

# Chapter 10

## Prospects and obstacles of a European minimum wage policy

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### 1. Introduction

In the context of his ‘core messages’ for the 2014 European election campaign the then leading candidate of the European People’s Party (EPP) and now the President of the European Commission Jean-Claude Juncker (2014a), announced that ‘as Commission president, I will advocate that all member states introduce a minimum wage adjusted to national collective bargaining traditions and economic conditions’. This should guarantee that all employees in Europe ‘have an income from work sufficient to ensure that they don’t have to go to the social security office’ (Juncker 2014b). By developing a European minimum wage policy Juncker aims to reinforce the social dimension in Europe and contribute to a ‘rehabilitation of the social market economy’ (Juncker 2014c).

The notion of a minimum wage policy coordinated across Europe has long been under discussion within the EU (Schulten 2008, 2012). It is no coincidence that this idea was originally developed in France in particular, which has long had a strong national minimum wage system. Thus, it was the French Socialists who, in 2004, in their European election programme, first called for the introduction of a ‘*salaire minimum Européen*’ (Parti Socialiste 2004). Since then the demand for a European minimum wage policy has been debated in France. The supporters of this idea include former president of the European Commission (Jacques Delors 2006), who called on the European trade unions and employers’ organisations to negotiate on the issue within the framework of the European social dialogue.

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 wage, the French ministry of economic affairs published a conceptual paper outlining some ideas for a 'European minimum wage standard' (Brischoux *et al.* 2014). The debate has also been fostered by some important national developments, such as the introduction of a statutory minimum wage in Germany and corresponding proposals in Italy. Within the framework of the European elections of 2014 it became clear that the idea of a European minimum wage policy is now under discussion in all major political camps (Sanial 2014). The same holds true for the European trade unions which have discussed the issue for years and have recently intensified the debate in order to clarify their position (ETUC 2014a, 2014b)

The questions of what exactly is meant by a European minimum wage policy and how it is supposed to be implemented politically and institutionally within the EU have to date been addressed mainly in vague terms. The implementation of such a political project faces at least three fundamental problems: first, there are substantial variations in the levels of the national minimum wage in individual EU states; second, the national minimum wage regimes –in other words, the procedures, institutions and actors who determine the national minimum wage– also exhibit major differences; and third, there is the problem that according to the Treaty on the Functioning of the European Union (TFEU, Article 153.5), the EU has no legal competence in the area of wage policy, although, in practice, this has not prevented the EU from intervening heavily in national wage policies (Schulten and Müller 2015).

The aim of this chapter is to systematically sketch the contours of a European minimum wage policy by way of a detailed analysis of its potential prospects and obstacles. Because any European minimum wage policy has to take into account the different national institutional framework conditions, Sections 2 and 3 will outline the diversity of national minimum wage regimes and levels in Europe. Section 4 will discuss the normative foundations and the social and economic goals of a European minimum wage policy. Section 5 will review the debate within the European trade union movement with a particular focus on the debate within the European Trade Union Federation (ETUC) and the Nordic trade unions. Finally, Section 6 contains a discussion not only of the specific proposals on how to implement a European minimum wage policy but also of its potential impact in terms of providing effective protection for low-wage workers. In the closing Section 7 the contours of a possible European minimum wage policy are summarised.

## 2. Minimum wage regimes in Europe

### 2.1 Universal and sectoral minimum wage regimes

In all European countries, minimum wages constitute an established instrument of labour market regulation (Schulten 2014a).<sup>1</sup> The procedures and institutions used to determine the minimum wage and the scope of minimum wage regulations constitute a key distinguishing feature of national minimum wage regimes. A fundamental distinction can be drawn between *universal* and *sectoral* minimum wage regimes. Universal regimes are characterised by the establishment of a general wage floor, usually at the national level, and applying –apart from possible exceptions– to all employees. By contrast, sectoral regimes do not have a general wage floor, but set minimum wages for certain branches or occupational groups.

Within the EU, 22 of the 28 states have a universal minimum wage regime with a nationwide minimum wage rate (Table 1). In six member states, however, there are only sectoral minimum wage regimes, including the Nordic countries Denmark, Finland and Sweden, as well as Cyprus, Italy and Austria. Outside the EU most European countries also have a national minimum wage, with the exception of Norway and Switzerland. In 2015, Germany switched to a universal minimum wage regime by introducing a national statutory minimum wage.

Minimum wage regimes are also distinguished by the dominant regulatory instrument used to determine the respective minimum wage. Basically, minimum wages can be set on a statutory basis or in collective agreements or within the framework of tripartite bargaining involving employers, trade unions and the state. In most countries with a universal minimum wage system the main regulatory instrument is the law. This applies, for example, to France, the Netherlands, Luxembourg, the United Kingdom and Ireland, as well as to most southern and Central and Eastern European countries with a statutory minimum wage set by the government.

In some Central and Eastern European countries the minimum wage is negotiated, first and foremost, within the framework of a tripartite body

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1. A detailed presentation of national minimum wage regimes in Europe, with detailed national case studies (Schulten *et al.* 2006; Vaughan-Whitehead 2010).

at national level. If a tripartite agreement is reached the resulting minimum wage assumes a statutory character. If the negotiations fail the minimum wage is set unilaterally by the government.

There is a distinctive model in Belgium, where the minimum wage is agreed within the framework of a national collective agreement for the private sector as a whole.<sup>2</sup> In Germany, the initial amount of the minimum wage was set by a law that came into force on 1 January 2015. From now on, however, a ‘social partners’ committee’ will determine the level of the minimum wage, which will be implemented by government decree. Thus, a system of quasi-negotiations on the national minimum wage has been introduced in Germany. The decisive benchmark will be the development of average wages laid down in collective agreements.

Table 1 Universal and sectoral minimum wage regimes in Europe

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

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

Source: Schulten 2014a.

2. A similar system of national minimum wage agreements existed in Romania and Greece up to 2011 and 2012, respectively. Under pressure from the Troika (European Commission, European Central Bank and the IMF), however, this was abolished in favour of a unilateral statutory minimum wage system (Schulten and Müller 2015).

