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Minimum wages in Europe: new debates against the background of economic crisis¹

—
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etui.

Policy implications

The minimum wage is a standard and generally accepted tool of labour market regulation in most European countries. Since the start of the new millennium, the real value of minimum wages has substantially increased, acting in many cases as a spur to general wage developments. The year 2008 marked a break in this trend, however, and the real value of the minimum wage once again displayed a downward trend. Increasingly the idea of a European minimum wage policy - a European standard for the relative value of national minima, whether statutory or collectively agreed - is under discussion. Against the background of the severe crisis of the world economy, pressure will grow on minimum wages - and wages generally - across Europe. There is a serious danger that, with real or even nominally falling minimum wages, the 'wage anchor' underpinning the price system will come adrift, raising the threat of deflation as happened in the 1930s. Instead appropriate increases in minimum wages are recommended to underpin demand and contribute to price-level and more general economic stabilisation.

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The current situation of minimum wages on 1 January 2009

Of the 27 European Union member countries, 20 have a general statutory minimum wage applicable through all sectors of their economy (Schulten *et al.* 2006). With four exceptions (Estonia, Ireland, Lithuania and the Czech Republic), all EU states raised their minimum wage in the course of 2008. In eleven countries the increase took effect only as of 1 January 2009. With regard to the absolute level of the minimum wage, three groups of countries can be distinguished in Europe (Figure 1).

The highest minimum wages - equivalent to between €8.4 and €8.7 an hour - are to be found in a group of west European countries including Belgium, the Netherlands, Ireland and France. One country, namely Luxembourg, has a significantly higher minimum wage than these four members of this group, with a statutory hourly minimum wage of €9.49. Great Britain, on the other hand, lags significantly behind the other members of the group, with a minimum wage of €7.2 an hour. As a result of the significant drop in the value of the pound against the euro during 2008, the value of the British minimum wage in international comparative terms has fallen steeply².

The second group of countries, where the minimum wage is between €2 and €4 an hour, consists of, in the main, the southern European countries Greece, Malta, Spain and Portugal, alongside Slovenia and Poland. The third group, with minimum wages of below €2, comprises exclusively central and eastern European countries, with Romania and Bulgaria, in both of which the minimum wage is below one euro, bringing up the rear.

To some extent, the widely differing levels of national minimum wages in Europe are attributable to differing costs of living. When converted into Purchasing Power Standards (PPS) - an artificial currency that takes account of national price levels - the differences between national minimum wage levels shrink quite considerably (Figure 2). Measured in euros, the ratio of the lowest to the highest is 1:13; measured in PPS it drops to 1:6. Even so, this still represents a very considerable gap, and it

1 An extended version of this report was published in German in *WSI-Mitteilungen* No. 3 (2008: 150-157).

2 If the 2007 average exchange rate were to be used for the conversion, rather than the 2008 rate, the value of the current British minimum wage would be €8.37.

