

A stylized world map composed of a grid of grey dots, with several dots highlighted in red to represent specific countries.

Minimum Wage Regimes in Europe

... and What Germany Can Learn from Them

THORSTEN SCHULTEN

February 2014

- From 1st January 2015 Germany is to have a general statutory minimum wage. However, what the new German minimum wage regime will look like must first be established in the legislative process.
- In Germany, a minimum wage of 8.50 euros would be below the purchasing power of the PPP-adjusted minimum wage in the United Kingdom and thus at the lower end of the »leading group« of seven European countries.
- All the statutory minimum wages in Europe are below the so-called »low wage threshold«. In many EU states statutory minimum wages are not even above the level of »poverty wages«. Germany continues to have one of the largest low wage sectors in Europe.
- The »politicization thesis« favoured by opponents of a minimum wage in Germany, according to which minimum wage rises are issued as election »bribes«, is without foundation. If anything, there is evidence of a »politicisation from the Right«, in terms of which conservative governments often try to boost their standing by not adjusting the minimum wage for extended periods.
- If an adjustment mechanism is introduced in Germany that favours rather small adjustment steps the new German minimum wage regime risks being confined to ensuring only relatively modest structural effects.



Contents

Executive Summary	3
Introduction	4
Universal or Sectoral Minimum Wage Regimes	4
Minimum Wage Regimes and Collective Bargaining Systems	5
Minimum Wage Levels in Universal Minimum Wage Regimes	7
Minimum Wage Levels in Sectoral Minimum Wage Regimes	9
Effectiveness of the Minimum Wage Regime in Limiting the Low Wage Sector	10
Institutions and Regulations for Adjusting National Minimum Wages	11
Development Dynamics of National Minimum Wages	12
The Minimum Wage – A Political Football?	12
What Can Germany Learn from the Experiences of its European Neighbours?	14
References	16

Executive Summary

In all European states the setting of minimum wages is among the established instruments of labour market regulation. However, both the level of the minimum wage and the specific procedures and means for establishing it differ considerably.

Basically, we can distinguish between universal and sectoral minimum wage regimes in Europe. Universal regimes are characterised by the establishment of a general wage floor determined at national level. In most cases the minimum wage is laid down by law and in some countries also by collective agreement or tripartite agreements between the government, the employers and the trade unions.

Within the EU at present 21 of the 28 member states have a universal minimum wage regime with a generally valid national minimum wage rate. In seven EU member states, by contrast, there are only sectoral minimum wage systems: many of these countries have an exceptionally high incidence of collective agreements, which guarantees wide coverage for sectoral minimum wages.

In the countries with national minimum wages the level varies between 11 euros in Luxembourg and 1 euro in Bulgaria. Taking into account the different costs of living in Europe the differences are much lower in terms of purchasing power standards. With regard to national wage structures minimum wages vary between 36 and 62 per cent of the national median wage. In many European countries minimum wages are de facto poverty wages.

Very different procedures are also used to adjust the minimum wage. In most countries there are more or less institutionalised forms of participation on the part of employers' associations and trade unions. In a few countries the minimum wage is negotiated directly by the parties to collective agreements. Furthermore, in some countries the minimum wage is adjusted automatically to prices and/or average wages. Generally speaking, the development of minimum wages has been extremely moderate in most EU states since the beginning of the 2000s and is strongly influenced by the economic cycle. However, there is little reason to believe that there has been a »politicisation« of the minimum wage.

In light of European experiences a number of fundamental issues arise for Germany. They concern, on one hand, the level of the minimum wage at 8.5 euros, which is already exceeded substantially by a number of western European countries and, at just over 50 per cent of the median wage, it is close to the poverty threshold. Furthermore, the envisaged adjustment mechanism, in which employers and trade unions set the minimum wage in quasi-collective bargaining, harbours the risk of systemic deadlock, which will allow only very low increases in the minimum wage, if any.

Alternatively, Germany may opt for statutory minimum adjustment of the minimum wage to general price and wage development. Because the minimum wage is a fundamental social policy issue, the legislator should also take political responsibility for minimum wage setting and thus instigate a broad and democratic debate on an adequate minimum wage level in Germany.

Introduction

With the decision of Germany's new CDU-SPD government to introduce a general statutory minimum wage a political debate that had dragged on for more than ten years finally came to an end. From 1 January 2015 Germany is set to become the twenty-second state in the European Union to have a general wage floor of 8.5 euros an hour. What the new German minimum wage regime will finally look like and how it will square with the established forms of minimum wage guarantees in collective agreements remains largely unclear, however. Although a number of key points concerning the introduction and future adjustment of the statutory minimum wage are already to be found in the agreement establishing the grand coalition many details will be determined only in the course of legislation.

In light of this it makes sense to take another close look at the experiences of Germany's European neighbours. There are major differences between the *national minimum wage regimes* in Europe.¹ This is the case not only with regard to the strongly diverging minimum wage levels, but also with regard to the issue of how the minimum wage is determined, what roles are played by the trade unions and the employers' associations and what substantive criteria are laid down for a minimum wage. Finally, the outcomes of national minimum wage policy differ sharply with regard to limiting the low wage sector and ensuring an adequate wage level. Whether a minimum wage in Germany is really able to achieve the aims invested in it thus greatly depends on how the German minimum wage regime is shaped in the coming years.

In what follows, therefore, we shall first present the different minimum wage regimes in Europe in terms of their scope and instruments for fixing minimum wages. Then, we shall analyse the various minimum wage levels and their significance in the relevant national wage structure. After that we shall discuss the different ways in which minimum wages are periodically adjusted. Finally, we shall ask what lessons Germany can learn from the experiences of its European neighbours.

1. A detailed presentation of the different national minimum wage regimes in Europe, with in-depth country studies, can be found in Schulten et al. (2005) and Vaughan-Whitehead (2010).

Universal or Sectoral Minimum Wage Regime

In all European states setting minimum wages is an established instrument of labour market regulation. Precisely which tools are used to fix the minimum wage and the scope of minimum wage regulation sets one national minimum wage regime apart from another. A basic distinction can be drawn between universal and sectoral minimum wage regimes. Universal regimes are characterised by the setting of a general wage floor, usually at national level. In contrast, sectoral regimes do not have a general wage floor, but lay down minimum wages for specific branches or occupational groups.

Within the EU 21 of the 28 states have a universal minimum wage regime with a generally applicable national minimum wage rate (see Table 1). In seven EU states, by contrast, there are sectoral minimum wage systems: in this group belong the Scandinavian countries Denmark, Finland and Sweden, as well as Austria, Cyprus, Germany and Italy. However, with its introduction of a general national minimum wage from 2015 Germany will join the group with a universal minimum wage regime.

As a rule, minimum wages in countries with universal regimes apply to all workers. The only important group to whom special rules apply in some countries are young people, who are sometimes subject to lower minimum wage rates. However, both the economic efficiency and the legal admissibility of such minimum wages for young people are highly controversial and have been strongly criticised by the trade unions in particular. In Belgium in 2013 the collective bargaining parties even agreed to abolish minimum wages for young people because it is now regarded as an unacceptable form of age discrimination.² Besides the possibilities for downward derogations from minimum wage rates some countries – such as Luxembourg and Hungary – have introduced a second wage threshold above the general minimum wage, which sets a higher minimum wage for workers with a certain level of education/training and experience.