In countries with sectoral minimum wage regimes by contrast –with the exception of the special case of Cyprus, where there are statutory minimum wages for certain occupational groups– minimum wages are laid down solely in collective agreements. The scope of sectoral minimum wages thus depends on the robustness of the collective bargaining system and collective bargaining coverage in the relevant country. In some countries the scope of collectively agreed minimum wages is further supported by legal extension procedures.<sup>3</sup>

## 2.2 Minimum wage regimes and collective bargaining systems

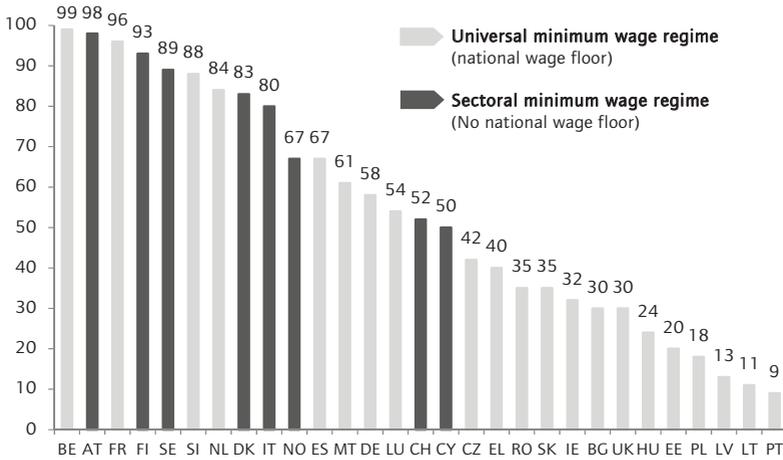
Among the countries with sectoral minimum wage regimes a substantial number of states have a comprehensive system of collective agreements that ensures that a large majority of employees –up to 80 per cent or more– are protected by a collective agreement (Figure 1). This group of countries includes, in particular, the Nordic states Denmark, Finland and Sweden (and to a lesser degree Norway), but also Austria and Italy. The high level of collective bargaining coverage in these countries ensures a comprehensive minimum wage. However, in some of the countries with sectoral minimum wage regimes collective bargaining coverage is much lower. This applies to Cyprus and Switzerland, with 50 and 52 per cent collective bargaining coverage, respectively. In these countries a relatively large number of employees are not covered by collective agreements and therefore have no minimum wage protection whatsoever. The relatively low bargaining coverage of 58 per cent in Germany was also one of the major reasons why Germany finally introduced a general statutory minimum wage (Schulten and Bispinck 2014). A similar debate took place in Switzerland where, against the background of collective bargaining coverage of only 52 per cent, the trade unions campaigned for the introduction of a statutory minimum wage but failed to get a majority in a national referendum on that issue (Baumann and Rieger 2015).

Among the countries with universal minimum wage regimes there are both states with low coverage and states with high coverage (Figure 1). This indicates that there can be very different forms of interaction between national minimum wages and wage determination by collective

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3. On the role of extension procedures in collective bargaining see Chapter 11 in this volume.

Figure 1 Minimum wage regimes and collective agreement coverage, 2011–2013 (% of all employees covered by collective agreement)



Note: \* Latest available data.

Source: ICTWSS Database (Version 5.0). For Portugal and Spain: authors' calculations based on figures from labour ministries. For Norway: Stokke *et al.* (2013).

agreement (Grimshaw and Bosch 2013; Leonardi 2014). In countries with fairly poor collective bargaining coverage, such as most Central and Eastern European states, the minimum wage has an important anchoring function for the wage structure as a whole. The development of the minimum wage here represents the main benchmark for general wage development. In countries with a comparatively high minimum wage level, such as France, the development of the general minimum wage has a strong influence on the development of wages laid down in collective agreements, especially for lower wage categories. Finally, there are countries –such as the Netherlands– in which the scope of the statutory minimum wage is limited to a fairly small group of employees not subject to collective bargaining. In these cases it has no influence on the development of wages laid down in collective agreements, but on the contrary follows the development of collectively agreed wages. Overall, statutory and collectively agreed minimum wages are not necessarily in opposition to one another but can be complementary. In many western and southern European countries the statutory minimum wage is thus

merely a ‘safety net’ for those employees who are not (adequately) covered by minimum wages laid down in collective agreements.

### 3. Absolute and relative minimum wage levels in Europe

#### 3.1 Absolute minimum wage levels

The scope and effectiveness of national minimum wage regimes is closely linked to the level of the relevant minimum wage protection, which varies considerably in Europe (Kampelmann *et al.* 2013; Schulten 2014b).<sup>4</sup> In countries with universal minimum wage regimes three groups can be distinguished with regard to the level of national minimum wages (in euros) (Figure 2). The first group, with relatively high minimum wages, includes seven western European countries. The leader of this group is Luxembourg with a minimum wage of 11.12 euros per hour, followed by three countries with minimum wages above 9 euros, namely France (9.61 euros), the Netherlands (9.21 euros) and Belgium (9.10 euros) and three further countries with minimum wages between 8 and 9 euros, namely Ireland (8.56 euros), Germany (8.50 euros) and the United Kingdom (8.06 euros).

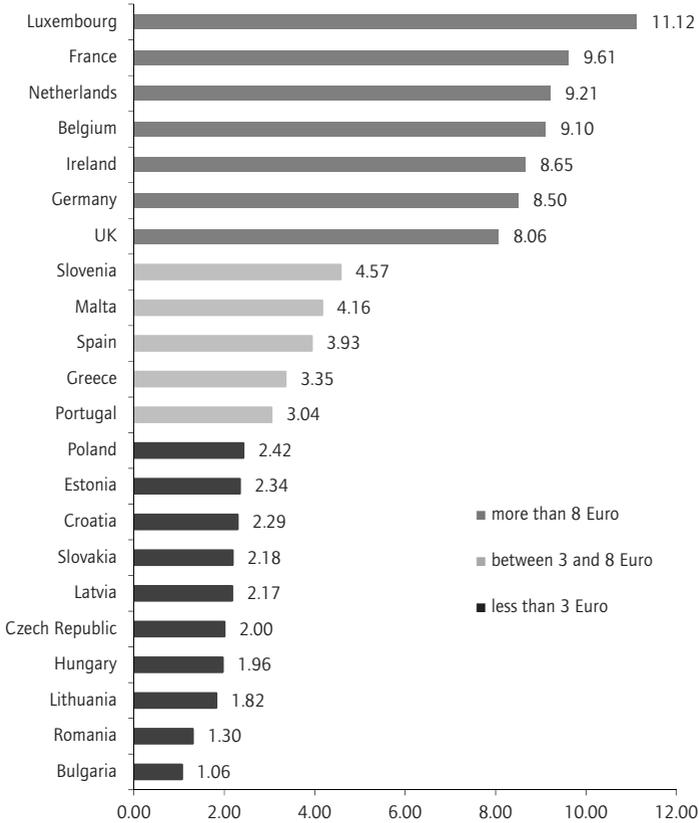
The second group, with national minimum wages between 3 and 8 euros an hour, is made up of five, mainly southern European countries: Slovenia (4.57 euros), Malta (4.16 euros), Spain (3.93 euros), Greece (where the minimum wage was cut by more than 20 per cent in February 2012, bringing it down to 3.35 euros), and finally Portugal with a minimum wage of 3.04 euros. The third group of countries, with minimum wages below 3 euros, comprises ten countries all from Central and Eastern Europe, ranging from Poland (2.42 euros) to Bulgaria (1.06 euros).