Figure 1: Statutory minimum wages per hour, 2009 in EUR*

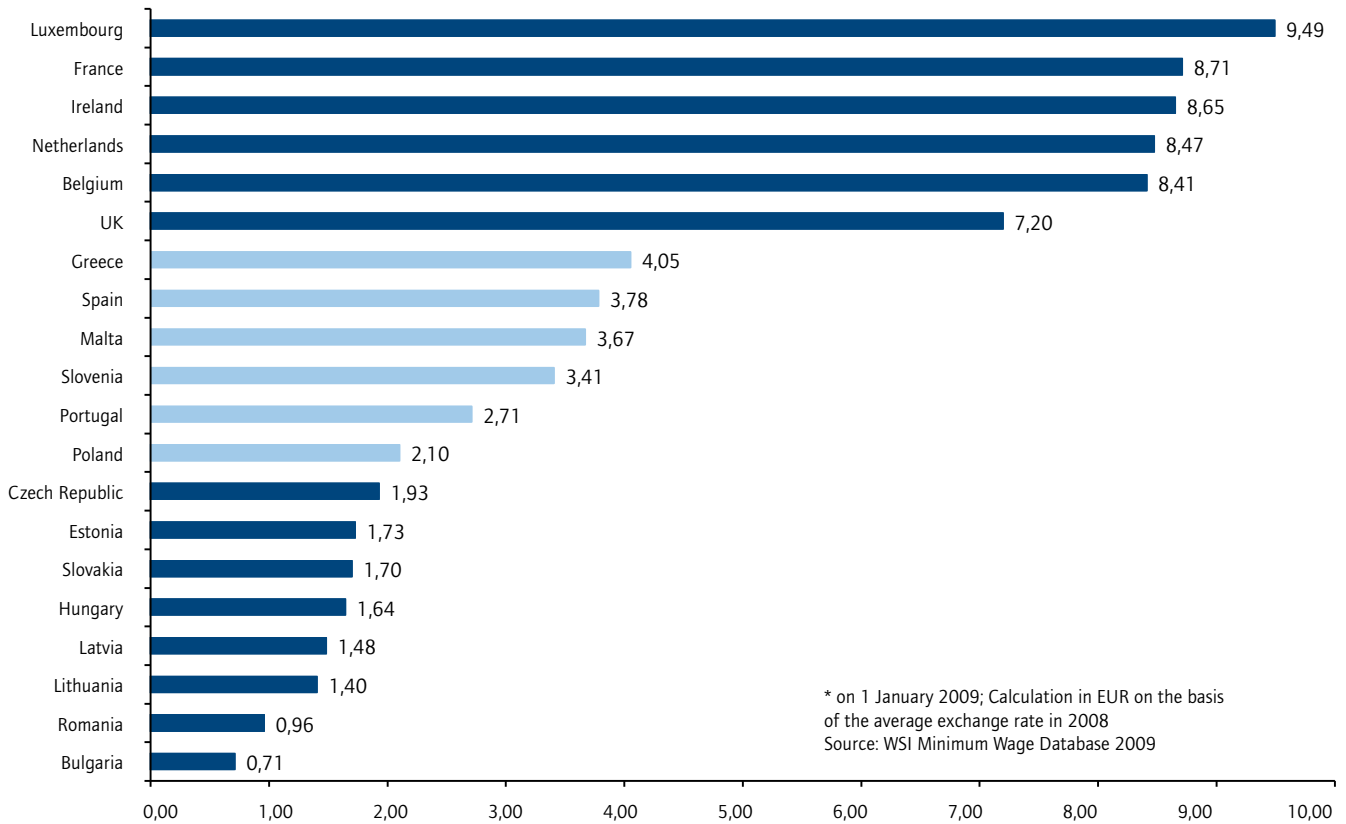
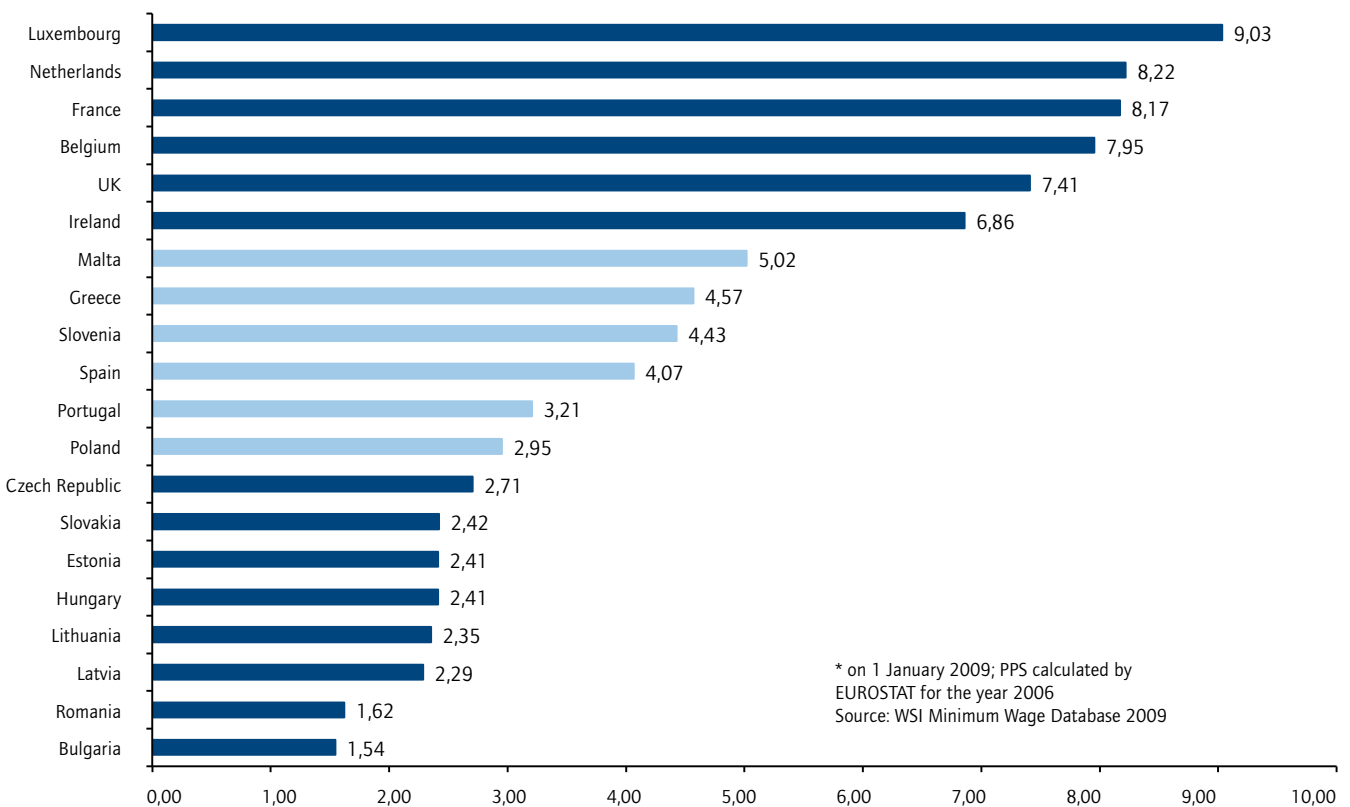


