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European minimum wage policy – a concrete project for a social Europe

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In May 2006 the Prime Minister of Luxembourg and then President-in-office of the European Council Jean-Claude Juncker expressed support – in a speech to the important biennial conference of German Catholics – for “*the creation of a European minimum wage*”. This would entail, said Juncker, enshrining at European level the “*principle according to which every working person should be entitled to a decent wage*” (Juncker 2006). A similar argument was put forward by former European Commission President Jacques Delors at a press conference of the Party of European Socialists (PES) at the end of June 2006. Delors enjoined the European employers and trade union confederations to discuss the introduction of a European minimum wage in the context of the social dialogue. In his view, a minimum wage should be established in every EU member state in accordance with the current state of development of the country in question (Delors 2006). More recently, Poul Nyrup Rasmussen and Jacques Delors presented a report to the 7th PES Congress in which they call for “*decent minimum wages*” and demand the introduction of a “*EU target for the minimum wage in terms of GNP per capita*” (Rasmussen and Delors 2006: 71). Finally, in January 2007 the German EU Presidency published a concluding document of an informal meeting of the EU Ministers for Employment and Social Affairs according to which “*Member States and the social partners are called upon to ensure that wages are set in a fair and adequate manner*” (German EU Presidency 2007).

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Behind these initiatives for “fair and equitable wages” lies the search for political projects that could help to reverse the increasing loss of trust and legitimacy in the EU among growing sections of European labour. The effort to push through a European minimum wage policy geared to the goal of guaranteeing every employed person a decent minimum wage would indeed represent a concrete political project that would lend substance to the idea of a “social Europe”. A project of this kind would be diametrically opposed to the spread of precarious conditions of employment. Today more than 15% of all employees in the old EU – i.e. more than 20 million wage-earners – work in the low-paid sector (that is earn an hourly wage less than 2/3 of the national median wage) (European Commission 2004). There is a widespread perception that the EU is doing too little to mitigate or counteract such precarisation, and that the liberal thrust of the EU’s own economic and social policy agenda is even exacerbating the problem. The European trade unions are therefore called upon to enter the current debate and to come up with their own proposals for ways to implement the idea of a European minimum wage policy.

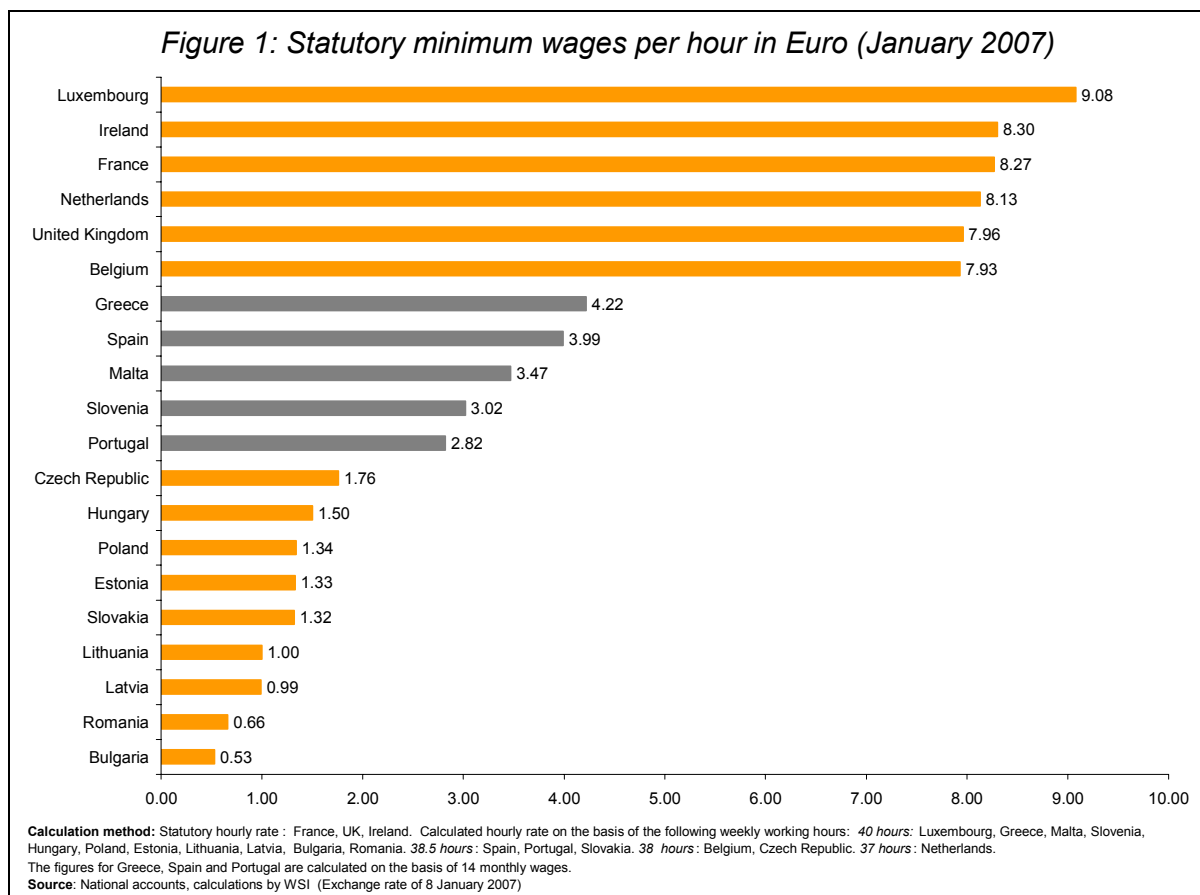
This Policy Brief starts by briefly describing the national minimum wage systems and levels in the countries of the EU 27. It then reviews the arguments for placing these national systems within a more general European-level framework. Finally, it discusses existing legal and political points of departure for the idea of a European minimum wage and reflects on debates on the subject within the European trade union movement. It aims to stimulate discussion within the policymaking community and trade unions and serve as a springboard for further work in this area.

