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Minimum wages in Europe under austerity

WSI Minimum Wage Report 2012

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Policy recommendations

In 2011 the development of minimum wages once again slowed significantly in comparison with earlier years. Generally speaking, minimum wages have either risen only very slightly or been completely frozen. In most European countries, workers earning the minimum wage suffered losses – in some cases quite considerable losses – in real pay. In the context of the current situation of crisis management in the European Union, minimum wage policy has become one component of an overarching policy of austerity, which signifies, given the signalling impact of the minimum wage in relation to general pay developments, further reinforcement of the trends towards economic stagnation in Europe.

1. Introduction

Against the background of the recent economic crisis in Europe, wages have become a core issue on the European policy agenda. Even though the EU Treaty has explicitly excluded wages from EU regulatory competences, the EU institutions are increasingly active in influencing both national wage developments and national wage-setting systems. With the adoption of the so-called Euro-Plus Pact in March 2011, wages have been officially declared a main adjustment variable for redressing economic imbalances and national competitiveness in Europe. As the European Commission (2011: 20) has put it, "reforms on labour markets and in particular in relation to wage-setting mechanisms need to ensure efficient adjustment of labour costs in order to facilitate absorption of macroeconomic imbalances and to reduce unemployment." The same view has been taken by the IMF which demands that priority be given to structural reforms on the labour market as a major precondition for economic recovery in Europe (Allard and Everaet 2010).

The most direct forms of European intervention in national wage policy are to be found in those countries currently dependent on international loans from the EU and the IMF. However, within the new framework of European Economic Governance, the systematic surveillance of national wage developments and the regular "recommendations" for national wage-setting have become a normal feature of European policy. As such, the influence of minimum wages is of major importance for at least two reasons (see for example: Groupe d'experts sur le SMIC 2011). First, minimum wages exert a strong influence on the national wage structure and the degree of wage dispersion. Secondly, in many European countries – especially those with relatively weak collective bargaining systems – minimum wages have a signalling character for the overall wage developments.

Statutory minimum wages have long belonged to the established repertoire of labour market regulation tools in Europe. For some years now the WSI (Institute for Economic and Social Research in the Hans-Böckler Foundation) has issued an annual report on minimum wages covering their development in Europe and beyond. The basis for the report is furnished by the WSI minimum wage data base which now contains data for 30 countries.[1] This contribution is a slightly revised and updated version of the WSI

1 The database can be accessed at http://www.boeckler.de/pdf/ta_mindestlohndatenbank.pdf. For alternative demarcations and other differences among the various existing minimum wage data bases of EUROSTAT, ILO, OECD and WSI, see Schulten (2009).

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minimum wage report for 2012 (Schulten 2012). It covers all EU states that have a national minimum wage, as well as the two EU accession candidate countries Croatia and Turkey.