Figure 2: Statutory minimum wages per hour, 2009 in Purchasing Power Standard (PPS)*



is this gap that indicates the real differences in minimum wages between the states of Europe.

The relative value of statutory minimum wages

There are also significant differences in the *relative values* of the statutory minimum wage, i.e. the minimum wage as a percentage of the average or median wage in the country in question³, indicating that the social standard afforded by the minimum wage in the different nations is extremely variable.

The available data indicate that the relative value of the minimum wage in Europe ranges between 30 and 50% of the average national wage (Table 1). The highest relative minimum wages, with values of around 50% of the average wage, are to be found in France and in Malta. Next comes a group of countries with relative minimum wage values of between 40 and 50% of the average wage and which includes both some old EU states – such as Belgium, Greece, Ireland and Luxembourg – and also some of the new EU states such as Bulgaria, Slovakia and Slovenia. In the majority of countries the relative value of the minimum wage is, on the contrary, below

– and in some cases well below – 40% of the average wage. When measured in relation to the median wage, the relative minimum wage values are somewhat higher, but the differences in value between individual states are very similar.

The development of minimum wages since 2000

Since the beginning of this millennium statutory minimum wages have risen very considerably in many European countries (European Commission 2009). Taking together all 20 EU states with statutory minimum wages, average annual growth in the minimum wage between 2000 and 2008 was 8.9% (Table 2). This growth was particularly high in the new EU states of central and eastern Europe where annual rates of increase averaged 12.9%, although in some cases this reflected high inflation rates. Even so, after allowing for consumer price developments, the average annual real increase in the minimum wage in the new EU member states was around 7%.