National minimum wages in Europe

In Europe minimum wages are regulated either by law or by collective agreement (Schulten *et al.* 2006, IRES 2006). As many

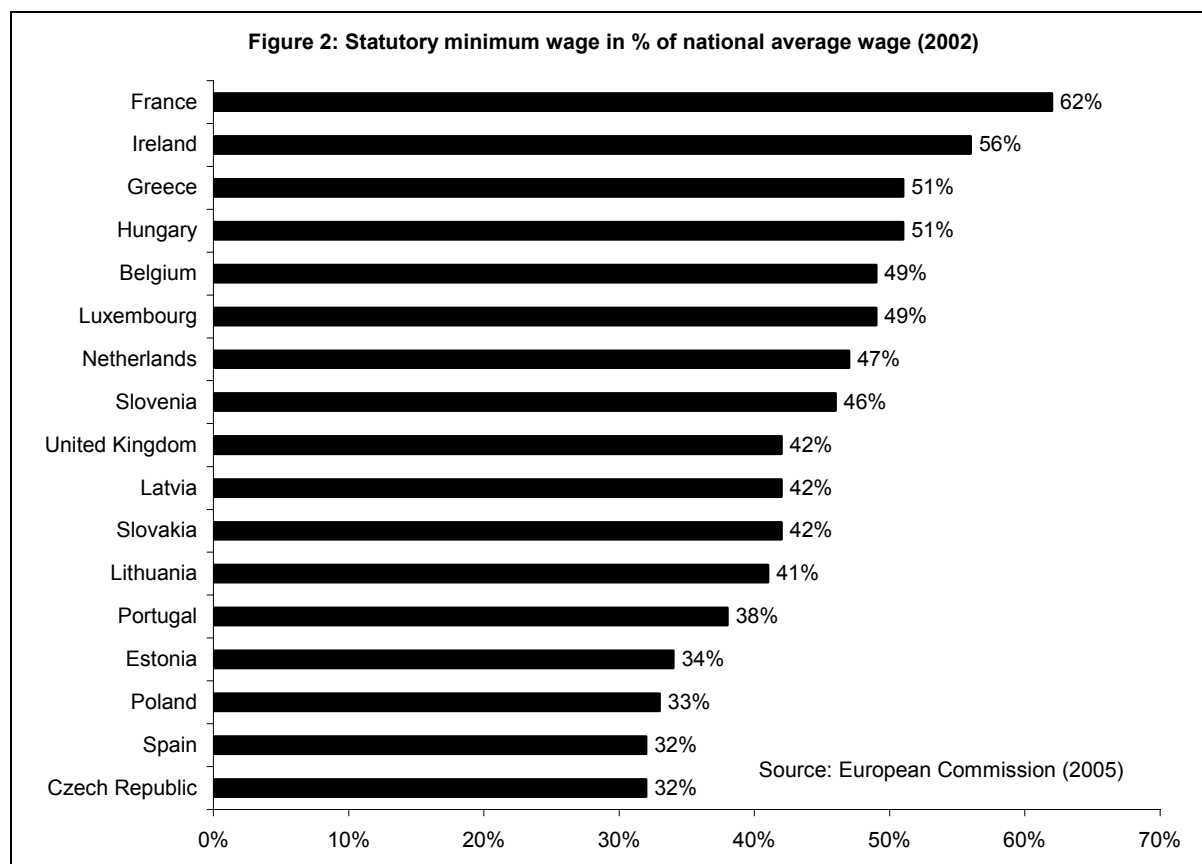
as 20 out of 27 EU member states have a general statutory minimum wage laid down by the government, usually with some kind of a say in the process by trade unions and employers. In terms of the absolute level of the national minimum wage, it is possible to identify three groups of countries within the EU (*Figure 1*). The countries of the first group, with relatively high minimum wages between 7.93 and 9.08 euros per hour, include

the Benelux states and France, Great Britain and Ireland. A second middle group with minimum wages of between 2.82 and 4.22 euros per hour includes the southern European EU countries Spain, Portugal, Malta and Greece and also Slovenia. Finally, the countries in the third group, with relatively low minimum wages between 0.53 and 1.76 euros per hour, are exclusively central and eastern European countries.