Because of the lack of national minimum wages the minimum wage level in countries with sectoral minimum wage regimes can be determined only by analysing the lowest wages laid down in collective agreements. The few recent studies on this indicate that two groups of countries have to be distinguished (Eldring and Alsos 2012; Kampelmann *et al.* 2014).

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4. Up-to-date information on national minimum wages in Europe, as well as numerous non-European countries can be found in the WSI Minimum Wage Database. An English version of the database is available at: [http://www.boeckler.de/wsi-tarifarchiv\\_44064.htm](http://www.boeckler.de/wsi-tarifarchiv_44064.htm).

Figure 2 National minimum wages in the EU, 2015\* (per hour, in euros)

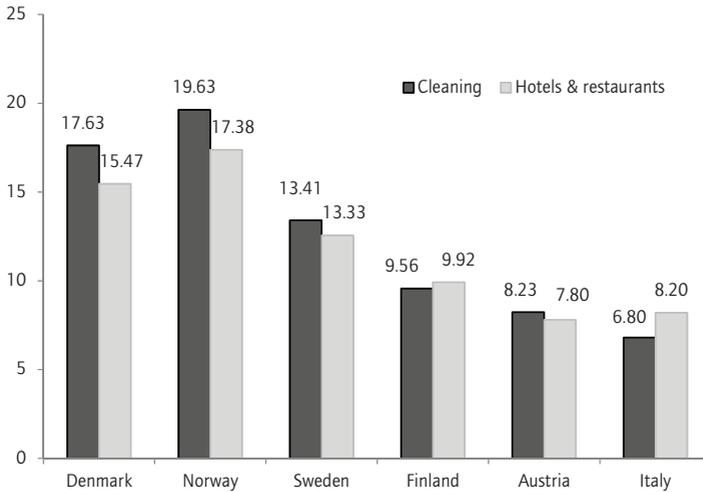


Note: \* Effective 1 January 2015.

Source: WSI Minimum Wage Database.

On one hand, there are the Nordic countries, whose minimum wages laid down in collective agreements are substantially higher than national minimum wages in the other EU states. On the other hand, there are the countries, such as Austria, Italy –and before the introduction of a statutory minimum wage also Germany– in which, in some instances, relatively low minimum wages are laid down in collective agreements, which are substantially below national minimum wages in comparable western European countries.

Figure 3 **Lowest collectively agreed minimum wages in countries with sectoral minimum wage regimes (per hour, in euros)\***



Note: \* Effective 1 January 2015.

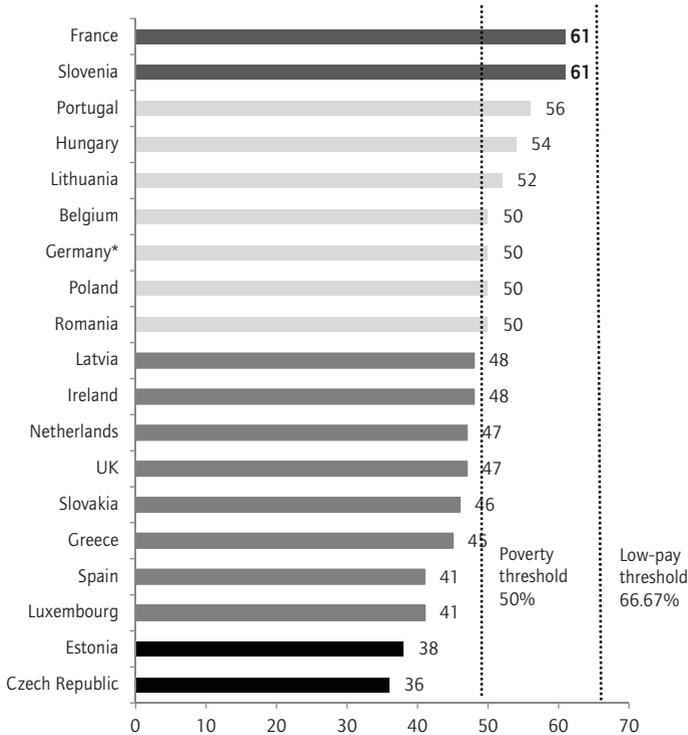
Source: Authors' calculations based on current collective agreements.

Taking the examples of cleaning and hotels and restaurants as two traditional low-wage sectors, the lowest collectively agreed wages range between 13.00 and 20.00 euros per hour in Denmark, Norway and Sweden; these wages lie far above the statutory minimum wages in other European countries (Figure 3). In Finland, collectively agreed minimum wages in both sectors are only slightly above or even at a level comparable to statutory minimum wages in some Western European countries. Finally, in Austria and Italy, the collectively agreed minimum wages are in both sectors below the wage levels of those European countries with the highest statutory minimum wages.

### 3.2 Relative minimum wage level

The real level of the minimum wage is not derived from its absolute value, however, but from its relative level in relation to the national wage structure. The latter can be measured with the so-called 'Kaitz index',

Figure 4 Minimum wage as a percentage of the median wage for full-time employees, 2013



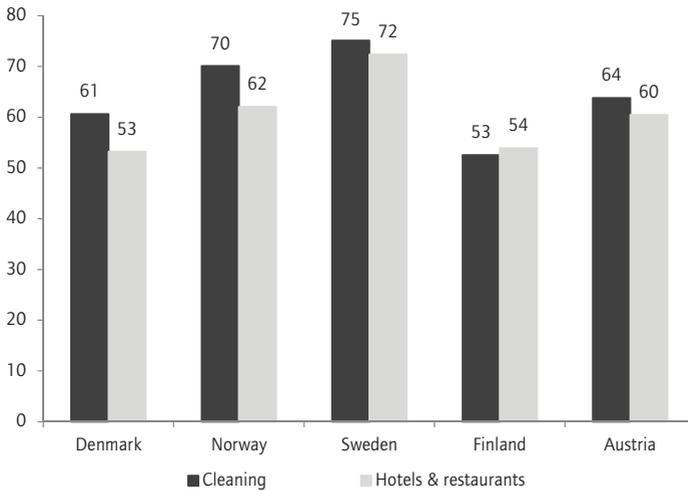
Note: \* On the basis of a fictive minimum wage of 8.50 euros per hour.

Source: OECD, for Germany: calculations of the WSI based on data from the Federal Employment Agency.

which measures the minimum wage as a percentage of the national median wage.<sup>5</sup> The available data on this –which are published regularly by the OECD– are based, however, on non-harmonised national data sources and can thus be regarded only as approximate values. According

5. 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.

