Alternative views of the role of wages: contours of a European Minimum Wage

Europe at a crossroads – which way to quality jobs and prosperity?
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Role of wages in current crisis management

Basic assumption: Lowering labour costs is the key to regain (price) competitiveness!!!

1. Direct intervention into current wage developments (wage cuts and freezes)

2. “Structural reforms” of collective bargaining systems in order to increase downward flexibility of wages
EU-level approach to collective bargaining

DG ECFIN: “Employment friendly reforms”

- Decreasing bargaining coverage
- Decreasing extension of collective agreements
- Decentralizing bargaining systems
- Removing or limiting the favourability principle
- Introducing/Extending possibilities to derogate from higher level agreements
- Overall reduction of wage-setting power of trade unions
Results of “employment-friendly reforms”

1. Still decreasing employment rates in “problem countries” – Increase in precarious employment

2. Persistently high unemployment

3. Increasing in-work poverty - strong downward pressure on wages leading to deflationary tendencies and downward wage competition with negative effects for consumer demand.
Real wage developments 2010-2014 (in %)

16 out of 28 member states were faced with a decrease in real wages

*Nominal compensation deflated by the national HCPI
Source: AMECO (2014 forecast of the European
Need for U-Turn in Crisis Management

Alternative view of wages:

From a supply-side export-led growth model

towards a

Demand-side wage-led growth model

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## Different minimum wage regimes

<table>
<thead>
<tr>
<th>Regulatory Instrument/Scope</th>
<th>Law</th>
<th>Collective or tripartite agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Universal regimes</strong></td>
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</tbody>
</table>
| (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  
 **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
Different absolute minimum wage levels

National Minimum Wages per Hour 2014*

<table>
<thead>
<tr>
<th>Country</th>
<th>Minimum Wage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>€ 11.10</td>
<td>*January 2014, conversion into Euros based on average annual exchange rate in 2013 **from 1 January 2015 Source: WSI Minimum Wage Data Base 2014</td>
</tr>
<tr>
<td>France</td>
<td>€ 9.53</td>
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<tr>
<td>Netherlands</td>
<td>€ 9.11</td>
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<tr>
<td>Belgium</td>
<td>€ 9.10</td>
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<tr>
<td>Ireland</td>
<td>€ 8.65</td>
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<tr>
<td>Germany**</td>
<td>€ 8.50</td>
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<tr>
<td>Great Britain</td>
<td>€ 7.43</td>
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<tr>
<td>Slovenia</td>
<td>€ 4.56</td>
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<tr>
<td>Malta</td>
<td>€ 4.15</td>
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<tr>
<td>Spain</td>
<td>€ 3.91</td>
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<td>Greece</td>
<td>€ 3.35</td>
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<tr>
<td>Portugal</td>
<td>€ 2.92</td>
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<tr>
<td>Poland</td>
<td>€ 2.31</td>
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<tr>
<td>Croatia</td>
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<td>Estonia</td>
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<td>Slovakia</td>
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<tr>
<td>Hungary</td>
<td>€ 1.97</td>
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<tr>
<td>Czech Republic</td>
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<tr>
<td>Latvia</td>
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<tr>
<td>Lithuania</td>
<td>€ 1.76</td>
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<tr>
<td>Romania</td>
<td>€ 1.14</td>
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<tr>
<td>Bulgaria</td>
<td>€ 1.04</td>
<td></td>
</tr>
</tbody>
</table>
Different relative minimum wage levels

Minimum Wage in % of Full-Time Median Wages (2012)

- France: 62%
- Slovenia: 60%
- Portugal: 58%
- Hungary: 54%
- Belgium: 51%
- Latvia: 51%
- Germany*: 51%
- Ireland: 48%
- Lithuania: 48%
- Great Britain: 47%
- Netherlands: 47%
- Poland: 47%
- Slovakia: 47%
- Romania: 45%
- Spain: 44%
- Greece: 43%
- Luxembourg: 42%
- Estonia: 36%
- Czech Republic: 36%

* 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
MW regimes and collective bargaining coverage

* Most recent available data; Source: ICTWSS Database (Version 4.0), national sources.

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Who benefits from European minimum wage?

Employees with less than 60% of national median wage (2010) (% of all employees)

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

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Key elements of European minimum wage policy

1. EMW has to take into account national diversity of MW regimes and levels;

2. Relative MW measured in relation to overall wage structure;

3. Statutory and collectively agreed MW must be viewed as functional equivalents;

4. Initiative must also include measures to improve collective bargaining coverage
Thank you very much for your attention!!!