Minimum wage regimes also differ in terms of the dominant regulatory instrument used for setting the minimum wage or minimum wages. Basically, minimum

2. The derogation for pensioners proposed by the CSU – whose admissibility under European law would be extremely questionable – would be a similar form of age discrimination.

Table 1: Universal and Sectoral Minimum Wage Regimes in the EU

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

* If a tripartite agreement is not reached the decision is taken by the legislator. Source: WSI.

wages can be determined either by law or by collective agreement or within the framework of tripartite agreements between employers, trade unions and the state. In most countries with universal minimum wage regimes the law is the main regulatory instrument. This applies to countries such as France, the Netherlands, Luxembourg, the United Kingdom and Ireland, as well as most southern and eastern European countries with a statutory minimum wage determined by the state.³

In some eastern European countries, by contrast, the minimum wage is first negotiated at national level within the framework of tripartite bodies. If a tripartite agreement is reached in this way the negotiated minimum wage attains statutory status. If the negotiations break down, the state unilaterally sets the minimum wage by law.

Belgium has its very own model in terms of which the minimum wage is agreed within the framework of a national collective agreement for the whole private sector.⁴

3. Up to a few years ago the number of eastern European countries with tripartite minimum wage agreements was much larger. In the wake of the euro-crisis, however, particularly under international pressure imposed by the so-called Troika, they have been transformed into purely statutory minimum wage systems (Schulten/Müller 2013).

4. A similar system of national minimum wage collective agreements existed in Romania and Greece between 2011 and 2012. Under pressure from the Troika, however, they were abolished in favour of a unilaterally fixed statutory minimum wage system (Schulten/Müller 2013).

A similar form of regulation is sought in the coalition agreement of the new German government. On the basis of a minimum wage of 8.5 euros initially laid down by politicians, in future a »social partners committee« is to set minimum wage levels, which will then be given statutory character by ordinance (CDU/CSU/SPD 2013: 68). Thus a system of quasi-collective bargaining about the national minimum wage has been introduced in Germany.

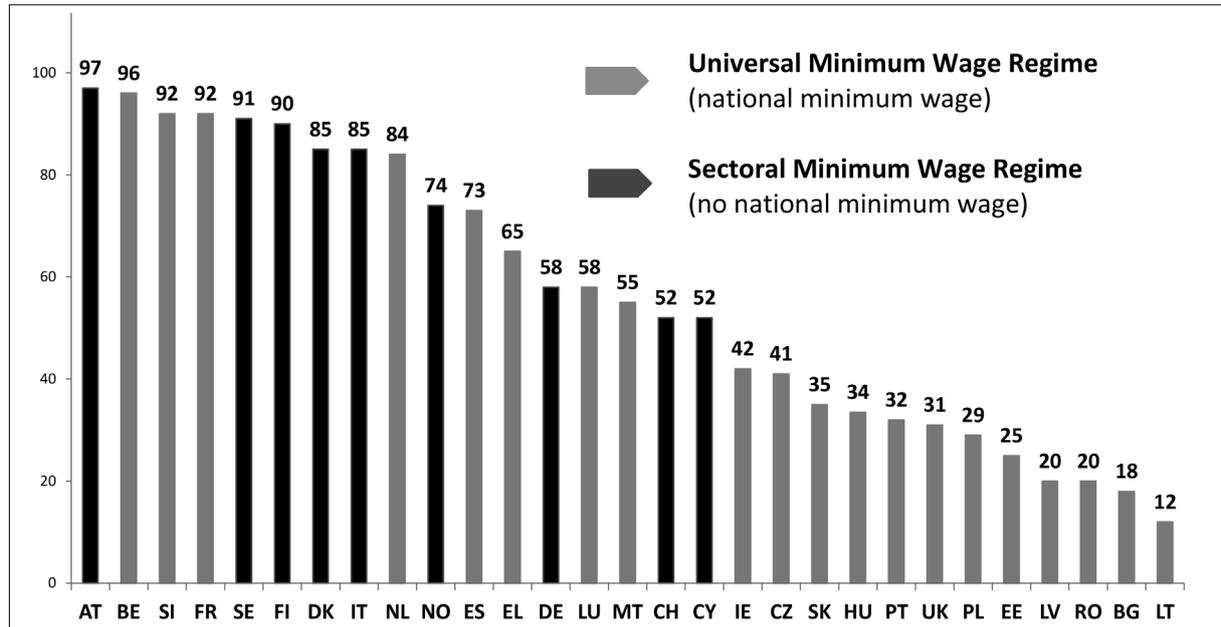
In countries with sectoral minimum wage regimes, by contrast – with the exception of Cyprus, where there are statutory minimum wages for certain occupational groups – minimum wages are set exclusively by collective agreements. The scope of sectoral minimum wage regimes thus depends directly on the robustness of the collective bargaining system and coverage in the respective country.

Minimum Wage Regimes and Collective Bargaining Systems

Among the countries with sectoral minimum wage regimes it is remarkable how many have a comprehensive collective bargaining system, as a result of which a large proportion of workers – 85 per cent and over – are covered by a collective agreement (Figure 1). This includes especially the Scandinavian countries Denmark, Finland



Figure 1: Minimum Wage Regimes and Collective Agreement Coverage, 2009–2011*
(as a percentage of all workers covered by a collective agreement)



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

and Sweden, as well as Austria and Italy. The broad coverage of collective agreements in these countries ensures extensive minimum wage protection and makes statutory regulation superfluous. Accordingly, the trade unions in these countries are strongly against a statutory minimum wage and instead emphasise free collective bargaining for minimum wage setting (Eldring/Alsos 2012).

However, some other countries with sectoral minimum wage regimes have much lower coverage (Figure 1). This includes, in particular, Germany with coverage of around 58 per cent, as well as Cyprus and – outside the EU – Switzerland, each with 52 per cent. In these countries a relatively large number of workers not covered by collective agreements have no minimum wage protection. It is therefore no surprise that trade unions in these countries are all in favour of switching the regime and call for the introduction of a general statutory minimum wage.

In Germany the persistent decline in collective agreement coverage contributed substantially to the trade unions’ revision of their previous negative stance with regard to a statutory minimum wage. The minimum wage campaign that began in the mid-2000s is one of the most successful trade union political campaigns of recent times, managing to mobilise broad popular support

across voters of all political stripes. There is a similar situation in Switzerland, where there will be a referendum in 2014 on the introduction of a statutory minimum wage.⁵

Among the countries with universal minimum wage regimes there are both states with low collective bargaining coverage and states with broad coverage (see Figure 1). This indicates that there can be very different forms of interaction between national minimum wages and wage setting within the framework of collective bargaining (Bosch/Weinkopf 2013; Grimshaw/Bosch 2013). In countries with poor collective agreement coverage – in particular the majority of eastern European countries – the minimum wage serves as an important anchor for the wage structure as a whole. As a rule, the development of the minimum wage thus forms the key benchmark for general wage development. In other countries, such as France, that have a comparatively high minimum wage level, the development of the general minimum wage also strongly influences the development of collectively agreed wages, especially in lower wage groups. Finally, there are also countries – such as the Netherlands – in which the scope of the statu-

5. For information on the minimum wage debate in Switzerland see: <http://www.mindestlohn-initiative.ch>.

tory minimum wage is restricted to a fairly small group of workers not covered by collective agreements and scarcely affects the development of collectively agreed wages.