Statutory minimum wages in the old EU states of western and southern Europe grew considerably less. Between 2000 and 2008 the annual increase in the minimum wage in these

Table 1 – The relative value of the minimum wage (2007 or most recent available value)

The minimum wage as a percentage of the ...	Average wage	Median wage	Average wage in industry and services	Average wage
France	51.4	63.3		48.3
Malta			49.2	53.6
Belgium	46.5	52.8	46.4	40.6
Slovenia	42.8	51.0	43.9	41.1
Luxembourg	41.2	50.5	50.5	
Bulgaria			42.6	41.8
Ireland	40.0	49.9	43.0	41.2
Greece	39.8	51.1		37.4
Great Britain	38.3	46.7	38.2	36.5
Netherlands	37.9	43.1	45.5	38.3
Hungary	35.2	46.3	36.5	33.8
Portugal	34.0	48.0	41.6	34.7
Slovakia	33.8	44.3	46.6	40.2
Poland	33.4	41.4	36.1	35.3
Czech Republic	31.5	37.1	38.1	36.8
Spain	31.4	39.4	42.1	36.3
Latvia			33.5	33.1
Estonia			33.2	33.7
Lithuania			31.5	30.2
Rumania			29.1	30.1
Data source	OECD	OECD	EUROSTAT	ILO

³ Given the methodological difficulties involved in establishing average and median wages, an up-to-date survey of average and median wages is not unproblematic. Insofar as the data supplied here, taken from OECD, EUROSTAT and ILO, are all based on non-harmonised national sources, they are likely to contain some serious distortions.

Table 2: Statutory minimum wage per hour (2000-2008)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008***
Nominal percentage increase over the previous year*										
Belgium	2.1	4.0	2.0	0.0	2.0	2.0	2.0	4.0	5.9	2.7
France	3.2	4.1	2.4	5.3	5.8	5.5	3.0	2.1	3.2	3.8
Greece	3.2	5.3	6.1	3.8	5.9	6.3	3.0	8.8	2.9	5.0
Great Britain	2.8	10.8	2.4	7.1	7.8	4.1	5.9	3.2	3.8	5.3
Ireland	0.0	6.8	6.4	0.0	10.2	9.3	8.5	4.2	0.0	5.0
Luxembourg	5.7	2.5	6.0	2.5	4.6	2.5	4.5	0.0	4.5	3.6
Netherlands	5.7	4.6	3.5	1.2	0.0	0.6	2.2	2.6	3.5	2.7
Portugal	4.8	4.3	2.5	2.5	2.5	3.0	4.4	5.7	5.6	3.9
Spain	2.2	1.9	2.0	2.1	11.4	5.4	5.5	5.2	4.0	4.4
All old EU **	3.3	4.9	3.7	2.7	5.6	4.3	4.3	4.0	3.7	4.1
Bulgaria	18.8	25.7	10.0	9.1	25.0	6.7	12.5	22.2	9.1	15.4
Estonia	14.4	15.6	16.7	14.8	8.5	11.8	20.8	25.6	0.0	14.2
Latvia	0.3	19.6	16.7	14.3	0.0	12.5	33.3	33.3	12.5	15.8
Lithuania	0.0	0.0	0.0	5.5	10.5	13.6	9.0	32.9	0.0	7.9
Malta	3.1	3.0	3.4	1.4	3.2	4.0	3.0	2.5	2.9	3.0
Poland	13.4	0.1	5.3	3.0	3.0	5.9	4.1	20.3	13.3	7.6
Rumania	122.9	39.6	78.6	12.0	10.7	6.5	18.2	28.2	20.0	37.4
Slovakia	10.2	11.8	20.3	9.4	6.9	6.1	10.1	6.6	9.8	10.1
Slovenia	10.0	17.1	9.5	7.6	5.4	4.3	2.0	3.2	9.4	7.6
Czech Republic	34.5	13.0	8.8	7.3	7.3	5.2	7.6	0.0	0.0	9.3
Hungary	56.9	25.0	0.0	6.0	7.5	9.6	4.8	5.3	3.6	13.2
New EU **	25.9	15.5	15.4	8.2	8.0	7.8	11.4	16.4	7.3	12.9
Total of EU 20**	15.7	10.7	10.1	5.7	6.9	6.2	8.2	10.8	5.7	8.9
Real increase as percentage over the previous year*										
Belgium	-0.6	1.6	0.4	-1.5	0.1	-0.5	-0.3	2.2	1.4	0.3
France	1.4	2.3	0.5	3.1	3.5	3.6	1.1	0.5	0.0	1.8
Greece	0.3	1.6	2.2	0.4	2.9	2.8	-0.3	5.8	-1.3	1.6
Great Britain	2.0	9.6	1.1	5.7	6.5	2.0	3.6	0.9	0.1	3.5
Ireland	-5.3	2.8	1.7	-4.0	7.9	7.1	5.8	1.3	-3.3	1.6
Luxembourg	1.9	0.1	3.9	0.0	1.4	-1.3	1.5	-2.7	0.4	0.6
Netherlands	3.4	-0.5	-0.4	-1.0	-1.4	-0.9	0.5	1.0	1.3	0.2
Portugal	2.0	-0.1	-1.2	-0.8	0.0	0.9	1.4	3.3	2.9	0.9
Spain	-1.3	-0.9	-1.6	-1.0	8.3	2.0	1.9	2.4	-0.1	1.1
Old EU **	0.4	1.8	0.7	0.1	3.2	1.7	1.7	1.6	0.2	1.3
Bulgaria	8.5	18.3	4.2	6.8	18.9	0.7	5.1	14.6	-2.9	8.2
Estonia	10.5	10.0	13.1	13.4	5.5	7.7	16.4	18.9	-10.6	9.4
Latvia	-2.3	17.1	14.7	11.4	-6.2	5.6	26.7	23.2	-2.8	9.7
Lithuania	-1.1	-1.6	-0.3	6.6	9.3	10.9	5.2	27.1	-11.1	5.0
Malta	0.1	0.5	0.8	-0.5	0.5	1.5	0.4	1.8	-1.8	0.4
Poland	3.3	-5.2	3.4	2.3	-0.6	3.7	2.8	17.7	9.1	4.0
Rumania	77.2	5.1	56.1	-3.3	-1.2	-2.6	11.6	23.3	12.1	19.8
Slovakia	-2.0	4.6	16.8	1.0	-0.6	3.3	5.8	4.7	5.9	4.4
Slovenia	1.1	8.5	2.0	1.9	1.7	1.8	-0.5	-0.6	3.9	2.2
Czech Republic	30.6	8.5	7.4	7.4	4.7	3.6	5.5	-3.0	-6.3	6.5
Hungary	46.9	15.9	-5.2	1.3	0.7	6.1	0.8	-2.6	-2.4	6.8
New EU **	15.7	7.4	10.3	4.4	3.0	3.8	7.3	11.4	-0.6	7.0
Total of EU 20**	8.8	4.9	6.0	2.5	3.1	2.9	4.7	7.0	-0.3	4.4