2. Statutory minimum wages as of 1 April 2012

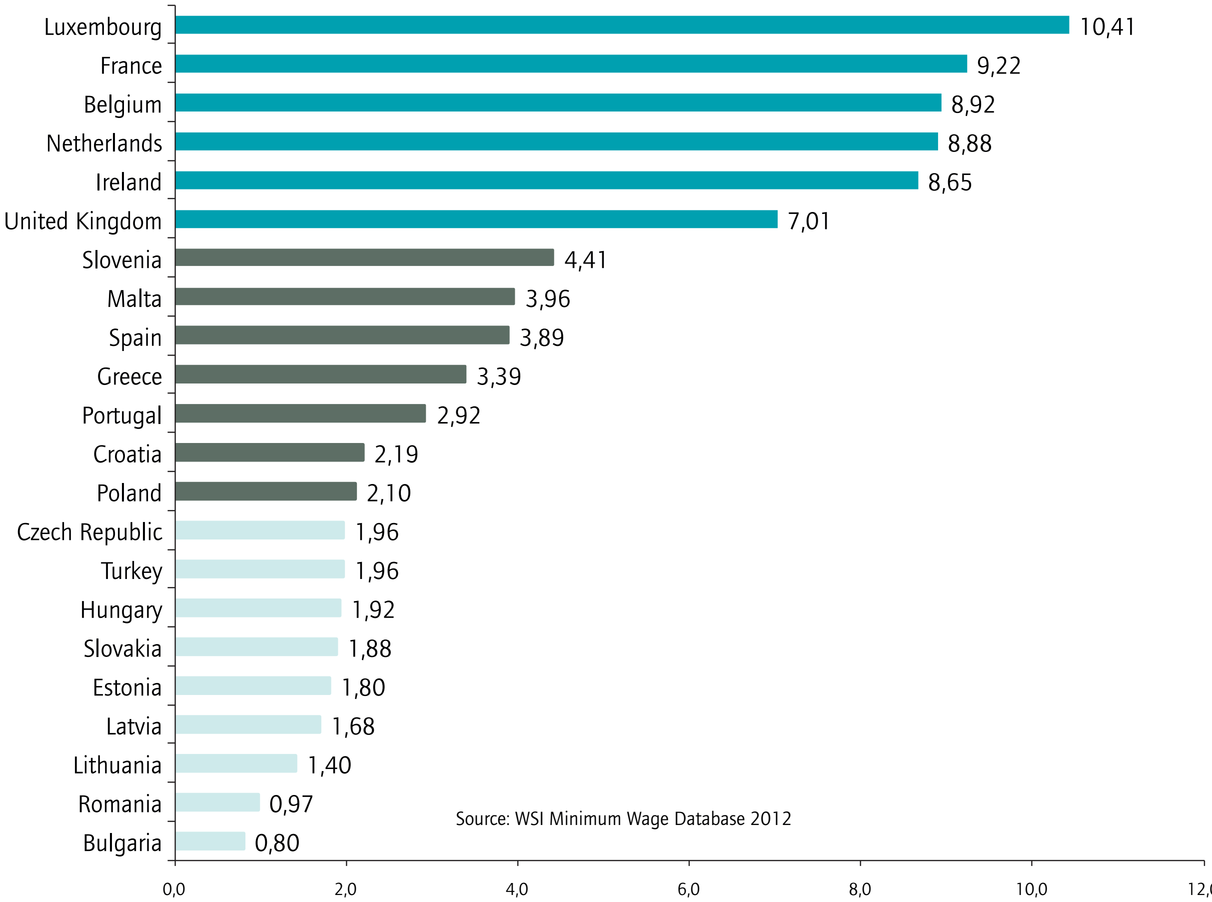
Considerable differences in the level of minimum wages are to be observed both within and beyond Europe. Measured in euros, three groups can be identified *within* the EU with regard to the level of the minimum wage (Figure 1). The first group, with relatively high minimum wages, includes a total of six western European countries. The highest absolute minimum wage, amounting to 10.41€ an hour, is found in Luxembourg which was, at the beginning of 2011, the first European country to cross the 10 euro threshold. The second highest minimum wage, 9.22€ per hour, is found in France, followed by Belgium with 8.92€, the Netherlands with 8.88€ and Ireland with 8.65€. While Britain, with a minimum wage of 7.01€ per hour currently brings up the rear within this group, it is important to be aware that the British minimum wage, when converted into euros for the purpose of this comparison, is distorted by the exchange rate of the pound sterling which, since 2007, has lost almost 30% of its value against the euro. In the absence of this devaluation, the minimum wage in Great Britain would today be 8.88€ and thus quite comparable with the level in the other west European countries.

In a second group of countries with minimum hourly wages of between 2€ and 6€ per hour we find another group of seven EU states, most of them in southern Europe. The leader of this middle group is Slovenia with a minimum wage of 4.41€ per hour, followed by Malta with 3.96€, Spain with 3.89€, and Greece, where the minimum wage, after the more than 20% cut, is now 3.39€. At the lower end of this group we find Portugal with 2.92€, Croatia with 2.19€, and Poland with 2.10€, the latter having crossed the 2€ threshold for the first time on 1 January 2012.

The third group, with minimum wages of below 2€, consists almost exclusively of central and eastern European countries. In the majority of these countries the minimum wage lies somewhere between 1.50€ and 2€ per hour; only in Bulgaria and Romania does it remain below 1€ per hour. In Turkey the minimum wage of 1.96€ per hour has reached a level comparable to that of most central and eastern European countries.