Overall, statutory and collectively agreed minimum wages are by no means necessarily in opposition to one another, but can also supplement one another. In many countries the statutory minimum wage thus merely absorbs those workers who do not have (adequate) minimum wage protection under a collective agreement.

Minimum Wage Levels in Universal Minimum Wage Regimes

The scope and effectiveness of national minimum wage regimes are linked closely to the level of minimum wage protection, which exhibits considerable differences within Europe (Kampelmann et al. 2013; Schulten 2013).⁶ The countries with universal minimum wage regimes can be divided into three groups in terms of the level of the national minimum wage (in euros; Figure 2). The first group, with relatively high minimum wages, includes six countries from western Europe. In pole position is Luxembourg, whose very high minimum wage rate of 11.1 euros an hour reflects the special economic characteristics of a very small EU state with many workers commuting from neighbouring countries. The core of the leader group is made up of France (9.53 euros), the Netherlands (9.11 euros) and Belgium (9.1 euros), all of whose minimum wages top the 9-euro European average. A little below them comes Ireland, with a minimum wage of 8.56 euros. Finally, the United Kingdom, with a minimum wage of 7.43 euros an hour, brings up the rear of the leader group. If Germany goes ahead with a minimum wage of 8.5 euros an hour from 2015 that would put it at the lower end of the leader group. France's minimum wage, in particular, is already more than 1 euro higher.

In the second group, with minimum wages between 2 and 7 euros an hour, there are eight EU countries from southern and eastern Europe. The leader of this intermediate group is Slovenia, with a minimum wage of 4.53 euros an hour. It is followed by Malta, with 4.15 euros and Spain, with 3.91 euros. Due to a cut of more than 20

per cent in February 2012 the minimum wage in Greece is only 3.35 euros an hour. At the bottom of the intermediate group are Portugal, Poland, Croatia, Estonia and Slovakia, with between 2 and 3 euros. Most of the countries in the third group have minimum wages between 1.7 and 2.0 euros an hour. Bringing up the rear in the EU are Bulgaria and Romania, with minimum wages of just over 1 euro an hour.

Comparison of national minimum wages measured in euros is distorted somewhat by major exchange rate fluctuations. This applies in particular to the United Kingdom, whose currency has been devalued against the euro by over 30 per cent in recent years. Without this devaluation the UK minimum wage would today stand at more than 9 euros, which would put it at a level comparable with the other western European countries.

An evaluation of minimum wage levels must also take purchasing power into account. In order to take on board different costs of living in Europe it makes sense to carry out international comparisons of statutory minimum wages also in terms of purchasing power standards (PPS) (Figure 3). In contrast to a comparison of nominal minimum wages in euros the differences between national minimum wage levels in terms of PPS are much lower: whereas the difference between the highest and the lowest minimum wage measured in euros is around 1:11, in terms of PPS it is much lower, at 1:4.5. In Germany a minimum wage of 8.5 euros would correspond to a PPS of 7.06 euros and thus be below the level of the UK minimum wage adjusted for purchasing power.

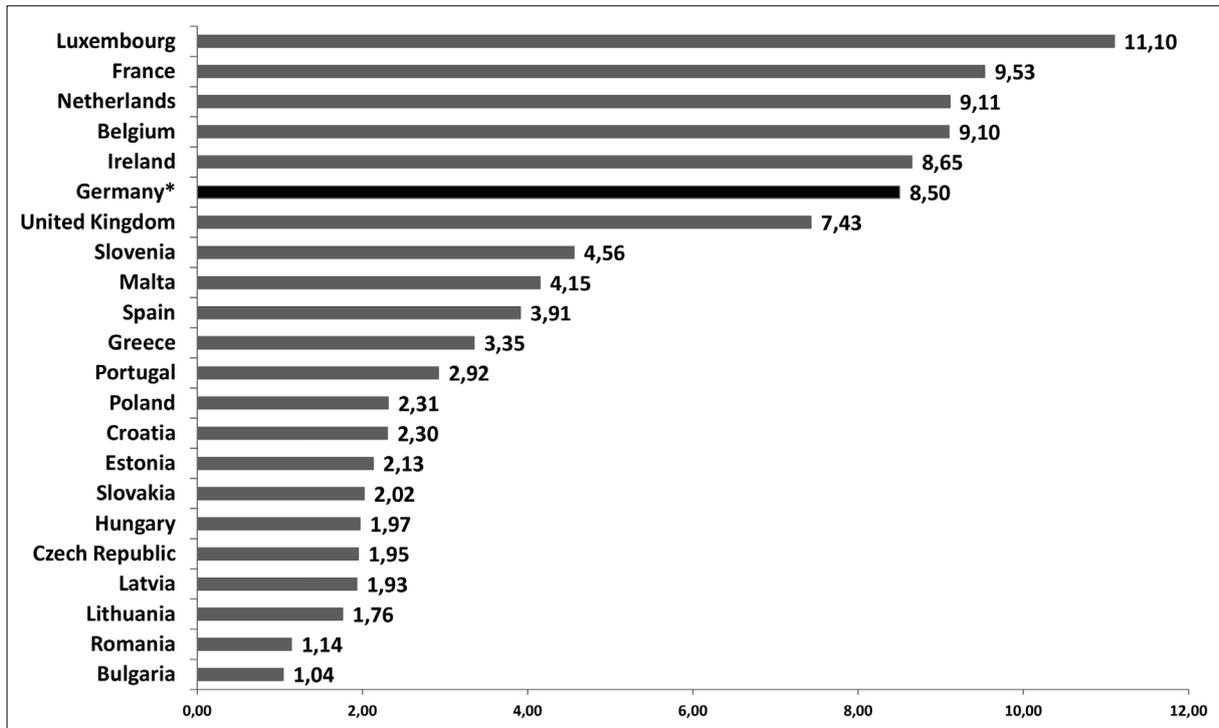
Finally, it is important how the minimum wage is related to the national wage structure. The latter can be measured with the so-called »Kaitz index«, which calculates the minimum wage as a percentage of the national median wage.⁷ However, the relevant data, which are published regularly by the OECD, are based on unharmonised national data sources and thus must be regarded as only approximate values. According to the OECD, in 2012 minimum wages in comparison with the median wages of full-time employees in the EU varied between

6. Current data on national minimum wages in Europe, as well as many non-European states can be found in the WSI minimum wage data base, available online in German and English at: www.wsi.de/mindestlohnndatenbank.

7. The median wage is the amount that divides the wage distribution into two equal segments, with half of all workers earning more and the other half earning less. It is to be distinguished from the average wage, which is calculated at the arithmetic mean of all wages.