* The amounts of minimum wages are compared on 1 January of each year. The real minimum wages calculations are based on the harmonised consumer price.

** Unweighted average

*** Average percentage annual increase

Source: WSI Minimum Wage Database 2009

countries averaged 4.1% a year. In real terms, minimum wages in the old EU states are rising by an average of 1.3% a year, with Great Britain displaying the highest increase of 3.5% and Belgium and the Netherlands – 0.2 and 0.3% respectively – the lowest. In many European countries minimum wages have been rising faster than average wages since 2000, thereby further increasing the relative value of the minimum wage (European Commission 2009: 80).

In 2008 minimum wage developments lost much of their dynamism in comparison with earlier years (Table 2). On 1 January 2009 the average nominal increase of the minimum wage in the 20 EU countries with statutory minimum wages was 5.7%, whereas on 1 January 2008 the figure had been 10.8%. This deceleration is even more apparent in relation to *real* minimum wage developments. Indeed, for the first time since the turn of the millennium, in 2008 the real value of the minimum wage actually registered a slight drop (-0.2%). The main factor responsible for this development was the rapid increase in consumer prices during the first half of 2008, which, in many countries, was not offset by corresponding increases in the minimum wage. In 2008 minimum wage developments were below the rate of inflation in 10 out of 20 EU states (including 7 of the new EU member countries).

The drop in the real value of the minimum wage was particularly pronounced in those countries which saw no increase in the minimum wage in 2008. In Estonia and Lithuania the real value of the minimum wage dropped by more than 10%. In western Europe, the only country not to raise the minimum wage in 2008 was Ireland where the minimum wage thus lost 3.1% of its real value. Developments against the trend were recorded principally in Romania, Poland and Slovakia, all of which also recorded relatively high real increases in minimum wages in 2008.