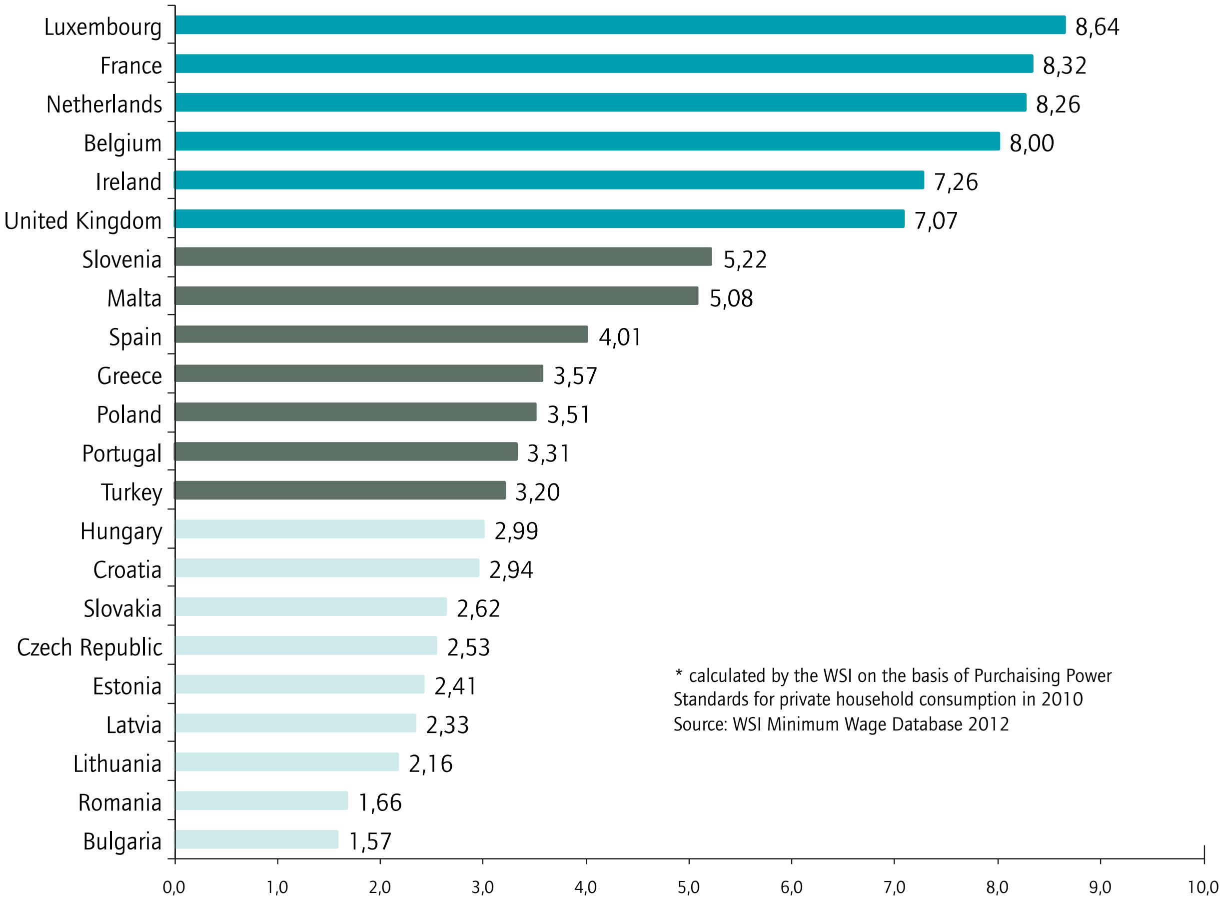
The information value provided by a comparison of minimum wages in absolute terms in euros is, however, limited. One factor to be taken into account is that these figures are, outside the Eurozone, very considerably distorted by exchange rate fluctuations. An additional factor is that, given differing national price levels and associated differences in cost of living, the monetary amount of the minimum wage corresponds to very different levels of purchasing power. This dimension can be taken into account,

Figure 1: **National minimum wages in Europe in April 2012 (per hour, in Euro)**



Source: WSI Minimum Wage Database 2012

Figure 2: **National minimum wages in Europe in April 2012 (per hour, in PPS)**



however, by expressing the international comparison of statutory minimum wages in terms of purchasing power standards (PPS) (Figure 2). The extreme differences in minimum wage levels when expressed in euros are indeed considerably attenuated when the comparison is based on PPS: whereas the difference between the highest and the lowest minimum wage expressed in euros is a ratio of 1:14, this difference is much less, namely 1:6, when measured in terms of PPS. Use of this measurement also gives rise to considerable changes in country ranking. And yet, even with a calculation in terms of purchasing power standards, there remain very considerable discrepancies in minimum wage levels which reflect the genuine gaps in economic wage and standards between countries.

