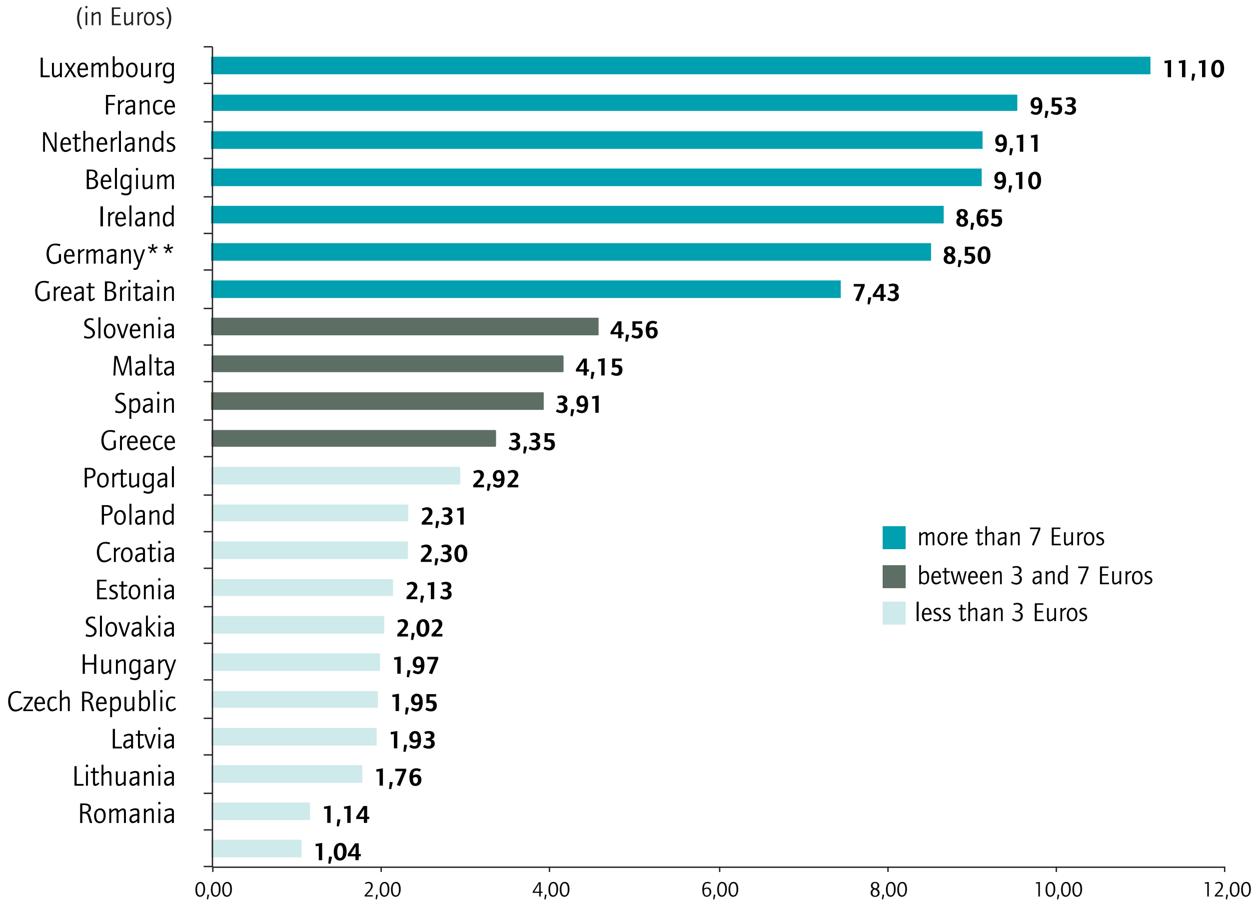
Table 1: **Universal and sectoral minimum wage regimes in Europe**