Current developments in national minimum wage policies

Although the statutory minimum wage is, in the final analysis, always laid down by the State, its development is in practice invariably the result of political consultation and discussion in which the trade unions and employer federations play a central role (Schulten *et al.* 2006). In many countries the two sides of industry are institutionally involved in minimum wage policy through national consultative bodies that allow them to put forward proposals for increases in the minimum wage. In some eastern European countries the development of minimum wages is established, to some extent, in the framework of tripartite arrangements between the state, trade unions and employers. In Belgium and Greece the minimum wage is agreed in the framework of national collective bargaining, the final outcome being given an official legislative seal by the state. In addition, in some countries including the Benelux states, France and Malta, an indexation of the minimum wage is in force, according to which its level is automatically adjusted to the development of prices and/or average pay.

It is important to point out that the statutory minimum wage enjoys a high degree of social acceptance, as expressed also

through the fact that in no European country is its abolition being demanded by any significant social or political force. Political debate in this area focuses instead on the level of the existing minimum wage and the pace of its future development.

A particularly lively debate on future minimum wage policy has taken place in the last two years in France. Representatives of the employers and the conservative government have expressed the view that the minimum wage has risen too fast since the year 2000 and that its present excessively high level entails negative economic effects on employment. Two opinions commissioned by the French government have proposed abolition of the automatic indexation of the minimum wage in line with price developments (Cahuc *et al.* 2008; COE 2008). After lengthy debate, the government finally decided to maintain the existing indexation mechanism unchanged.

The claim that the French minimum wage level is excessive and entails adverse economic and employment policy effects has been hotly disputed among French economists (see Askenazy 2008). Trade unions and left-wing opposition parties have been arguing for some years now for a significantly faster increase in the minimum wage. In its action plan concerning ways to beat the current recession, the Socialist Party (2009:15) calls for an immediate special increase in the minimum wage of 3%, as a means of boosting domestic demand, while also advocating indexation on average wage developments rather than inflation. The French trade union CGT, meanwhile, has called, under present recessionary conditions, for an even stronger increase in the minimum wage to €1600 a month (€10.5 an hour) (*Le Parisien*, 28 January 2009).

Against the background of severe recession, the political debate on increasing the minimum wage has increasingly gathered steam. In many European countries unions are demanding greater increases in the minimum wage as a means of stimulating the depressed economy. In Great Britain, for example, the trade union confederation TUC (2008) has claimed that the British minimum wage should in 2009 be raised from the current level of £5.73 (€7.2) to £6.10 (€7.66). In the wake of the failure to increase the minimum wage in 2008 in Ireland, the Irish trade unions too are clamouring for a significant increase in 2009. Contrariwise, many employer representatives in both Ireland and Great Britain have invoked the crisis of the economy in order to advocate freezing the minimum wage.

Similar controversies over the development of the minimum wage have taken place also in several central and eastern European countries. In the Czech Republic the Conservative government has failed to increase the minimum wage since mid-2006, in spite of protests from the trade unions (Novak 2008). In Estonia the tripartite negotiations on the minimum wage are blocked, with the trade unions demanding an increase of 10% but the employers arguing that the minimum wage should be frozen at its current level (Höbemägi 2008). In Lithuania, on the contrary, in July 2008 new minimum wage legislation was passed, according to which minimum wages must in future be automatically adjusted to consumer prices as soon as the latter increase by 3% (Lithuanian Ministry of Labour 2008).

In Romania the trade unions, after major protest action, signed a tripartite agreement on the medium-term development of the minimum wage. Not only does this agreement provide for a hefty increase in 2008; it also provides for further regular increases until 2014 in order to achieve a situation where the minimum wage is equivalent to 50% of the average wage (Constatin 2008). A similar long-term plan is being followed by the Spanish government which has declared that by the end of the current legislature in 2012 the minimum wage will have risen from the current level of €624 a month (€3.78 an hour) to €800 a month (€4.85 an hour) (Ministerio de Trabajo de España 2008). The Spanish government and trade unions are together pursuing the goal of raising the minimum wage to at least 60% of the average wage.