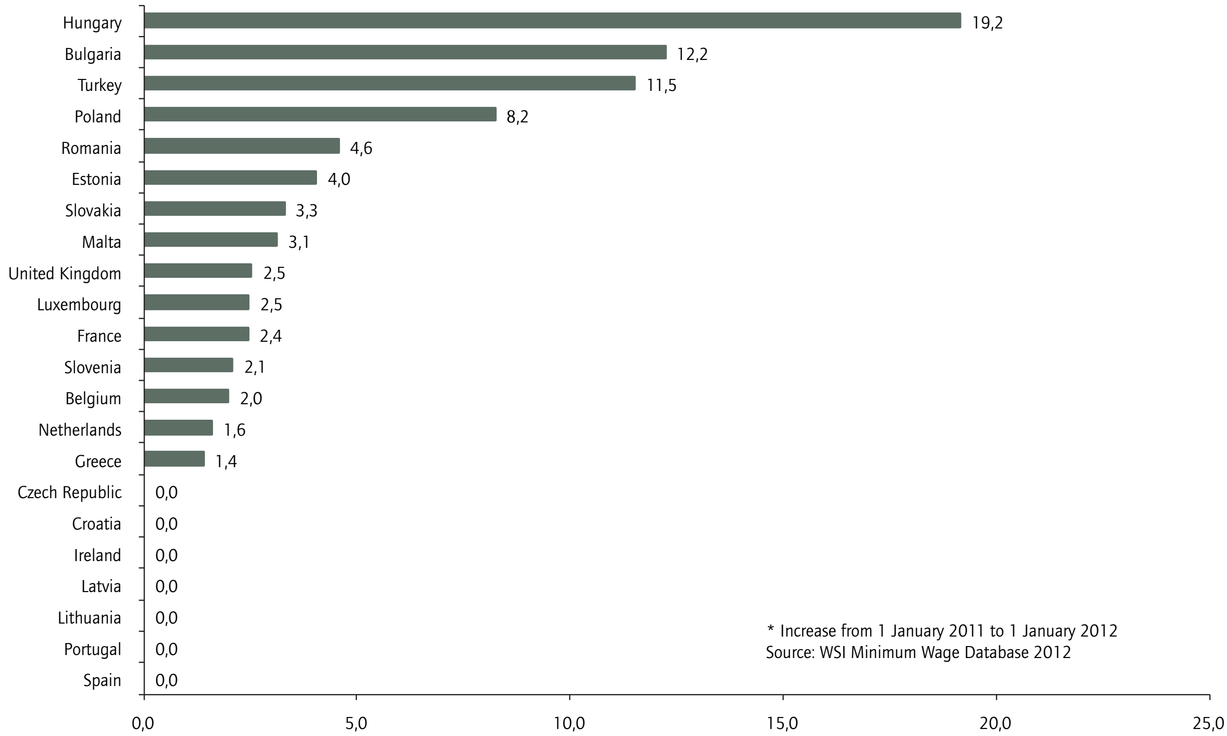
3. Developments in minimum wages in the course of 2011

Since the beginning of 2011 a total of 15 of the 22 countries under observation here have seen nominal rises in their minimum wage rates (Figure 3). Of these 15, only ten most recently increased their minimum wages on 1 January 2012 (Belgium on 1 February 2012). In seven countries the increase in the minimum wage was relatively modest, ranging between 1.4% in Greece and 2.5% in Great Britain. In a further five countries the increases in the minimum wage were more significant, ranging between 3.1% in Malta and 8.2% in Poland. In three more countries the increase in nominal minimum wage rates even reached double figures. The leader in this respect was Hungary where the increase amounted to 19.2%, followed by Bulgaria with 12.2% and Turkey with 11.5%. This leading group consists exclusively, however, of countries where the minimum wage is extremely low, so that the strong increase has to be viewed in the light of the situation at the outset.

In a total of seven of the countries observed here (including six EU states and the EU accession candidate state Croatia), no increase in the minimum wage took place in 2011, so that existing nominal minimum wage rates were frozen. This group of countries included Spain and Portugal where this was the first time in decades that the customary annual adjustment of the national minimum wage failed to take place. In Croatia, meanwhile, 2.5 years, and in Lithuania four years, had passed since the last increase in the minimum wage. The record in this respect is held, however, by the Czech Republic where no increase has taken place for five years: the last minimum wage increase in that country dates back to 1 January 2007 (Geissler 2012).