Figure 5 Collectively agreed sectoral minimum wages as a percentage of the national median wage\*



Note: \* Current sectoral minimum wages (Figure 3) as a percentage of national median wages from 2013. Source: Authors' calculations based on current collective agreements, data for median wages from national statistical offices.

to OECD figures for 2013, minimum wages, measured in terms of the median wages of full-time employees in the EU, varied between 61 per cent in France and Slovenia and 36 per cent in the Czech Republic, with the majority of countries registering a value of between 40 and 50 per cent (Figure 4). In Germany, a minimum wage of 8.50 euros per hour in 2013 would have represented 50 per cent of the median wage.

Measured in terms of national wage structures statutory minimum wages in Europe are relatively low. They all lie below the so-called low-wage threshold, which by international convention stands at two-thirds of the median wage. In conformity with the poverty threshold used in international poverty research a wage that lies below 50 per cent of the median wage is a 'poverty wage'. In many EU countries, statutory minimum wages are thus not above the poverty wage level (Marx *et al.* 2012).

In countries with sectoral minimum wage regimes, the relative minimum wage levels can be measured by considering collectively agreed

minimum wages as a percentage of the national median wages (Figure 4). Considering again the cleaning and hotels and restaurants sectors, the Kaitz index for minimum wages laid down in collective agreements is usually over 60 per cent, in the case of Sweden even above 70 per cent. The only exceptions are Finland (for both sectors) and the Danish hotels and restaurants sector, where the Kaitz index is only 53 or 54 per cent. These findings are confirmed by other studies, which found that the relative value of minimum wages in sectoral regimes based on collective agreements is usually well above the level of countries with universal minimum wage regimes (Eldring and Alsos 2012; Kampelmann *et al.* 2014).

#### **4. The debate about fair and equitable minimum wages**

Considering the often rather low levels of minimum wages in Europe, the debate about a European minimum wage policy is first of all about the issue of a fair and equitable minimum wage. In international and European social law there are several documents which claim that every worker should have the right to a ‘fair (minimum) wage’ that guarantees a certain socio-cultural subsistence minimum. Although there is no universally accepted definition of a fair wage one can identify at least two lines of discussion. The first is the debate on ‘living wages’, which is very much inspired by developments in the United States and within Europe became rather prominent in particular in the United Kingdom and more recently also in Ireland. The second line is the debate on an adequate relative minimum wage level, which aims to define a fair minimum wage in relation to average or median wages. This debate started as early as the 1970s within the Council of Europe and has become more prominent at EU level since the mid-2000s.

##### **4.1 Normative foundations of a right to a fair wage**

The normative justification of a European minimum wage policy can find support in a series of international and European conventions and agreements, from which the principle of fair and adequate remuneration can be derived as a basic social right (Schulten 2008; Ofek-Ghendler 2009). There is already a corresponding clause in the 1948 UN General Declaration of Human Rights, according to which ‘Everyone who works has the right to just and favourable remuneration ensuring

for himself and his family an existence worthy of human dignity' (Article 23, para 3).

In its Constitution, whose original text dates from 1919, the International Labour Organisation (ILO) calls for 'the provision of an adequate living wage' (Preamble) for all employees. The notion of a living wage continues to stand for a demand that the minimum wage should not amount merely to a wage floor, but should establish a wage level that enables one to maintain a (minimum) standard of living in keeping with the level of development of the society in question (Anker 2011). Within the framework of two Conventions (No. 26 of 1928 and No. 131 of 1970), accordingly, explicit minimum requirements are formulated for determining minimum wages. According to ILO Convention No. 131 'in determining the level of minimum wages ... the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups' should be taken into consideration (Article 3, para a).

At the European level, a 'right of workers to a remuneration such as will give them and their families a decent standard of living' was first laid down in the European Social Charter adopted within the framework of the European Council in 1961 (Article 4, para 1). Finally, the EU, too, with the adoption of the Community Charter of the Fundamental Social Rights of Workers at the EU summit in Strasbourg in December 1989, recognises the right to 'an equitable wage' as a basic social right. In the document also known as the European Social Charter all workers in Europe should receive a wage 'sufficient to enable them to have a decent standard of living' (Title I, para 5). The task of a European minimum wage policy, accordingly, would be to coordinate national minimum wage policies in such a way that the fundamental social right of 'an equitable wage' is realised throughout Europe.

## 4.2 The concept of a living wage

Normative arguments in defence of a fair wage also played a key role in the first living wage movements, which emerged in the late nineteenth century, when, in a context of low pay, long hours and poor social conditions, political activists and social reformers challenged the dominant neoclassical view that the free market forces of supply and demand will provide for a fair wage (Figart 2004: 1). Drawing on different ideologi-

cal justifications, all early conceptions of a living wage share the overall objective of protecting workers from below-subsistence wages and enabling them to maintain an adequate living standard. Against this background, the concepts of minimum and living wages were used synonymously. One of the earliest documents that explicitly formulates a 'doctrine of a minimum living wage' is Pope Leo XIII's 1891 encyclical '*Rerum Novarum*' in which he demands that 'the remuneration must be enough to support the wage earner in reasonable and frugal comfort' (Ryan 1912: 32–33).

The first modern living wage movement emerged in the mid-1990s in the United States, when activists in Baltimore, Maryland, pushed the city government to address the problem of in-work poverty and low-wage work by passing a so-called 'living wage ordinance' requiring any firm holding a contract for service work to pay their workers a living wage, which at the time was more than 70 per cent above the federal minimum wage (Luce 2002). From there the idea spread quickly across the country so that in 2012 there were living wage ordinances in more than 140 cities, counties and universities (Luce 2012: 12). In Europe, the revival of the living wage concept took place in 2001 in London where a broad community coalition called 'London Citizens' managed to get political support from the Greater London Authority to implement the idea of a living wage. In 2011, London Citizens launched a Living Wage Foundation responsible for setting a living wage rate for the rest of the United Kingdom outside London. After a slow start, the UK living wage campaign convinced approximately 1,300 employers with around 80,000 workers to sign up and pay a living wage on a voluntary basis. In London alone there are over 400 accredited living wage employers with over 20 000 workers (GLA 2014: 5). The success of the UK living wage campaign triggered a lively debate in Ireland to launch a similar campaign as a means to address in-work poverty, which has increased sharply as a result of the current crisis.<sup>6</sup>

An important factor that spurred the re-emergence of living wage campaigns in the 'Anglo-Saxon' world (including Ireland) is the fact that the minimum wage concept has increasingly failed to prevent in-work poverty. Referring to the United States, Grimshaw states that living wage campaigns emerged 'in a context of a failed societal system of institu-

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6. For a more detailed account of the current debate in Ireland see Collins (2014).

tional regulation: low minimum wage rates, weakened unions, and privatization of public services' (2004: 101). Similar criticism has been levelled by living wage activists in the United Kingdom against the national minimum wage, which they view as too low, with lower rates for young workers not comprehensive enough to keep workers out of poverty without welfare payments by the state to supplement earnings (Grimshaw 2004; Wills 2009).