Regulatory Instrument / Scope	Law	Collective or tripartite agreement
Universal regimes (Uniform national minimum wage defining a general wage floor)	**Western Europe:** France, Luxembourg, Netherlands, Ireland, United Kingdom **Southern Europe:** Greece (from 2012), Malta, Portugal, Spain **Eastern Europe:** Croatia (from 2008), Lithuania, Latvia, Romania (from 2011), Slovenia, Czech Republic, Hungary (from 2011)	**Western Europe:** Belgium, Germany (from 2015) **Southern Europe:** Greece (until 2012) **Eastern Europe:** Bulgaria*, Estonia*, Poland*, Slovakia*, Croatia (until 2008), Romania (until 2011), Hungary (until 2011)
Sectoral regimes (No general wage floor, but minimum wages for certain branches or occupational groups)	Cyprus	**Northern Europe:** Denmark, Finland, Sweden **Western Europe:** Germany (until 2015), Austria **Southern Europe:** Italy

* If a tripartite agreement is not concluded, the decision is taken by the legislator.

Source: Schulten 2014

Figure 1 **National minimum wages per hour 2014***



*January 2014, conversion into Euros based on average annual exchange rate in 2013
**from 1 January 2015
Source: WSI Minimum Wage Data Base 2014

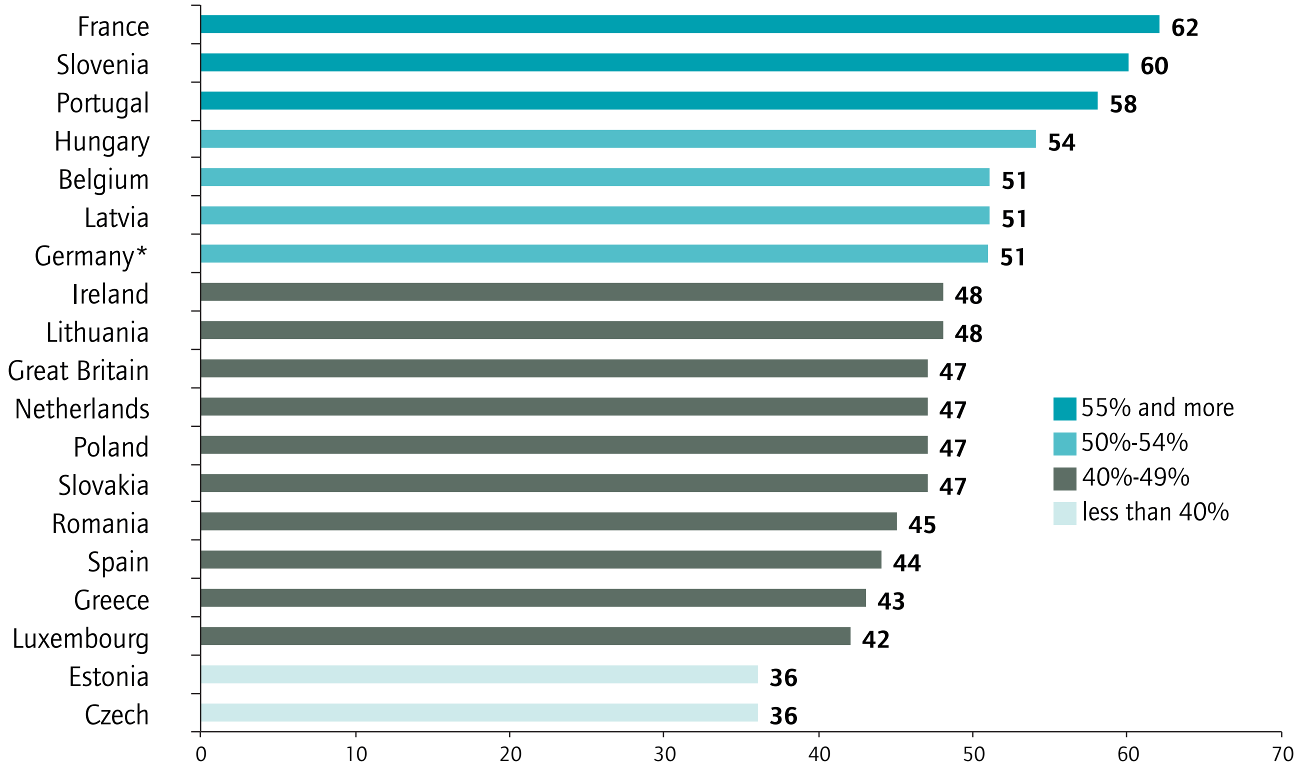
today stand at more than 9€, which would place the UK right in the middle of this first group of countries). The second group, with minimum wages of between 3 and 7€, is made up of four countries: Slovenia (4.56€), Malta (4.15€), Spain (3.91€) and Greece, where the current minimum wage, after a 20% cut in February 2012, is 3.35€. The third group, with minimum wages of below 3€, contains most of the central and eastern European countries plus Portugal which tops this group with 2.92€.