A rather special development was seen in Ireland which became the first country in Europe to introduce – temporarily as things turned out – a reduction in its minimum wage rate, the rate of which was cut, on 1 February 2011, by one euro from 8.65 to 7.65€ per hour. After the change of government in Ireland this almost 12% decrease in the minimum wage was, however, retracted and the former rate of 8.65€ re-established as from 1 July (Slattery and Madden 2011). Ireland is yet another country

Figure 3: **Increase of nominal minimum wages in 2011, in %***



* Increase from 1 January 2011 to 1 January 2012
Source: WSI Minimum Wage Database 2012

that has experienced a relatively long period of stagnation in terms of minimum wage developments, the most recent increase dating back to 1 July 2007.

Since in several countries in 2011 the nominal minimum wage rate was raised only slightly or even was actually frozen, while consumer prices have meanwhile once again been rising more rapidly, the real value of the minimum wage, taking into account inflation, has fallen in a number of countries (Figure 4). The adjustment of minimum wages fell short of the increase in prices in a total of 15 of the 22 countries under consideration. The strongest drops in value were 4.3% and 4.1% in Lithuania and Latvia respectively, followed by Portugal and Spain which experienced drops of 3.2% and 3.7% respectively.

Among the seven countries that experienced an increase in the real value of the minimum wage, three – Slovenia, France and Malta – saw only a rather modest increase (less than 2%). In three further countries the real wage increase was significantly more substantial: 4% in Poland, 5% in Turkey and 8% in Bulgaria. The increase amounting to more than 15% in Hungary, finally, represented an unusually large boost in the value of the statutory minimum wage. It took place, however, in the context of the introduction of a flat-rate tax that has led, particularly for low-wage-earners, to considerable income losses which the increase in the minimum wage was intended to at least partially offset (OECD 2012).

In most countries the development of minimum wages in 2011 was significantly weaker than in the previous year[2]. While it is true that in a good half of the countries considered here the nominal minimum wage increase in 2011 was greater than in 2010, the increases were, in many cases, insufficient to offset the significantly higher price rises in 2011. In relation to the real value of the minimum wage, the development in 15 out of 20 countries was inferior to that of the previous year. In nine countries this was the second consecutive year in which the value of the minimum wage had deteriorated in real terms.

4. The relative value of minimum wages (Kaitz Index)

The significance of the minimum wage is not determined by its absolute value alone but also by its position within each national wage system. This position can be determined using the so-called Kaitz index (named after the American economist Hyman Kaitz) which serves to express the *relative value* of the statutory minimum wage and is measured statistically by expressing the minimum wage as a percentage of the national average or median wage. While the average wage is determined by the arithmetical average of total wages, the median wage is the mid-point of the wage distribution: half the workforce earns more and half the workforce earns less than this figure. The relevant data, with current values up to 2010, are published by the OECD and EUROSTAT.[3]

2 For data for the previous year see Schulten (2011a).

3 For the methodological differences between the two sets of data, see Schulten (2010). The following paragraphs are based on the OECD data, since its data base has better coverage of the countries considered here.

Figure 4: **Increase of real minimum wages in 2011, in %***

* Increase from 1 January 2011 to 1 January 2012
Deflator of consumer prices
Source: WSI Minimum Wage Database 2012

In 2010 the relative value of the minimum wage as measured against the median wage displayed very wide variation (Table 1). Of the 19 European countries for which the requisite data are available, the minimum wage ranged in a majority of 11 countries between 40 and 50% of the median wage. The only country falling below this level was the Czech Republic where the relative value of the minimum wage was 35% of the median wage. In five other states (Slovenia, Portugal, Latvia, Belgium and Ireland), by contrast, the level of the minimum wage was significantly higher, lying between 52 and 59%.

The highest minimum wages as measured in relation to the median wage were found in France with 60% and in Turkey with 66%. The causes for the high minimum wage values recorded in these two countries differ strongly, however. While in France the high relative value of the minimum wage is attributable to a comparatively high absolute level of minimum wage, the high value for Turkey is explained by features peculiar to the Turkish labour market which is characterised by a high degree of income polarization and a large informal economy in which for many workers the minimum wage represents the standard wage (Kopçer and Visser 2009). The position of Turkey comes to look significantly different if the Kaitz index is applied not on the basis of the median wage but using the average wage where, with 35%, it comes rather low down in the middle group.