The key objective of the living wage approach of ensuring that every worker can make a decent living from what he or she earns is reflected in its calculation which usually follows the basic living costs approach (GLA 2014).<sup>7</sup> This implies the calculation for different household types (and regions) of a wage that is needed to cover the costs of a standard basket of goods and services in order to achieve an acceptable standard of living. While the composition of this basket is highly time- and place-specific, it usually includes the costs of: a nutritious low-cost diet, basic acceptable housing, clothing and footwear and other costs of a decent life, such as transportation, child care and education, health care, recreation and cultural activities, communication and personal care (Anker 2011: 6). Based on this empirical method, the UK living wage was £7.85 in 2014 which was more than 20 per cent higher than the national minimum wage of £6.50. Taking into consideration the higher cost of living in London, the London living wage of £9.15 was 40 per cent higher than the national minimum wage.<sup>8</sup>

### 4.3 Debates on a fair (minimum) wage at European level

An early attempt to operationalise the concept of a fair wage was undertaken within the framework of the European Council in the 1970s (Lörcher 2006). This primarily involved finding criteria for verifying compliance with the European Social Charter. After long discussions the European Council reached agreement on defining an 'equitable wage', which, in line with the European Social Charter, should be at least 68 per

7. For a detailed methodological review of the various ways to measure living wages see Anker (2011).

8. The calculation of the London living wage is based not only on the basic living costs approach, but also on the income distribution approach, which takes 60 per cent of the median wage as the benchmark. The level of the living wage is then calculated as the average of the two figures resulting from the basic living costs approach and the income distribution approach plus a 15 per cent margin to cover against unforeseen events (GLA 2014).

cent of the national average gross wage. In the mid-1990s, the definition was changed and henceforth the basis for the minimum wage was to be at least 60 per cent of the national average net wage. This definition is still used by the European Council in monitoring compliance with the European Social Charter (Schulten 2012).

Within the EU, the debate about adequate wages started in the early 1990s (Schulten 2008). In order to implement the right to an 'equitable wage' laid down in the 1989 Social Charter, the European Commission set up an international group of experts at the end of 1990 to look into the scale of low wages in Europe. After the group already at that time recognised the existence of a substantial low wage sector (Schäfer 1991) the European Commission published its first Opinion on an Equitable Wage in 1993. This document emphasises that 'low wages represent a problem in all countries of the European Communities' and 'very low income levels at both individual state and Community level ... [cause] problems concerning justice and social cohesion that could have a detrimental effect on economic performance in the long term' (European Commission 1993).

Given the existence of a low wage sector in Europe the European Commission called on the member states to 'take appropriate measures to protect the right to an equitable wage'. Besides the member states the 'social partners' were also called upon to address the issue of an 'adequate wage' at 'Community, national, regional and local level'. For itself the European Commission formulated the task of keeping an eye on the development of national wage structures in Europe and of monitoring national implementation of the right to an adequate wage through further studies (European Commission 1993).

The European Commission's Opinion can be interpreted as a first hesitant and still very vague attempt to coordinate national minimum wage policies at the European level. In particular, the European Parliament had spoken out in favour of a much more far-reaching Opinion in the run up to the report and in this context had proposed binding requirements with regard to national minimum wage policies. Thus in early 1993 in the report by the European Parliament's Committee for Social Affairs, Employment and the Working Environment (the so-called Wilson Report) the 'introduction of a fair reference wage at the national level' was called for, to serve 'as basis for collective bargaining'. Furthermore, all member states were supposed to introduce 'mechanisms to establish a

minimum wage related to the national average wage' (European Parliament 1993).

In the second half of the 1990s, however, the development of a Europe-wide coordinated minimum wage policy foundered on the obduracy of a number of member states. For the Progress Report on equitable wages presented by the European Commission in 1997 ('Equitable Wages – A Progress Report') only seven member states were even willing to provide data on their national wage structures (European Commission 1997). The majority of EU member states took the position that minimum wage policy is a purely national matter and that no competences should be established at the European level in that regard.

In fact, already in the early 1990s, when social policy competences at the EU level were extended, the area of 'remuneration' was explicitly excluded from the scope of the new social policy chapter of the European Treaty (TFEU Article 153, No. 5). On top of that, quite a few governments, with a view to 'labour market flexibilisation', far from seeking to limit the low wage sector and precarious employment, had begun to champion them. This also explains why in the Charter of Fundamental Rights in the European Union, which was adopted at the EU summit in Nice in December 2000, the wage issue was no longer even taken up and the establishment of a right to an adequate wage came to grief in the face of the resistance of numerous national governments from the very outset (Lörcher 2006).

Since the end of the 1990s the European Commission has given up trying to develop minimum wage policy as a European policy area in its own right. In numerous publications the European Commission –especially DG Economic and Financial Affairs– has, on the contrary, embraced the neoliberal demand for 'wages in line with productivity', thus favouring wider wage differentiation and expansion of the low wage sector. On the other hand, in various social policy documents of the European Commission, largely produced by DG Employment, Social Affairs and Inclusion, a more open and positive approach towards the need for an adequate wage can be found (for example, European Commission 2012).

After a group of German, French and Swiss economists had presented their relatively widely read 'Theses for a European Minimum Wage Policy' in 2005 (Schulten *et al.* 2006a) the topic was taken up again in the second half of the 2000s, especially by the European Parliament (Eldring

and Alsos 2012; Schulten 2012). In an opinion presented in 2007 it was stated that ‘in many Member States the minimum wage is set very low or at below subsistence level’ (European Parliament 2007: 469). Against this background a year later the European Parliament called on the European 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 per cent 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).

#### 4.4 Economic arguments for a European minimum wage policy

Besides the more normative discussions on fair and equitable minimum wages, more recently economic arguments have increasingly played an important role in the demand for a European minimum wage policy (Schulten 2012; OFCE *et al.* 2013; Brischoux *et al.* 2014). So far, the economic debate has focused mainly on the possible impact of minimum wages on employment. For a long time the debate was shaped largely by representatives of neoclassical labour market theory, according to which minimum wages by their very nature have negative effects on employment. The continuing influence of this belief is attested by the current EU crisis management, which prescribes that the allegedly too high minimum wages in numerous countries should be frozen or – as in the case of Greece – dramatically cut (Schulten and Müller 2015).