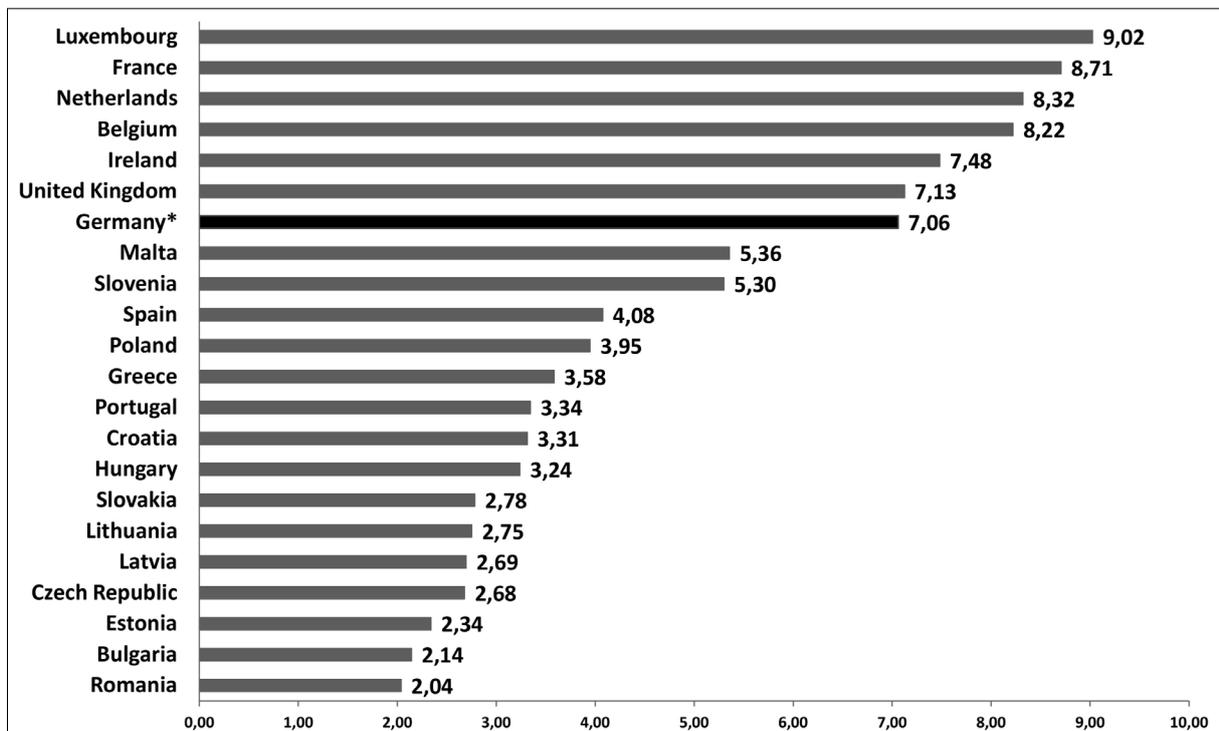


Figure 2: National Minimum Wages in Europe (euros per hour)



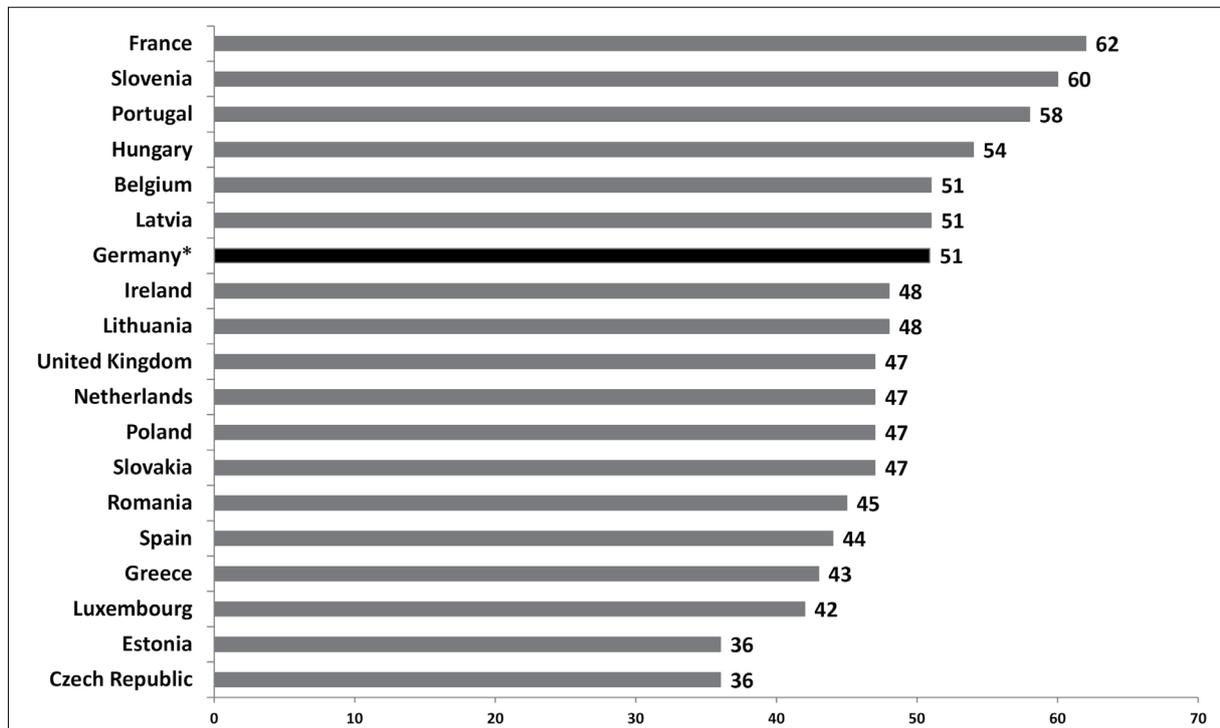
* From 1 January 2015; Source: WSI minimum wage database (as of: January 2014; converted into euros at the annual average exchange rate in 2013).

Figure 3: Statutory Minimum Wages in Europe (PPS, per hour)



* Based on a minimum wage of 8.50 euros per hour (from 1.1.2015); Source: WSI minimum wage database (as of: January 2014).

Figure 4: Minimum Wage as a Percentage of the Median Wage for Full-time Employees (2012)



* Based on a fictive minimum wage of 8.50 euros per hour; Sources: OECD; Bundesagentur für Arbeit.

62 per cent in France and 36 per cent in Estonia and the Czech Republic, with the majority of countries exhibiting values of between 45 and 55 per cent (Figure 4). Germany's planned minimum wage of 8.5 euros an hour would have represented 51 per cent of the median wage in 2012.

Measured in terms of national wage structures Europe's statutory minimum wages are relatively low. All of them are below the so-called low-wage threshold, established by international conventions at two-thirds of the median wage. Following the poverty threshold used in international poverty research a wage below 50 per cent of the median wage counts as a »poverty wage«. In many EU states, then, the statutory minimum wage does not rise above the level of poverty wages (Marx et al. 2012).⁸ In Germany, too, the envisaged statutory minimum wage of 8.50 euros hardly represents a high wage level, and indeed already lies close to the current poverty level.