In the absence of a national minimum wage in countries with a sectoral minimum wage regime, the absolute level of minimum wages can be determined only by looking at the lowest collectively agreed wage group. Recent studies demonstrate that, within the group of countries concerned, two sub-groups can be distinguished: the first sub-group comprises the Nordic countries, where the absolute level of collectively agreed minimum wages is considerably higher than in the rest of the EU (Eldring and Alsos 2012; Kampelmann *et al.* 2013); the second consists of countries such as Germany and Austria, whose sometimes extremely low collectively agreed minimum wages are substantially below minimum wages in comparable western European countries.

Due to the influence of different economic and social framework conditions, it is difficult to compare absolute levels of minimum wages across Europe. A more telling indicator is the so-called "Kaitz-Index", which enables minimum wages to be seen in relation to the overall wage structure by measuring the minimum wage as a percentage of the national median wage. The median wage is the wage that divides the overall wage structure into two equal segments, with one half of employees earning more and the other half earning less. The median wage should not be confused with the average wage, which represents the arithmetical mean of all wages. International comparisons usually refer to the median wage because it is statistically more robust; average wages are much more sensitive than median wages to outliers within the wage structure as a whole, which means that just a few instances of very high individual earnings can push up the average quite significantly (Aumayr *et al.* 2014: 101).

Furthermore, some of the basic definitions of wage thresholds take the national full-time median wage as a reference point. According to the OECD and other international organizations, the commonly acknowledged low-wage threshold is two thirds of the national median wage. By analogy with international

Figure 2 **Minimum wage in % of full-time median wages (2012)**



* Based on a fictitious minimum wage of 8.50 Euros per hour;
Sources: OECD, for Germany: calculations done by the WSI based on employment statistics provided for by the Federal Employment Agency

poverty research, which sets the poverty threshold at 50% of the median household income, the threshold for (individual) poverty wages can be defined as 50% of the median wage. Against this background, Figure 3 shows that only in France and Slovenia does the statutory minimum wage approach the low-wage threshold of 66% of the median wage. Figure 3 shows also that in the majority of countries the statutory minimum wage does not even top the 50% threshold, and can therefore be characterized as a poverty wage. In the Nordic countries, however, which are marked by a long tradition of solidaristic wage policy with a major emphasis on supporting lower wage groups, the Kaitz-Index of collectively agreed minimum wages is, generally speaking, between 60 and 70%, and therefore significantly higher than in the rest of EU countries (Eldring and Alsos 2012).

Contours of a European minimum wage policy

A European standard for national minimum wages

In the light of the great diversity of national minimum wage regimes and levels, it is obvious that a European minimum wage standard can represent no more than a relative minimum wage measured in the context of the overall wage structure. Most suggestions for a European minimum wage accordingly refer to a certain percentage of the national median or average wage (for a historical overview of the various suggestions see Schulten 2012).