However, more recent international empirical research on minimum wages overwhelmingly takes the view that existing minimum wage regimes have no negative effects on labour markets (for a summary see Schmitt 2012; Bosch and Weinkopf 2014). Against this background, an alternative theoretical approach to minimum wages based on Keynesian economics focuses on the influence of the minimum wage on general wage development and thus the development of aggregate demand (Herr *et al.* 2009; European Commission 2012). The macroeconomic significance of the minimum wage can vary considerably within the framework of the specific national minimum wage regime. In many European countries, however, the development of the minimum wage not only influences wages in the lower wage segment, but also forms an important benchmark for wage developments as a whole. The higher the relative value of the minimum wage the more the wage structure of the economy can be compressed from below and the lower the wage differentiation

between different groups of employees. A more egalitarian wage structure, however, boosts aggregate demand because the propensity to consume of low wage earners is much greater; that is, they spend a much higher proportion of their income and save less.

Against the background of high unemployment, wage development in Europe since the outbreak of the crisis in 2009 has been characterised in many countries by persistent real-wage losses (Schulten and Müller 2015). These losses have contributed substantially to the collapse of aggregate demand and thus have exacerbated economic stagnation in these countries. EU crisis management has been a decisive factor in triggering a downward spiral in wage policy that has encouraged strong deflationary tendencies and now has even brought a European deflation crisis into the realm of possibility. On top of all that, Europe overall continues to be characterised by stark economic imbalances between (current account) deficit- and surplus countries, reductions in which have to date not been discernible, in particular with regard to the surplus countries (notably Germany).

A European minimum wage policy could constitute a substantial starting point for closer coordination of wage policy in Europe, which first and foremost as a kind of European deflation brake could prevent further falls in real wages and also stabilise aggregate demand. Furthermore, especially in the surplus countries a sharper increase in minimum wages could boost the domestic economy and thus help to reduce economic imbalances in Europe (OFCE *et al.* 2013; Brischoux *et al.* 2014).

## 5. The difficult debate within the European trade unions

### 5.1 The minimum wage debate within the ETUC

The debate about a European minimum wage approach is a recurring theme within the European Trade Union Confederation (ETUC).<sup>9</sup> The more recent revival of the debate within the ETUC was triggered mainly by three developments: first, the increase of in-work poverty and low-wage work in many EU countries as a consequence of the current crisis and the crisis management approach pursued by European and national

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9. For a summary of the debate until the mid-2000s (Schulten 2008).

policy-makers; second, and closely linked to this, the internal demand from some affiliates –notably but not exclusively from the CEE countries– to start a discussion about a European minimum wage approach because of their difficult situation in the national context (ETUC 2014a: 3); and third, the fact that Jean-Claude Juncker, the new president of the European Commission, attaches great importance to the issue of minimum wages, which is why the ETUC sees the need to develop its own concept to participate in the debate at European level (ETUC 2014a: 5).

The debate within the ETUC is dominated by two opposite positions. On one hand, a substantial number of affiliates from Central and Eastern Europe are pushing for a European approach and on the other hand, affiliates from the Nordic countries, for reasons outlined in more detail below, reject a European approach to the issue. Moreover, there is also some opposition to a European minimum wage approach among Italian trade unions (Furaker and Loven Selden 2013; Leonardi 2014). The Central and Eastern European affiliates have turned to Europe for help because they hope that a joint European approach can make up for the adverse conditions in the national context. The situation of the Polish ETUC affiliates illustrates the situation in many CEE countries. The Polish affiliates' capacity to address the problems of in-work poverty and low wage work by themselves is limited by the following factors: a minimum wage which is just at the poverty threshold of 50 per cent of the national median wage and therefore too low to effectively protect low-wage workers; a highly fragmented and decentralised system of collective bargaining with extremely low collective bargaining coverage and union density, which puts them in a weak bargaining position; a political climate hostile to trade unions and, linked to this, negative experiences with tripartite discussions about minimum wage developments and, finally, real wage development that consistently lags behind productivity development. The Polish trade unions therefore hope that a European minimum wage campaign would help them to improve their situation in the national context.

Against this background, the ETUC is in an extremely difficult moderating position in trying to broker a compromise between these two opposed views. The ETUC position on a European minimum wage approach is based on three key assumptions shared by all the affiliates. First, wage setting is and should remain a national responsibility (ETUC 2012a). The objective of a European minimum wage approach pursued by the ETUC is therefore not to impose one particular minimum wage regime

—for instance, a universal regime with statutory minimum wages— on all countries. The objective rather is to come to a common political understanding of an appropriate level of minimum wages measured in the context of the overall wage structure which would then be implemented in accordance with national customs and practices. Second, this level should be high enough to ensure a decent living standard (ETUC 2012b). The ETUC therefore usually refers to the definition of the Council of Europe, whose European Committee of Social Rights stipulated that a fair and decent wage is at least 60 per cent of the average net wage (ETUC 2014b: 2). The third basic assumption is that the preferred way of ensuring decent wages is through collective agreements negotiated by strong trade unions (ETUC 2012b). The European minimum wage approach should therefore always be discussed in the broader context of strategies to strengthen collective bargaining coverage (for instance, through *erga omnes* rules and other forms of extending collective agreements) and trade union density. However, in the absence of these conditions, minimum wages can be considered an alternative tool to provide a floor and to address the problems of inequality, in-work poverty and social dumping (ETUC 2012b: 6; 2014a: 1).

In light of the different internal views, the ETUC and its affiliates, so far, have failed to agree on a more binding European minimum wage approach based on guidelines or other procedural coordination rules that go beyond these common understandings. However, in light of the challenges mentioned above the ETUC intensified the debate at its collective bargaining school in Warsaw in October 2014. Here, the issue of a European minimum wage approach was discussed in the broader context of developing an overall trade union strategy for fair and equitable wages in Europe. This broader debate included not only the issue of an appropriate reference for the setting and implementation of minimum wages but also the crucial question of how to support national affiliates in establishing and strengthening collective bargaining institutions (ETUC 2014a, 2014b).