8. Against this background in recent years the debate has intensified on a possible European minimum wage policy, that would ensure that in all countries the minimum wage would be at least 60 per cent of the national median wage (Schulten 2012, Fernández-Macías/Vacas-Soriano 2013).

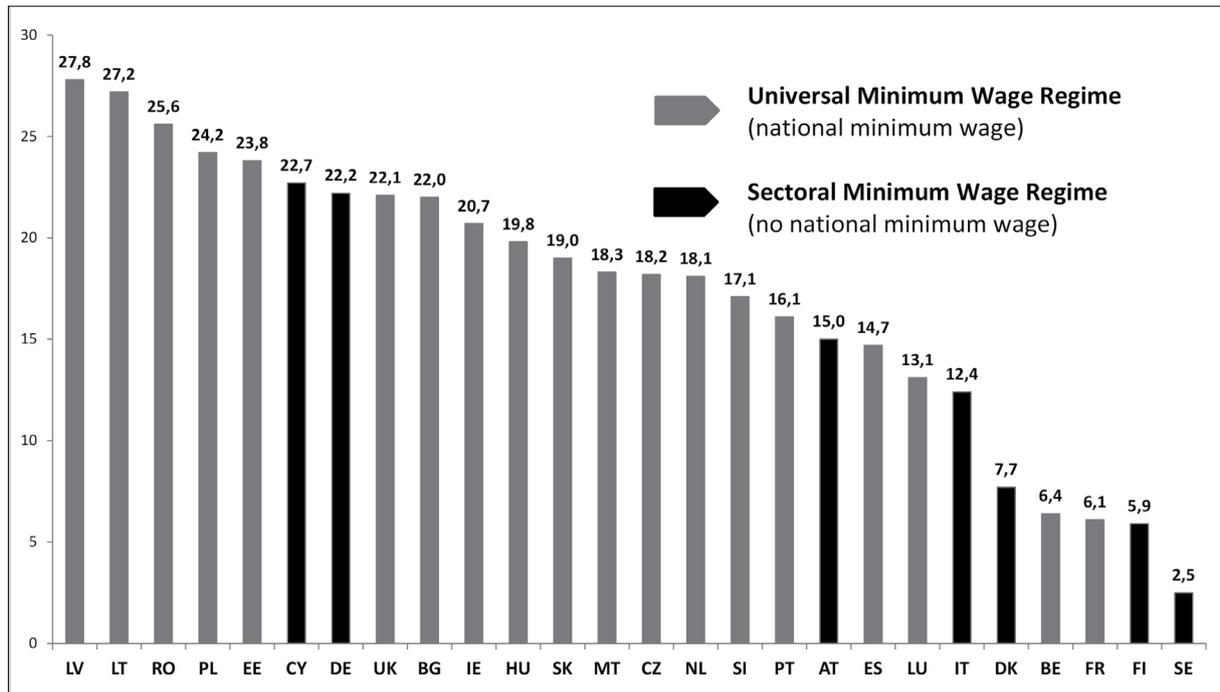
Minimum Wage Levels in Sectoral Minimum Wage Regimes

Because of the lack of a national minimum wage in countries with sectoral minimum wage regimes the minimum wage level can be determined only by analysing the lowest collectively agreed wage groups. The few more recent studies on this indicate that two groups of countries can be distinguished (Eldring/Alsos 2012; Kampelmann et al. 2013). On one hand are the Scandinavian countries, whose collectively agreed minimum wages as a rule are substantially above the national minimum wages in other EU states. This reflects not only a higher wage level overall, but also a significantly more egalitarian wage structure. Thus the minimum wage in most sectors is markedly higher than 60 per cent of the national median wage.

On the other hand we find countries such as Germany and Austria, in which in some instances there are very low collectively agreed minimum wages substantially below national minimum wages in comparable western European countries. For Germany, for example, a study of the WSI pay scale archives shows that at the end of 2012, out of around 4,700 remuneration groups investigated



Figure 5: Minimum Wage Recipients in the European Union 2010 (in per cent*)



* Proportion of employees with a wage below two-thirds of the national median wage. Source: Eurostat (Bezzina 2012).

in a total of 41 branches, 11 per cent of all remuneration groups had a minimum wage below 8.50 euros an hour (Bispinck/WSI-Tarifarchiv 2013).

Efficiency of Minimum Wage Regimes in Curbing the Low Wage Sector

The efficiency of national minimum wage regimes can be measured by the extent to which they are able to curb the low wage sector. Two factors are decisive in this respect: first, the scope of minimum wage regulation. Universal minimum wage regimes have a structural advantage compared with sectoral regimes here. However, in sectoral regimes, too, a high level of coverage by collective agreements can ensure largely universal regulation of minimum wages.

Second, the efficiency of a minimum wage regime depends primarily on whether it is in a position to ensure an adequate minimum wage level. However, there is no unambiguous link with the constitution of a minimum wage regime when it comes to the level of the minimum wage. Both universal and sectoral regimes can generate very different minimum wage levels. This is

illustrated by the extreme differences in low wage sectors in Europe.

According to Eurostat figures, in 2010 17 per cent of all workers in the EU were working in the low wage sector; in other words, they received a wage below two-thirds of the respective national median (Bezzina 2012). The biggest low wage sector, at 27.8 per cent of all employees, was in Latvia. The smallest low wage sector, at just 2.5 per cent, was in Sweden. Overall, in 10 states the low wage sector encompassed more than 20 per cent of employees; in another 11 states between 10 and 20 per cent; and in only five states was it below 10 per cent (Figure 5).

The extent of the low wage sector in the EU makes it clear at a glance that in many cases national minimum wage regimes are not particularly efficient. This applies in particular to many eastern European countries, which have a relatively low minimum wage level and, at the same time, poorly developed collective bargaining systems with low coverage. A similar situation may be found in the United Kingdom, where there is also a combination of a (relatively) low minimum wage level and low collective bargaining coverage and, accordingly, the low wage sector remains substantial.

Table 2: Models for Adjusting National Minimum Wages

1. Indexation	2. Negotiation	3. Consultation	4. Unilateral decision-making
»Automatic« adjustment to price and/or wage development	Bi- or tripartite negotiations between employers, trade unions and state	Institutionalised consultations between employers and trade unions	Unilateral decision-making by the state
Belgium, Netherlands, Luxembourg, France, Malta, Slovenia	Bulgaria, Estonia, Germany (from 2015), Poland, Slovakia (Belgium supplementing 1)	United Kingdom, Portugal, Spain, Croatia, Latvia, Lithuania (France, Luxembourg, Netherlands, Slovenia supplementing 1)	Greece, Ireland, Romania, Czech Republic

* Source: WSI.

By contrast, the Scandinavian countries have proved to be particularly efficient in curbing the low wage sector, even though they have no national statutory minimum wage. However, they do have high collectively agreed minimum wages and broad coverage. The minimum wage regimes in Belgium and France, where the statutory minimum wage level is comparatively high and coverage is broad, are similarly successful. By contrast, Germany embodies – to date – the opposite type, which has neither a statutory minimum wage nor substantial collective bargaining coverage, and thus has one of the largest low wage sectors in Europe.