The actual implementation of such a "European minimum wage standard" is, however, fraught with difficulties. First of all, it presupposes that the EU Member States reach a political agreement on what they consider an "appropriate" level of minimum wage. International organizations such as the OECD or the IMF, for example, have recommended an extremely low target for minimum wage levels which, according to these recommendations, should be no more than 40% of the median wage (Janssen 2012). From the standpoint of the poverty threshold, however, all minimum wages below 50% of the median wage would have to be described as 'poverty wages'. Clearly, a European minimum standard would need to have a much more ambitious target, such as 55% (Brischoux *et al.* 2014) or 60% (ETUC 2012) of the median wage.

Secondly, there is the question of which instruments might serve to implement a European minimum wage policy. At present, the EU Treaty provisions continue to rule out any EU competences in the field of wages, an exclusion which has not prevented the EU from massively intervening in national (minimum) wage policies in the context of the Troika's activity or the European Semester (Schulten and Müller 2013). Since the

EU has thus clearly been in a de facto position to recommend cuts and freezes of minimum wages, it ought also to be able to recommend – for example in the framework of the European Semester – an increase in minimum wages in accordance with a standard that remains to be agreed. Initially, therefore, the only way to implement a European minimum wage policy may well be through "soft" forms of regulation, i.e. those based on recommendations and the political commitment of the actors involved. In a longer-term perspective, such an approach might conceivably be complemented by "harder" forms of regulation, for example, a European Directive, although such a step would in all likelihood require amendment of the EU Treaty provisions.

Finally, given the diversity of national minimum wage regimes across Europe, a European minimum wage standard could prove acceptable only insofar as it entailed no institutional harmonization of these existing national arrangements. Any requirement for the introduction of a *statutory* minimum wage would thus, for example, be out of the question. The question therefore arises of *how* exactly to ensure the implementation of a European minimum wage standard at national level. This would seem less problematic in countries with a universal system, in particular if minimum wages are based on legislation; it would appear more difficult in countries with a sectoral minimum wage regime, where minimum wages are established on the basis of collective agreements, and where there has existed to date no general national-level wage floor. One solution could be for employers and trade unions to conclude national framework agreements. A precedent for the viability of such an approach is provided by Austria where in 2007 the social partners concluded a national framework agreement introducing a minimum monthly wage of 1,000€; no sectoral agreement is allowed to fall short of this figure. An alternative solution could be state support in improving the scope of sectoral agreements – for instance by means of extension of sectoral collective agreements.