Table 1: **Statutory minimum wages expressed as a percentage of the median and average wages of full-time employees, 2010**

	Median wage		Average wage
Turkey	66	France	48
France	60	Slovenia	47
Slovenia	58	Belgium	45
Portugal	56	Ireland	44
Latvia	54	Netherlands	42
Belgium	52	Latvia	40
Ireland	52	Portugal	39
Greece	49	Great Britain	38
Hungary	47	Lithuania	37
Netherlands	47	Poland	37
Great Britain	46	Slovakia	36
Lithuania	45	Hungary	35
Poland	45	Luxembourg	35
Slovakia	45	Spain	35
Spain	44	Turkey	35
Rumania	44	Estonia	34
Luxembourg	43	Greece	33
Estonia	41	Rumania	30
Czech Republic	35	Czech Republic	29

Source: OECD (http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE)

In a majority of 12 of the 19 countries covered here the relative value of the minimum wage in 2010 lay between 30 and 40% of the average wage. The Czech Republic once again brought up the rear with a minimum wage representing only 29% of the average wage. By contrast, six countries – Latvia, the Netherlands, Ireland, Belgium, Slovenia and France – have a minimum wage that represented between 40 and 50% of the average wage. The European leader in this respect was France with a relative minimum wage level amounting to 48% of the average wage.

Using the Kaitz Index it can be shown that in most states the statutory minimum wages are below – in some cases significantly below – the low wage threshold used by the OECD and EUROSTAT, which is set at two thirds of the median wage. On the basis of reference to the poverty threshold used in poverty research, namely, 60% of the median income or 50% of the average income, it may be said that in many countries the statutory minimum wage merely determines a "poverty wage" which generally provides only a very modest level of income lying, in many cases, even below the official subsistence minimum. Given the frequently very inadequate relative value of the minimum wage, in many countries a large low-pay sector has developed in spite of the existence of statutory minimum wages (George 2011).

The relatively low level of many statutory minimum wages has in recent years been a matter for criticism in many quarters. On a fairly regular basis, for example, the Council of Europe has reprimanded numerous countries because their minimum wage fails to comply with the terms of the European Social Charter which provides, among other things, for the right to fair pay which, in the view of the Council Europe should mean at least 60% of average pay (Schulten 2011a). The European Parliament has, along similar lines, called, in a number of recent opinions, for a coordinated policy throughout Europe to raise national minimum wages to a certain harmonized percentage of the average wage. In 2010 the European Parliament asked the European Commission to conduct a study to assess the likely effects in each individual member state of an EU-wide legislative initiative to set a minimum wage (European Parliament 2010).

Finally, in many European countries the trade unions and other civil society organisations have long been calling for a structural raising of the statutory minimum wage such as to ensure that the minimum wage guarantees a socio-cultural subsistence minimum and meets the demands of a 'living wage'. In France, for example, the CGT trade union confederation calls for a more than 20% increase in the statutory minimum monthly wage to 1,700 euros, which, given the 35-hour working week still in force in France, would correspond to an hourly minimum wage of 11.20 euros (CGT 2011). In Great Britain the trade unions regularly point out that the British minimum wage is below the subsistence wage and call for a substantial increase (Low Pay Commission 2011). In addition, in Great Britain, there are numerous local 'living wage initiatives' which, depending on the local cost of living, call for a local minimum wage level significantly above the national minimum wage.[4]

In some countries such as, for example, Spain, Portugal or Romania, governments and trade unions had reached agreement, since 2000, on the multi-annual phased introduction of a structural increase in the national minimum wage. Against the background of the crisis, however, these adjustment plans were unilaterally scrapped by the government (Schulten 2010).

In the Czech Republic, where the relative value of the minimum wage is the lowest, by far, in Europe and which has seen no increase in the minimum wage for more than five years, the trade unions are calling for an increase of at least 15%, in order to compensate for the loss in real value since the last increase. And yet even the compromise reached in the framework of the tripartite Social and Economic Council for a moderate increase in the minimum wage was rejected by the Czech government (Geissler 2012).

Substantial increases in the minimum wage designed to pursue the goal of a structural raising of the minimum wage have been few and far between in recent years. One exception is the more than 30% increase in the Slovenian minimum wage introduced in 2010, as a result of which Slovenia currently has one of the highest relative minimum wage values in Europe (Schulten 2011).