Institutions and Regulations for Adjusting National Minimum Wages

While collectively agreed minimum wages as a rule have the advantage of being regularly adjusted through recurring wage negotiations, the efficiency of national and statutory minimum wages depends on the existence of dedicated institutions and regulations that are able to ensure adequate development of the minimum wage level. In the EU, ideal-typically, four different adjustment models can be distinguished (Table 2).

The first is the *indexation model*, which more or less automatically guarantees regular adjustment of the national minimum wage in relation to certain economic indicators. At present there is indexation of this kind in six states: in Belgium, Luxembourg, Malta and Slovenia the minimum wage is adjusted in relation to consumer prices, in the Netherlands to collectively agreed wages and in France to an index combining price and wage development. Due to indexation there is a guaranteed minimum adjustment in all these countries, which can

be supplemented by political adjustments (for example, bringing about a structural increase in a minimum wage level considered to be too low). In the Netherlands, furthermore, there is also the possibility of suspending automatic minimum wage adjustment in certain situations of economic crisis characterised by high unemployment.

The advantage of the indexation model overall is that a certain regular minimum adjustment of the minimum wage is guaranteed. This model can become a problem, however, if adjustment of the minimum wage is confined to indexation. In this instance the minimum wage would no longer increase in line with the national wage structure or could – for example, if adjustment is only to inflation – even fall behind general wage development. It is thus important that all countries with indexation systems provide for the possibility of additional adjustments.

Besides indexation, secondly, there is the *negotiation model*, in which employers and trade unions regularly negotiate the adjustment of the national minimum wage and the state transposes the result of these negotiations into a statutory minimum wage. Such a model exists in some eastern European countries, as well as – supplementing indexation – in Belgium. Finally, the new CDU/SPD government in Germany plans to introduce such a negotiation model in Germany from 2017, under which in future a »committee of social partners« will negotiate minimum wage adjustment.

The basic problem with the negotiation model, however, is that as a rule genuine wage negotiations do not take place, which would also include the possibility of industrial action. Accordingly, the trade union side in particular lacks the ability to exert political pressure to

get the employers to make adequate minimum wage adjustments. Because, in practice, national minimum wage negotiations often get nowhere the relevant states have provided for fall-back solutions. While in Belgium indexation acts as a minimum adjustment guarantee, in the eastern European countries the state decides in the event of negotiation failure. In Germany the »committee of social partners« is supposed to be composed in such a way that the chair, who will have the casting vote in the event of an impasse, will alternate between employers and trade unions (CDU/CSU/SPD 2013: 68).

Third, there is the *consultation model*. In this model employers, trade unions and sometimes other groups – for example, academics – are involved in consultations, in more or less institutionalised form, on adjustment of the minimum wage. The ultimate decision on minimum wage adjustment and thus also the political responsibility lies with the state, however. The most developed form of this consultation model is to be found in the United Kingdom, where a so-called Low Pay Commission was set up, comprising – one-third each – representatives of employers, trade unions and academia. It makes annual recommendations to the government on adjustment of the minimum wage on the basis of extensive analyses.

The benefits of such a consultation model can be that by including the collective bargaining parties and sometimes other groups, in particular the introduction of a statutory minimum wage can acquire greater social acceptance. Experiences from the United Kingdom, in particular, confirm this. At the same time, consultations can be merely a ritual – as in France, for example – in which the government informs the other participants of its minimum wage plans without the other actors having any influence on minimum wage adjustment.

Finally, there now exist a number of states in the European Union in which there are neither negotiations nor institutionalised consultation with employers and trade unions and the state determines adjustment of the minimum wage without specific rules. This *unilateral decision-making model* is fairly untypical for Europe and has emerged only in recent years in the wake of the euro-crisis in a number of countries that previously had a negotiation or a consultation model (Schulten/Müller 2013).

Besides the adjustment procedure the temporal rate of adjustment is crucial for the development of minimum wages. In most countries the minimum wage is usually adjusted once a year; in the Netherlands even every six months. Some countries, by contrast, have not laid down any specific adjustment rhythm, which makes adjustment strongly dependent on the current government and sometimes many years go by without a minimum wage increase.

Development Dynamics of National Minimum Wages

Real development of national minimum wages in Europe, largely independent of the relevant adjustment model, has been very moderate (Table 3). Adjusted for the development of consumer prices, the real value of the minimum wage has risen by between 0.5 and 1 per cent in most western and southern European countries since the early 2000s. Minimum wage development has, moreover, remained closely in line with the economic cycle: in other words, in growth years minimum wage increases have been fairly respectable, while since the crisis hit in 2008 minimum wage adjustments in many countries have fallen behind inflation, leading to falling real wages for minimum wage recipients.

There has been a more pronounced development dynamic with regard to minimum wages in some eastern European countries, such as Bulgaria, Romania, Estonia and Latvia, which since 2001 have exhibited real growth rates averaging 6 to 8 per cent a year. However, this conceals multiple base effects, due to the fact that where the absolute minimum wage level remains extremely low it is relatively easy to introduce high increases. Furthermore, in the eastern European countries, too, minimum wage development is strongly dependent on the economic cycle, which has led to a fall in the real value of the minimum wage in the recent crisis years.

The Minimum Wage – A Political Football?

Given the strong influence of the economic cycle on minimum wage development there is little evidence to sustain the »politicisation thesis« repeatedly brought up by opponents of the minimum wage, according to