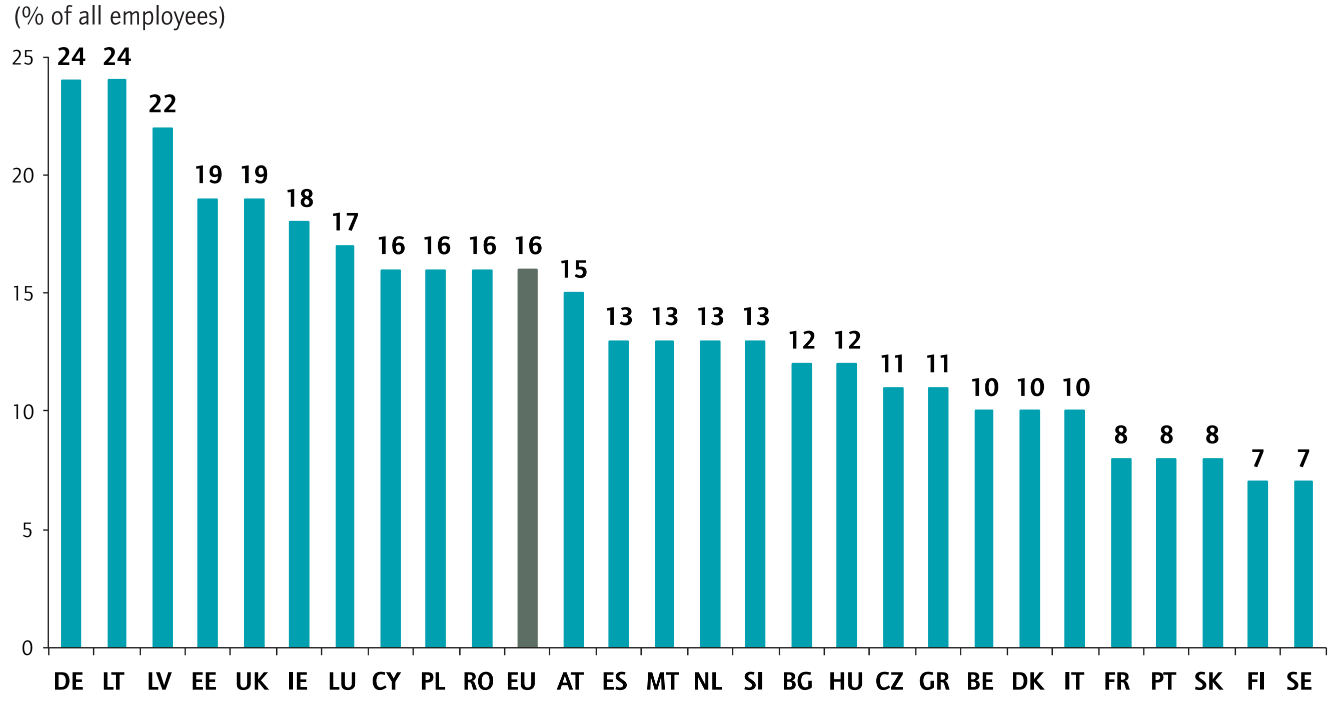
These examples signal two important issues pertaining to the relationship between minimum wage regimes and collective bargaining systems. Firstly, it is essential that the implementation of a European minimum wage standard should take account of the domestic structures, customs and practices that, in each country, are the legacy of a nation's history. It would prove quite impossible, otherwise, to mobilize the necessary political support and legitimacy. Secondly, statutory and collectively agreed minimum wages should not be viewed as mutually exclusive. Legislation and a high level of collective bargaining coverage are functionally equivalent to one another in ensuring the comprehensive application of the respective minimum wage. Thus, among the countries with a sectoral minimum wage regime, a strikingly large number are characterized by a high level of collective bargaining coverage – 85% or more. This group of countries includes Austria, Sweden, Finland, Denmark and Italy. The high degree of collective bargaining coverage in these countries ensures a comprehensive application of the collectively agreed minimum wage, such that there is no need for a statutory minimum wage. On the other hand, this group also includes countries like Germany and Cyprus (and, outside the EU, Switzerland) whose rates of collective bargaining coverage lie below 60%, so that a relatively large proportion of workers in these countries are not covered by minimum wages. It is therefore no surprise that in July 2014 Germany decided to bring in a statutory minimum wage in order to introduce a much broader guarantee of minimum wage protection.

When it comes to the implementation of a European minimum wage standard, the relationship between minimum wages and collective bargaining systems illustrates that any viable solution will need to leave room for country-specific forms of implementation. A European standard should, furthermore, not only specify a certain level in relation to the overall wage structure but should also include various measures to extend collective bargaining coverage, a factor which under a sectoral minimum wage regime is essential to ensure the effective implementation of a European minimum wage. This is not to claim that the problem of non-coverage and/or non-compliance is limited to countries with a sectoral minimum wage regime based on collective agreements: while the findings of a recent study do suggest that the share of workers whose wages are below the minimum wage tends to be lower in universal systems than in sectoral ones, it is shown too that the problem of non-coverage and/or non-compliance exists also in universal systems (Garnero *et al.* 2013). This highlights two issues: first of all, the need to establish effective enforcement and monitoring mechanisms in order to ensure compliance with national minimum wage standards regardless of the type of minimum wage regime; secondly, both – minimum wages and the improvement of collective bargaining coverage – can go hand in hand. The recent introduction of a statutory minimum wage in Germany, for example, was part of a broader reform explicitly aimed at "strengthening collective bargaining autonomy" and which includes also the introduction of less restrictive criteria for the extension of collective agreements.