In Slovakia, according to new minimum wage legislation that came into force in 2008, every year, by 1 April at the latest, the social partners are to conduct negotiations on the increase in the minimum wage. If they fail to reach agreement, its level is to be laid down by the government, in which case it should reflect average wage developments which thus de facto act as the floor for the annual adjustment. In the wake of breakdown of the negotiations between employers and trade unions in mid-2008, the Slovakian government decided on an increase in the minimum wage significantly in excess of average wage developments (Cziria 2008). The social democratic party SMER, at that time the leading party in government, had formulated the manifesto goal of gradually raising the minimum wage to 60% of the average wage.

All in all, the development of minimum wage policy is heavily influenced by the political orientation of the government in power. While conservative governments tend to pursue a more restrictive minimum wage policy, more social democratic-oriented governments gradually raise the level of the minimum wage.

European minimum wage policy

In the years 2007 and 2008 the topic of minimum wages also gained a place in European-level debates after several prominent European politicians – including Luxembourg prime minister Jean-Claude Juncker and former EU Commission president Jacques Delors – had spoken in favour of a European minimum wage policy (Schulten 2008). Already in 2005 the WSI, together with the Swiss *Denknetz* and the French *Institut des Recherches Economiques et Sociales* (IRES), presented a set of 'Theses for a European minimum wage policy' (Schulten et al. 2005), the core proposal being a coordinated minimum wage policy at European level, involving an undertaking by all countries to raise, within a given time scale, their minimum wage to initially 50% and subsequently 60% of the average wage (see also Schulten/Watt 2007).

In the debate on a European minimum wage policy it is a question not of stipulating a Europe-wide amount for a minimum wage but rather of defining a European standard for the relative value of minimum wages. This discussion was taken up, in particular, by the European Parliament after it had

observed that 'the minimum wage is set very low or at below subsistence level' (European Parliament 2007: 469). Against this background, in October 2008 the European Parliament called 'on the Council to agree an EU target for minimum wages (statutory, collective agreements at national, regional or sectoral level) to provide for remuneration of at least 60% of the relevant (national, sectoral, etc.) average wage and, further, to agree a timetable for achieving that target in all Member States' (European Parliament 2008).

The demand for a European minimum wage policy also plays an important role in the current campaign for the European Parliament elections in June 2009. The Party of European Socialists, for example, calls in its election programme for a 'European pact on wages, guaranteeing equal pay for equal work and setting out the need for decent minimum wages in all EU member states, agreed either by law or through collective bargaining and applying both to citizens and migrant workers' (PES 2008). Conservative parties too have taken up the topic of European minimum wage policy. Thus, for example, the Luxembourg Christian Democrats demand that the EU 'agree on the right of every worker in Europe to a minimum wage, laid down either by the state or by the social partners, the level of which should be in keeping with each national – or regional – gross domestic product while also allowing the individual worker to live a decent life' (CSV 2009).

The outlook: minimum wages and recession

The political discussion on the future development of statutory minimum wages is being conducted all over Europe in the context of the most severe international economic recession since the 1930s. Experience tells us that, in such times of crisis, wage standards come under severe pressure. Companies will try to make good some of their losses by saving on labour costs and workers threatened with job loss are highly likely to accept compromises. Most particularly in the service sectors, where trade union organisation is comparatively weak, recession can thus drag down many more workers into the low-pay sector. Statutory minimum wages that apply to the economy as a whole can, under such circumstances, represent an important floor to limit this downward pressure.

In the current climate of recession, employers in many European countries are in favour of freezing minimum wages at the present level, with some lone voices even calling for a nominal cut in minimum wages. If such a policy were to be implemented in Europe, it could be expected to deepen the recession still further. For one thing, much needed support for demand from private consumption would be weakened, even more so because in many European countries the minimum wage not only determines the pay of the immediately concerned recipients but also plays an important role in orienting the whole structure of pay and wage developments. On the other hand, there exists the danger that with real or even nominally falling minimum wages the 'wage anchor' underpinning a stable price system will come adrift so that the current recession will be headed

for deflation as happened in the 1930s (Herr 2008). Rather than letting this happen, it would make good economic sense to stabilise the economic situation by appropriate increases in the minimum wage.

Translation from the German by Kathleen Llanwarne

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