Table 3: Real Development of National Minimum Wages per Hour (2001–2012)*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2001–2012**
Western and Southern Europe													
Belgium	1,5	0,4	-1,6	-0,1	-0,8	0,2	2,2	1,5	0,1	-0,2	-1,6	1,2	0,2
France	2,4	0,5	3,2	3,7	3,8	1,3	0,6	0,4	1,6	0,1	0,3	0,3	1,5
Greece	1,9	2,5	0,3	3,0	2,7	-0,2	5,9	-1,2	4,4	-4,7	-1,9	-24,3	-1,0
United Kingdom	9,6	1,2	5,8	6,4	2,1	3,6	0,8	0,2	-1,0	-1,1	-2,0	-1,0	2,1
Ireland	1,9	1,7	-3,5	8,0	6,9	4,6	-0,7	-4,1	4,5	0,9	-2,6	-1,7	1,3
Luxembourg	-0,2	4,0	0,5	2,3	-0,0	1,8	-2,3	1,1	2,2	2,1	-0,9	1,4	1,0
Malta	0,5	0,8	-0,5	0,5	1,5	0,4	1,8	-1,8	2,2	-1,3	0,7	-0,7	0,4
Netherlands	0,4	0,2	-0,9	-1,2	-1,1	1,0	1,0	1,0	0,8	-0,1	-0,7	-1,0	0,0
Portugal	-0,1	-1,1	-0,7	0,1	0,7	1,3	3,3	3,1	6,4	0,7	-3,7	-2,8	0,6
Spain	-1,7	-1,0	-1,0	8,4	2,1	2,0	2,4	-0,1	1,8	-0,5	-3,2	-1,9	0,6
Eastern Europe													
Bulgaria	18,1	4,4	7,0	19,1	1,7	5,3	13,1	-3,1	-2,8	-2,4	9,2	11,9	6,8
Estonia	9,0	13,6	13,3	5,5	7,7	15,7	19,7	-10,4	0,1	-3,0	-0,9	1,6	6,0
Croatia	2,0	1,7	3,1	4,6	0,9	2,7	3,4	6,4	0,1	-1,0	-2,2	-3,4	1,5
Latvia	17,5	14,8	8,9	-6,2	8,2	25,0	25,1	-2,9	-3,5	11,2	-4,3	-2,3	7,6
Lithuania	-1,4	-0,3	6,6	9,4	10,9	5,2	27,2	-10,9	-4,5	-1,2	-4,1	21,7	4,9
Poland	-5,3	3,4	2,3	-0,3	3,7	2,8	17,9	9,2	-0,6	2,6	4,0	3,1	3,6
Romania	5,5	56,1	-3,3	-1,2	-2,5	11,6	23,4	12,2	-5,6	5,6	-1,3	-3,3	8,1
Slovakia	4,4	17,2	0,8	-0,7	3,4	5,6	3,9	5,2	2,6	1,9	-0,6	-0,4	3,6
Slovenia	8,7	2,0	2,0	1,8	1,9	-0,5	-0,4	3,8	0,4	23,4	0,3	0,1	3,6
Czech Republic	8,3	7,0	7,2	4,5	3,3	5,1	-3,0	-6,3	-1,0	-1,5	-1,9	-3,3	1,5
Hungary	16,1	-5,3	1,2	0,8	6,2	0,8	-2,7	-2,5	-1,3	1,3	15,3	-0,3	2,5

* Percentage change from 1 January of the current year to 1 January of the following; deflated by the development of consumer prices; ** average annual increase; Source: WSI minimum wage database.

which the development of the minimum wage primarily follows the political cycle of election campaigns and excessive minimum wage increases are dished out as election bribes.⁹ If there is anything of this kind at all there are signs in some countries of a »politicisation from the right« in terms of which often conservative

governments seek to raise their profile by suspending adjustment of the minimum wage for a considerable period of time.

Indeed, against the background of the euro-crisis minimum wages in many European countries have risen very little or have even been completely frozen so that the real value of the minimum wage has fallen constantly (Schulten 2013). This applies in particular to the countries of southern Europe, but also to countries such as the Netherlands and the United Kingdom. By contrast, countries such as France have borne up much better

9. In Germany this is the favourite argument of many economists who – if they cannot prevent the introduction of the minimum wage – insist that the minimum wage should be set not by political actors but by »economic experts« (in other words, by them). See as the latest example of this the call issued by 130 economics professors in December 2013 (»Ökonomen fürchten Mindestlohn ohne Sachverstand« [Economists fear a minimum wage without expertise], *Frankfurter Allgemeine Zeitung*, 19.12.2013).

and have managed to ensure the real value of the minimum wage by means of the prescribed minimum adjustment.

The development of national minimum wages in Europe overall shows that changes are rather gradual and that leaps are few and far between. This also means that a minimum wage level, once established, is rarely changed and substantial increases that raise the relative value of the minimum wage in comparison with the national wage structure are rare.¹⁰ This is all the more problematic because the national minimum wage in many European countries is only in line with poverty wages.

What Can Germany Learn from the Experiences of Its European Neighbours?

Under the aegis of the new CDU-SPD government a general national minimum wage will be introduced in Germany on 1 January 2015 and thus a change of system will take place from a sectoral to a universal minimum wage regime. This step was necessary because the traditional German system of collectively agreed minimum wages was becoming increasingly threadbare due to declining collective bargaining coverage and was no longer able to hinder the growth of the low wage sector.¹¹

Now that the fundamental debate on introducing a general minimum wage has been decided what is needed is to establish the most efficient minimum wage regime possible, which is in a position to drive back the escalating low wage sector in Germany. In light of European experiences, what we know so far from the coalition agreement about the new minimum wage regulations raises some important questions.

The first and most important question concerns what the level of the general minimum wage is likely to be in Germany and what relationship this should have to the German wage structure. With a minimum wage of

8.50 euros a fairly low entry point was chosen which is already substantially below the level of some western European countries (such as France). To be sure, there is something to be said for caution when introducing a general minimum wage for the first time. However, it is problematic that the coalition agreement envisages the first adjustment of the minimum wage as taking place on 1 January 2018, which means that what is already a fairly low entry level will remain frozen for three years. By 2018 a minimum wage of 8.50 euros will not only have lost a considerable amount of its value in real terms but it would also have fallen back significantly in comparison with the general wage structure in Germany and thus be below the poverty threshold. Finally, the gap with the national minimum wages of other western European states would be even wider.

The second important question concerns the future procedure for adjusting the minimum wage in Germany. Here the coalition agreement calls for a negotiation model under which employers and trade unions are to agree on minimum wage levels in quasi collective bargaining. The experiences of other European states with such negotiation models, however, are anything but positive. Particularly because this does not involve »genuine« collective bargaining, in practice deadlock often emerges that can only be resolved by third parties. For Germany, too, in light of the continuing strong opposition of employers' organisations to a general minimum wage the emergence of deadlock is not improbable.¹² Most other European countries have provided for fallback procedures to cope with such situations, either a guaranteed minimum adjustment of the minimum wage or an obligation on the state to decide on the adjustment itself. With regard to Germany's fallback procedure the idea is that in an impasse the chair of the minimum wage commission, to be chosen alternately by the employers and the trade unions, would have the casting vote. De facto the result is likely to be that only very modest adjustments of the minimum wage will occur.

With the combination of a low entry level, which will also be frozen for several years, and the application of an adjustment procedure that favours fairly small adjust-

10. The sole exception in recent times is Slovenia, where in 2010 after massive trade union protests, there was a structural increase in the minimum wage level of more than 23 per cent.

11. Naturally, this does not mean that the existing minimum wage protection will lose significance. The new German government, on the contrary, has agreed to strengthen the collective bargaining system primarily by reforming the instrument of declaring agreements generally valid (Schulten/Bispinck 2013). Accordingly, this represents a complementary strengthening of universal and sectoral minimum wage protection.

12. Further evidence for this view is provided by the experiences of the minimum wage commissions set up in some Länder in connection with existing minimum wages in relation to public procurement and whose practices the author got to know as a member of the commissions of North Rhine Westphalia and Rhineland-Palatinate.



ment steps, the new German minimum wage regime is in danger ultimately of being able to ensure only a relatively modest minimum wage level. Structural increases in the minimum wage, which would further raise its value in relation to the general wage structure will be difficult to achieve under these circumstances. This applies all the more because the state, in the model envisaged to date, will largely evade responsibility for making available decent minimum wages, leaving the matter solely to the collective bargaining parties.