Who would profit from a European minimum wage standard?

The practical implications of a European minimum wage standard are hard to assess insofar as they will be dependent upon the level of wage chosen as reference. The only existing study has been carried out by Eurofound in relation to a hypothetical European minimum wage standard of 60% of the national median wage (Aumayr-Pintar *et al.* 2014: 82ff). According to the findings, in 2010 a substantial 16% of all employees in the EU would have benefitted from the introduction of a European minimum wage standard along these lines (see Figure 4). In absolute figures, this amounts to more than 28 million workers. Put differently, this means that in 2010 more than 28 million employees in the EU were trapped below the low-wage threshold in their respective countries. It is important to mention, however, that these figures assume full compliance with a European minimum wage rule of 60% of the national median wage; they do not, in other words, take account of potential exceptions such as exist in many countries today in relation, for example, to young workers. Even subject to this caveat, the numbers of workers who would benefit from the introduction of such a European minimum wage standard remains very substantial.

Figure 3 **Employees with less than 60% of national median wage (2010)**



Source: Aumayr-Pintar et. al. (2014: 112) based on data from EU-SILC und SES

The foreseeable impact of such a European minimum wage standard varies considerably from one country to another, depending on the size of each country's low wage sector. The calculation ranges from just seven percent in Finland and Sweden to a staggering 24% of workers in Germany and Lithuania who would benefit from the introduction of such a standard. Figure 4 shows furthermore that the majority of countries with a sectoral minimum wage regime based on encompassing collective bargaining coverage – such as in Sweden, Finland, Denmark and Italy – are at the lower end of the spectrum, in other words that these countries provide a high degree of minimum wage protection. Even in countries with a statutory or collectively agreed minimum wage of at least 60% of the national median wage, a relatively high proportion of workers nevertheless stay below Eurofound's hypothetical minimum wage threshold of 60% of the median wage; this may be explained by exceptions to the minimum wage standard, for instance young workers, or by violations of the minimum wage standard by companies simply refusing to pay the minimum wage stipulated by law or collective agreement.

A gradual increase in national minimum wages up to a level of 60% of the national median wage would therefore make a substantial contribution to reducing poverty and inequality insofar as these are caused by low income or earnings. The wage increases linked to the introduction of such a European minimum wage standard in combination with an initiative to promote collective bargaining coverage in Europe would, furthermore, substantially increase domestic demand and create the currently desperately needed new potentials for growth and employment. A coordinated European policy to strengthen minimum wages could also become an important instrument in counteracting the current risk of a prolonged deflation crisis in Europe. Last but not least, in view of the current crisis of legitimacy afflicting European politics in most EU countries, a European minimum wage standard could represent a definite political project for reviving the idea of a social Europe, thereby helping to win back EU citizens' confidence and belief in the value of European integration.

Conclusions

In the context of the current crisis management, a European minimum wage standard is an important element of a broader macro-economic re-orientation emphasizing the important role of wages in boosting internal demand and social cohesion. Taking into account the great diversity of national minimum wage regimes and levels across Europe, key elements of a European minimum wage standard are the following:

1. the standard can refer only to a relative minimum wage, i.e. one that is measured in relation to the wage structure as a whole;
2. in order to fulfil its function in combating poverty and fostering internal demand, the level of a minimum wage should ideally be close to two thirds of the national median wage, this being the OECD's definition of the low-wage threshold;
3. implementation of a minimum wage standard must take account of the fact that statutory and collectively agreed

minimum wages are functional equivalents for the purpose of ensuring the comprehensive application of minimum wages; as such, the European minimum wage standard should not only specify a certain relative level but should incorporate also a range of measures to improve collective bargaining coverage;
4. a European minimum wage policy should also include agreed mechanisms for effective enforcement and monitoring to ensure compliance and comprehensive minimum wage protection across Europe.

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