A European minimum wage policy is not much of an issue in most of the sectoral European trade union federations. An exception, however, is the European Federation of Public Service Unions (EPSU) which, with its 2006 campaign against low pay, pursued an approach that was similarly broad to the one pursued by the ETUC most recently. The 2006 EPSU campaign against low pay included both a ‘political campaign on statutory minimum wage rates and a co-ordinated campaign of collective

bargaining targeting minimum wages in collective agreements' (EPSU 2006: 18). More recently, EPSU confirmed its commitment to tackle low pay by continuing its campaign to increase minimum wages to at least 60 per cent of average monthly wages in countries with statutory minimum wages and to at least 70 per cent in countries where minimum wages are set by collective agreements (EPSU 2009: 2). In its most recent resolution on collective bargaining adopted at the Congress in May 2014, EPSU dropped the distinction of different levels for different minimum wage regimes. EPSU instead embraced the concept of living wages in order to protect lower paid workers. In addition, EPSU is still committed to supporting its affiliates in their attempts to improve 'minimum wages in collective agreements and statutory minimum wages where they exist, continuing to assert the aim of achieving legal minimum wages that are at least 60 per cent of national average wages' (EPSU 2014: 10).

The key challenge for the ETUC and the sectoral trade union federations alike is not so much to technically define a commonly shared reference level for national minimum wages. The most challenging task in developing a European minimum wage approach is to generate a common understanding of a broader political idea and project around the issue of minimum wages in the context of which the national affiliates can mobilise their members. The ETUC's attempt to frame the issue more broadly in terms of a political project to achieve fair wages in Europe is a first step in this direction, despite the reservations that still exist in some of its affiliates, especially those in the Nordic countries.

## 5.2 The minimum wage debate in the Nordic countries

The Nordic countries are characterised by relatively high unionisation rates and high collective bargaining coverage, although the trade unions have lost some of their strength over the past 15 years (Nergaard 2010). Trade unions and employers' associations have the main responsibility for wage regulation in all these countries, but only Sweden and Denmark apply this arrangement exclusively. Finland, Iceland and Norway also have mechanisms for legal extension of collective agreements, but none of the countries has adopted statutory minimum wage schemes (Eldring and Alsos 2012, 2014).

Since EU enlargement in 2004, a major challenge to the Nordic minimum-wage regimes has been in the internationalisation of labour mar-

kets. The influx of labour migrants and service providers from Central and Eastern European countries has challenged the labour market model and the collective agreements' ability to halt low-wage competition and social dumping. This development has triggered debates on the need for supplementary measures with regard to minimum wage setting, but so far this has mainly concerned the possible introduction or strengthening of mechanisms for the legal extension of collective agreements.

To the extent that the issue of a national minimum wage has been debated in the Nordic countries, trade unions tend to be very much against it, while some employers' associations argue in favour.<sup>10</sup> The concept of a statutory minimum wage has arisen most frequently in Norway, especially as a possible alternative to the extension of collective agreements. In the Norwegian context, a statutory minimum wage does not appear as a supplement to extensions – as in many other European countries – but as an alternative. Proposals for a statutory minimum wage are to some extent used by the employers as a hostile response to various initiatives by the trade unions to improve and activate the existing extension mechanism (Eldring and Alsos 2012). In Denmark, the white collar trade union federation FTF has argued in favor of statutory minimum wage regulation, and in particular legal extension of collective agreements, but so far with minimal or no support from other trade unions or the employers' side. FTF has also urged the Nordic unions to join in the debate on a possible European minimum wage policy (Preisler 2015).

So far, all proposals for a European minimum wage policy have been met with deep scepticism in the Nordic countries, and in particular among the trade unions. The resistance must be understood in light of the existing minimum wage systems in these countries. There is a widespread concern that statutory schemes may undermine the autonomy of collective bargaining, hamper the normative effect of collective agreements, exert a negative pressure on wage levels and weaken the incentives for being organised among both workers and employers. Even though some workers may stand to gain from a common minimum wage floor, the fear is that a great many others will fall towards a statutory minimum

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10. For the minimum wage debate in the Nordic countries see also the contributions of the special issue of the Nordic Labour Journal (February 2015) on "The minimum wage – fit for the Nordic region?" (<http://www.nordiclbourjournal.org/i-fokus/minimum-wage-for-the-nordic-region>).

level below the collectively agreed minimum rates. A relevant question is whether a European minimum wage scheme that entails reservations concerning the maintenance of national traditions for minimum wage setting could meet the demands of those countries that do not wish to establish a statutory minimum wage. However, even though the Nordic labour markets have a relatively low proportion of working poor and low wages, none of the countries have a watertight regulatory system. This applies to Norway in particular, where only half of the employees in the private sector are covered by collective agreements and only a minor proportion by extended agreements (Eldring and Alsos 2014).

It might appear strange that the apparently robust and sustainable Nordic labour market regimes could feel threatened by a European minimum wage policy that is intended primarily for countries with low minimum wage levels or no functioning minimum wage regimes. Some would also claim that the Nordic trade unions have failed to grasp the scope of the low-wage problem in some European countries, thereby attenuating their sense of solidarity. From the Nordic perspective, the question remains whether the introduction of a statutory minimum wage in the long term will undermine the Nordic wage-setting model and provide less protection for workers in the Nordic labour markets than today. As a result, the Nordic countries have so far maintained their negative attitude towards both national and European policy initiatives that might interfere with their current minimum wage-setting systems.

## **6. Possible implementation of a European minimum wage policy**

### 6.1 Political-institutional implementation

The implementation of a European minimum wage policy would require, first, that the EU countries were able to reach agreement on criteria for an equitable minimum wage. In order to take national wage differences and related different levels of economic development in Europe properly into account such criteria could take their bearings only from a relative minimum wage that would stand in a particular ratio to the national wage structure. Most proposals for a European minimum wage policy thus aim at establishing a European minimum wage norm, defined as a certain percentage of the national average or median wage.

Besides agreement on the content of a European minimum wage policy, however, a number of political and institutional obstacles would have to be overcome. This involves, first, the fundamental problem that regulatory competences in the area of wage policy are explicitly ruled out in the European Treaty. On the other hand, in recent times the EU has been perfectly willing to intervene in the (minimum) wage policy of individual member states, sometimes massively (Schulten and Müller 2015). This has been most striking in the so-called crisis states – such as Greece, Ireland and Portugal – where the Troika (made up of the European Commission, the European Central Bank and the IMF) have linked the provision of financial support to extensive ‘reform’ requirements, including drastic intervention in wage and collective bargaining policy. Furthermore, with the establishment of the European Semester, the EU has created an institutional framework for the purpose of imposing also wage policy requirements on individual member states as part of a Europe-wide coordination of economic policy.

Against this background, it is perfectly conceivable that, within the framework of the European Semester, recommendations on the development of national minimum wages might be made, oriented towards a common European minimum wage norm. Experiences with rather ‘soft’ governance reforms of this kind, especially in the field of social policy within the EU, are not particularly auspicious, however, because in practice they are not very binding and national actors show little inclination to comply. With regard to the development of a European minimum wage policy, therefore, they might possibly be only a first step that would later be followed by ‘harder’ governance reforms, such as the adoption of a directive. The latter would in all probability require a change of the European Treaty, however.