From a European perspective several alternatives suggest themselves: on one hand, in Germany, too, a regular minimum adjustment of the minimum wage could be guaranteed by law so that, for example, by compensating for inflation or a link to collectively agreed wages a certain development dynamic could be ensured for the minimum wage. Furthermore, employers' organisations and trade unions could consult on more far-reaching minimum wage adjustments and make recommendations on what the minimum wage level should be. The decision on specific minimum wage levels would ultimately have to be taken by the state, however. It should be ensured that adjustment takes place once a year (ideally on an appointed date).

The fact that this is clearly a social policy issue is strong grounds for ensuring that the state does not withdraw from responsibility for the level of the minimum wage. It is not only that considerable consequential social costs (benefit increases, basic pensions and so on) are dependent on the level of the minimum wage; how this issue is resolved will also determine whether the »right to fair remuneration« laid down in the European Social Charter of 1961 (ratified long ago by Germany) is put into practice as a basic social right. Accordingly, the setting of the minimum wage cries out for a public and democratic debate on how high an adequate minimum wage in Germany should be.



References

- Bezzina, Eusebio** (2012): In 2010, 17 % of employees in the EU were low-wage earners, *Eurostat Statistics in Focus* (48).
- Bispinck, Reinhard / WSI-Tarifarchiv** (2013): Tarifliche Vergütungsgruppen im Niedriglohnbereich 2012. Eine Untersuchung in 41 Wirtschaftszweigen, in: *WSI-Tarifarchiv, Elemente qualitativer Tarifpolitik* Nr. 75; online at: http://www.boeckler.de/pdf/p_ta_elemente_75_2013.pdf.
- Bosch, Gerhard / Weinkopf, Claudia** (2013): Wechselwirkungen zwischen Mindest- und Tariflöhnen, in: *WSI-Mitteilungen* Vol. 66 (6), 393–404.
- CDU/CSU/SPD** (2013): Deutschlands Zukunft gestalten. Koalitionsvertrag zwischen CDU, CSU und SPD für die 18. Legislaturperiode; online at: http://www.spd.de/linkableblob/112790/data/20131127_koalitionsvertrag.pdf.
- Eldring, Line / Alsos, Kristin** (2012): European Minimum Wage: A Nordic Outlook, *Fafo-Report* Nr.16; online at: <http://www.fafo.no/pub/rapp/20243/20243.pdf>.
- Fernández-Macías, Enrique / Vacas-Soriano, Carlos** (2013): A coordinated EU minimum wage policy? Eurofound, Draft Version October 2013; online at: http://www.eurofound.europa.eu/docs/press/minimum-wages/draftreport_minimumwage_21oct13.pdf.
- Grimshaw, Damian / Bosch, Gerhard** (2013): Intersections between Minimum Wage and Collective Bargaining Institutions, in: Grimshaw, Damian (Hrsg.): *Minimum Wages, Pay Equity and Comparative Industrial Relations*, Routledge, 50–80.
- Kampelmann, Stephan / Garnero, Andrea / Rycx, François** (2013): Minimum wages in Europe: does the diversity of systems lead to a diversity of outcomes? *ETUI Report* Nr. 128; online at: <http://www.etui.org/Publications2/Reports/Minimum-wages-in-Europe-does-the-diversity-of-systems-lead-to-a-diversity-of-outcomes>.
- Marx, Ivo / Marchal, Sarah / Nolan, Brian** (2012): Mind the Gap: Net Incomes of Minimum Wage Workers in the EU and the US, *IZA Discussion Paper* No. 6510.
- Schulten, Thorsten** (2012): European minimum wage policy: A concept for wage-led growth and fair wages in Europe, in: *International Journal of Labour Research* Vol. 4 (1), 85–104.
- Schulten, Thorsten** (2013): WSI Mindestlohnbericht 2013 - Anhaltend schwache Mindestlohnentwicklung in Europa, in: *WSI-Mitteilungen* Vol. 66 (2), 126–132.
- Schulten, Thorsten / Bispinck, Reinhard** (2013): Stabileres Tarifvertragssystem durch Stärkung der Allgemeinverbindlicherklärung? in: *Wirtschaftsdienst* Vol. 93. (11), 758–764.
- Schulten, Thorsten / Bispinck, Reinhard / Schäfer, Claus (Hrsg.)** (2005): Mindestlöhne in Europa, Hamburg: VSA.
- Schulten, Thorsten / Müller, Torsten** (2013): Ein neuer europäischer Interventionismus? Die Auswirkungen des neuen Systems der europäischen Economic Governance auf Löhne und Tarifpolitik, in: *Wirtschaft und Gesellschaft* Vol. 39 (3), 291–321.
- Vaughan-Whitehead, Daniel (Hrsg.)** (2010): *The Minimum Wage Revisited in the Enlarged EU*, Cheltenham: Edward Elgar.



About the author

Dr Thorsten Schulten is a researcher at the Economic and Social Research Institute (Wirtschafts- und Sozialwissenschaftlichen Institut – WSI) of the Hans-Böckler-Stiftung, where he is responsible for »labour and collective bargaining policy in Europe«. He is also a member of the Minimum Wage Commissions of North Rhine-Westphalia and Rhineland-Palatinate. Contact: Thorsten-Schulten@boeckler.de

Imprint

Friedrich-Ebert-Stiftung | Dept. for Central and Eastern Europe
Hiroshimastr. 28 | 10785 Berlin | Germany

Responsible:
Jörg Bergstermann, Coordinator for Trade Union Programs in Europe and North America
Phone: ++49-30-269-35-7744 | Fax: ++49-30-269-35-9250

Bastian Schulz, Trade Union Coordinator for Asia and Pacific
Phone: ++49-30-269-35-7453 | Fax: ++49-30-269-35-9211

<http://www.fes.de/international/moe>

To order publications:
info.moe@fes.de

Commercial use of all media published by the Friedrich-Ebert-Stiftung (FES) is not permitted without the written consent of the FES.

International Dialogue

The Friedrich Ebert Stiftung’s International Dialogue Department promotes discourse with partners in Europe, Turkey, the United States, Canada, and Japan. In our publications and studies we address key issues of European and international politics, econo-

mics and society. Our aim is to develop recommendations for policy action and scenarios from a Social Democratic perspective. All trade union topical papers are available for download at: <http://www.fes.de/gewerkschaften/publist-europa.php>

About us

Trade unions, works councils and other forms of workplace representation of interests are fundamental as an expression of democratic freedoms in a society. They enable a significant segment of the population to articulate its interests and contribute to the social and equitable development of societies in so doing.

Yet trade unions, works councils and other forms of workplace representation of interests can only achieve this if they are representative, democratic, autonomous, competent and efficient. To promote and advise trade union organisations in this manner constitutes an important part of the international support provided by the Friedrich-Ebert-Stiftung.

To strengthen the representation of interests of wage and salary earners is therefore an integral part of efforts undertaken by the Friedrich-Ebert-Stiftung towards the promotion of social democracy across the globe.

www.fes.de/gewerkschaften

The Friedrich-Ebert-Stiftung therefore seeks to ensure that trade union positions are included in political and economic decision-making at the workplace, at the national level, in regional as well as in international contexts.



The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung.

This publication is printed on paper from sustainable forestry.



ISBN
978-3-86498-806-6