5. Conclusion: weak minimum wage developments inherent in state austerity policies

In 2011, against the background of a further significant deterioration in the world economic climate, minimum wage developments once again slowed down considerably as measured against the previous year. In particular, in many European states, either increases in the minimum wage were only slight, or minimum wages were frozen at existing levels. In the majority of countries most of those in receipt of the minimum wage in fact suffered, given higher inflation rates, a drop in their real income. As such, minimum wages seem to be setting the trend for general wage developments in Europe which, in recent years, have been following an increasingly restrictive course (Schulten 2011b).

In many countries the prevailing austerity policy of the European Union exerted a direct effect on minimum wage policy. In particular in those European states suffering most acutely from economic crisis, the Troika – consisting of the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB) – has made a more or less direct attempt to influence the national development of minimum wages. The terms thus imposed on Portugal, for example, by the agreement with the IMF, stipulated that "over the program period, any increase in the minimum wage will take place only

4 One of the most well-known living wage initiatives is that conducted in London where the Greater London Authority has, since the mid-2000s, approved an annual recommendation for a local minimum wage that is implemented principally in the public sector and in public tendering. Currently the London Living Wage is approximately 9.56 € per hour, i.e. more than 18% higher than the national minimum wage in the UK (Greater London Authority 2011).

if justified by economic conditions and *agreed in the context of regular program reviews*" (IMF 2011, 14, my emphasis). In this way the IMF de facto accorded itself a right of veto against future increases in the minimum wage in Portugal. Similar behaviour has been evident in Spain, where it emerged not long ago that the ECB, in a letter to the Spanish government, had demanded, in return for the purchase of Spanish government bonds, the introduction of a new type of short-hours job to be paid at a rate below the statutory minimum wage (El País, 7 December 2011). In both these countries, the governments have, under international pressure, cancelled long-term agreements concluded with the trade unions for a structural increase in the minimum wage and frozen the existing minimum wages.

In Ireland at the beginning of 2011, here too as a result of pressure from the IMF and the EU, the existing minimum wage was cut by 1€. After the Irish opposition had come to power, on the basis, among other things, of a manifesto commitment to have this cut retracted, the Troika also finally agreed to this demand, albeit subject to the condition that employers would be relieved of payment of social security contributions (Slattery and Madden 2011). In Greece in mid-2011 the employers and trade unions had reached agreement, in the framework of a national collective agreement, on at least a small increase in the minimum wage, but in February 2012, under massive pressure from the Troika and in the face of joint opposition from the employers and trade unions, the Greek Parliament decided to render the terms of the collective agreement null and void and to reduce the level of the minimum wage by 22% (and, for young people, by 32%) (IMF 2012; Janssen 2012).

In western European countries, such as France or the Benelux states, adjustment of minimum wages was restricted to the legally stipulated minimum and was, generally speaking, confined to keeping pace with inflation. In Great Britain the increase in the minimum wage remained, on the contrary, for the second year significantly below the increase in prices. One of the few European countries to have withstood the pressure for general austerity exerted by the EU is precisely the right-wing populist government of Hungary which unilaterally introduced a major increase in the minimum wage after earlier cancelling cooperation with the trade unions in the minimum wage policy (Komiljovics 2011).

Although there is no direct economic link between the current debt problems and the development of minimum wages, a restrictive minimum wage policy has, nonetheless, under pressure from the EU, come to be regarded as a fixed component of the currently prevailing austerity policy. This policy is legitimised by the argument that minimum wages represent an important signal for the general development of wages and entail, as such, an immediate influence on competitiveness, improvement of which is regarded as the royal road to overcoming the debt crisis. This is the argument used by, for example, the French economic committee, which submits an annual minimum wage report to the national wage committee in France and issues, on this basis, a recommendation for an increase in the French minimum wage (Groupe d'experts sur le SMIC 2011).

Under the prevailing combination of a rigid policy of cuts and savings and a restrictive (minimum) wage policy, the scope for expanding domestic demand is systematically killed off. Any hope, on the other hand, that a way out of the crisis might be provided by a European generalisation of the German export model is just as likely to prove deceptive. As such, the scenario long feared by critical economists of becoming increasingly entrenched in a period of stagnation with a strong underlying tendency towards deflation is coming to look more and more likely. This makes it even more important for wage policy to be used to provide an impetus for more dynamism in the economy at large, whereby countries with large trade surpluses such as Germany should take the lead. For the precise reason that the minimum wage has, in many countries, an important signalling effect for general wage policy developments, its future development along these lines is of decisive importance.

Translation from the German by Kathleen Llanwarne

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