Given the different national minimum wage regimes in Europe, a European minimum wage policy will ultimately be accepted only if it forgoes institutional harmonisation of national minimum wage regimes (for example, the Europe-wide introduction of statutory minimum wages). Thus the question arises, however, of how implementation of European minimum wage norms could be ensured at national level. This would be less problematic in countries with a universal minimum wage, in particular if they are based on statutory guidelines. It would be more difficult for countries with sectoral minimum wage regimes, in which wages are laid down exclusively in collective agreements and universal wage norms have been unknown to date, as in the Nordic countries, in particular.

In principle, there are two possibilities for implementing a European minimum wage policy without introducing a statutory minimum wage: first, employers and trade unions could conclude a national framework agreement about a universal wage floor, as they did, for example, in Austria.<sup>11</sup> Second, it would be possible to increase the scope of sectoral collective agreements by enforcing the instrument of extension in order to guarantee the general application of sectoral minimum wages. As the example of Finland shows, such a system could be used to implement an (almost) universal wage floor via collective bargaining.

## 6.2 Impact of a possible European minimum wage policy

The effects of a possible European minimum wage policy are only hypothetical, especially because they would be directly related to the specific European minimum wage norm chosen. The only study available to date was produced by the European Foundation for the Improvement of Living and Working Conditions (Eurofound), which attempted to evaluate the consequences of a European minimum wage policy (Aumayr-Pintar *et al.* 2014: 82ff). The study assumes the introduction of a hypothetical minimum wage norm of 60 per cent of the median wage, which in most European countries is substantially above the existing relative minimum wage level (Section 3.2).

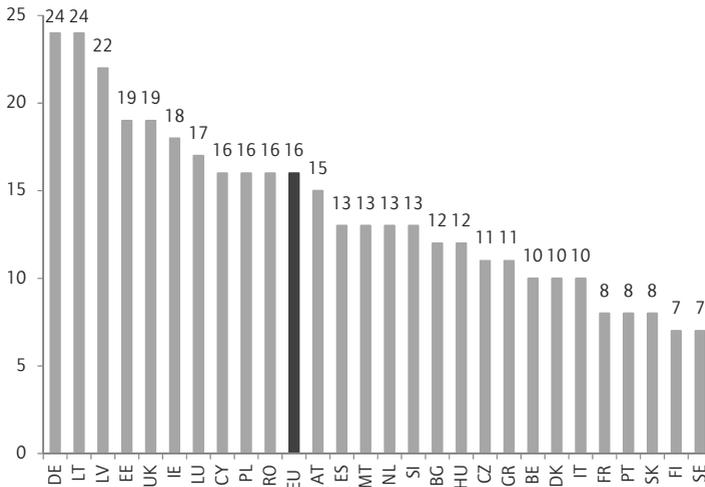
According to the Eurofound study in 2010 in the EU as a whole 16 per cent of all employees would have benefited from the introduction of such a European minimum wage norm (Figure 6). In absolute terms this represents more than 28 million workers.<sup>12</sup> The foreseeable impact of such a European minimum wage standard varies considerably from one country to another, depending on the size of the country's low-wage sector. The calculation ranges from just 7 per cent in Finland and Sweden to a staggering 24 per cent of workers in Germany and Lithuania who would have benefitted from a European minimum wage policy.

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**11.** In 2007, the Austrian employers and the trade unions concluded a national framework agreement on a minimum wage of 1 000 euros a month, which was not supposed to be undercut in any sectoral collective agreement.

**12.** The absolute figures were obtained directly from the authors of the Eurofound study.

Figure 6 Workers on less than 60 per cent of the national median wage, 2010 (% of all workers)



Source: Aumayr-Pintar *et al.* (2014), p. 112, based on EU-SILC and SES.

## 7. Conclusion

For more than two decades there has been a debate on the idea of a European minimum wage policy. Recently, the debate intensified in light of the strong increase of social inequality and poverty (even among those in work) in many European countries as a consequence of the crisis and the crisis management based on austerity and structural reforms. In particular, the dramatic social consequences of the crisis management have revealed that, in many European countries, the existing minimum wages are below the subsistence minimum and, therefore, are insufficient to effectively protect low-wage workers and to prevent in-work poverty. Thus, in the context of the crisis, the fundamental social right to an ‘equitable’ and ‘adequate’ wage –as called for in, among other things, the European Social Charter and the Community Charter of the Fundamental Social Rights of Workers– is being violated on a massive scale in Europe.

Despite the dramatic social consequences, the obvious failure of the current EU crisis management also represents a window of opportunity because the need for alternative concepts and a change of policies is be-

coming increasingly apparent. In this context, political support for and societal acceptance of a European minimum wage policy have increased considerably. A European minimum wage policy is not only being put forward as a tool to ensure 'adequate' minimum wages throughout Europe but also as a basic building block of a broader macroeconomic reorientation away from the current supply-side policies towards a demand- and wage-led model of growth that takes into account the important role played by wages in boosting internal demand and social cohesion.

However, as our analysis illustrates, the implementation of such an approach still faces major obstacles – both institutionally with respect to the diversity of national minimum wage regimes and levels and politically with respect to the different views even within the European trade union movement. Against this background, a European minimum wage policy would have to meet three key requirements. First, it would have to refrain from imposing a specific model and absolute minimum wage level on the member states. Instead, the key task is to reach agreement on a European minimum wage norm that defines a minimum wage as a certain percentage of national median or average wages. Second, such a relative level should be sufficiently high to effectively protect low-wage workers. By gradually raising national minimum wages, for example, to 60 per cent of national median wages up to 16 per cent of all workers in the EU could benefit from a European minimum wage policy. Third, in view of institutional diversity and the different views within the European trade union movement, a European minimum wage policy must take account of the fact that statutory and collectively agreed minimum wages are functionally equivalent for the purpose of ensuring the comprehensive application of minimum wages. Any discussion of a European minimum wage policy must therefore also include measures to strengthen national collective bargaining systems in order to increase collective bargaining coverage. Thus, a European minimum wage policy is compatible with retaining existing national industrial relations and wage-setting systems.

If understood in this sense, a European minimum wage policy could make an important contribution to reducing (income) poverty and (income) inequality. However, its impact would not only be limited to the social dimension. Economically, it would instigate a considerable demand boost and thus create new potential for growth and employment, as well as counteract the current risk of deflation in Europe. Finally, in view of the current legitimacy crisis afflicting European politics in many

EU countries, a European minimum wage policy would also have broader political implications because it could represent a concrete political project for reviving the idea of a ‘social Europe’, thereby helping to ‘re-gain people’s trust in the European project’ (Juncker 2014c).

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