The different levels of national minimum wage reflect, to some extent, different costs of living in the individual countries. Measured in purchasing power parities – which allows for this difference – the gap between the lowest and the highest statutory minimum wage shrinks considerably, namely from 1:13 (measured in euros) to around 1:4.5. Even so there remain considerable differences in the relative development level of national minimum wage provisions, that is the minimum wage measured as a proportion of the national average wage (*Figure 2*). Accordin-

gly, in 2002 France had the relatively highest minimum wage level in Europe with 62% of the average wage, followed by Ireland with 56%. In four more countries (Greece, Hungary, Belgium and Luxembourg) the minimum wage is about 50% of the average wage. In five countries – Great Britain, Latvia, Slovakia, Lithuania and Portugal – the minimum wage reaches, by contrast, not much more than the 40% mark, whereas Poland, Spain and the Czech Republic have the lowest minimum wage in relative terms, at between 32% and 33%.



Seven EU member states have no national statutory minimum wage. The Scandinavian countries – Denmark, Sweden and Finland – as well as Germany, Austria, Italy and Cyprus rely on collective agreements alone to ensure minimum wage protection. Even so, most of these countries also have functional equivalents that are used indirectly to ensure high coverage of collective agreements and also a functioning system of collectively agreed minimum wage protection. This applies, in particular, to the Scandinavian countries, where the “Ghent System” – where trade unions administer unemployment insurance – means that there is very high trade union membership, and this ensures that more than 90% of employees are covered by collective agreements. In Austria, the fact that membership of the Austrian Federal Economic Chamber is compulsory for employers ensures that the binding effect of collective agreements applies to almost all workers across the entire country. Furthermore, collectively agreed minimum wage protection is coordinated by compre-

hensive minimum wage campaigns run by Austrian trade unions. More recently the new Austrian government has called for a national minimum wage of 1000 euro per month which it plans to introduce via a national collective agreement between social partners. Finally, in Italy, the constitution contains a clause on fair wages, which, as consistently interpreted by the labour courts, ensures that every employee is entitled to the lowest collectively agreed wage in the sector concerned. These various functional equivalents for a statutory minimum wage ensure that there is comprehensive and effective collectively agreed minimum wage protection in these countries. The only country in Europe which currently has no functional equivalent that provides a political underpinning for the collective bargaining system for low-paid workers is Germany, and this is exactly the reason why there is now an intensive debate in that country about whether or not it should introduce a statutory minimum wage (Sterkel et al. 2006).

The existence of statutory or collectively agreed minimum wages in so many European countries, and not least the introduction in 1999 of a national minimum wage in supposedly ‘liberal’ Great Britain, should be underlined. Alongside the social benefits of less highly dispersed wage and income structures, this reflects an increasingly widely shared view – now including former critics of minimum wages such as the OECD (2006: 86ff.; cf. Watt 2006: 2) – that appropriately set minimum wages are not harmful for employment. On the contrary, they encourage labour supply and can form an important element in broader ‘make work pay’ strategies. By creating a level playing field which prevents inefficient downward competition on wages, they also reward ‘good’ (legal) employers, and, in political terms, can gain the tacit or even active support of employer federations.

The European context and the need for coordination of national minimum wage policies

Along with most other elements of labour market and industrial relations regulation, minimum wages in the European countries were established in the wake of struggles and compromises that occurred, in a historical process, at the national level. Some aspects of such regulatory frameworks have more recently been subject to more or less ‘intrusive’ regulation from the European level. National working time regimes, for instance, have to fit under the – rather broad, but legally binding – framework established by the Working Time Directive. Other areas, such as employment and labour market policy issues, have been declared matters of ‘common interest’ and subject to a much more informal system of target-setting, benchmarking, peer reviewing and the issuing of non-binding policy recommendations, known as the Open Method of Coordination.

As we have seen, the setting (or not) of statutory minimum wages remains a national matter in Europe to this day. This begs the

question as to the possible role of the European level in this area. What justifications are there for European involvement and what form might it take? Let us first consider more ‘economic’, subsequently more ‘political’ arguments.

In general terms regulation has tended to be at the level of the nation state because, historically, that was also the main boundary of the market, certainly for labour and to a considerable extent also for goods. Economic integration since the establishment of the EEC in 1957 has led to an increasing need to regulate at the new ‘boundary of the market’, i.e. the European level, both to facilitate the movement of factors of production within the market and also to prevent factor mobility from undermining national regulation. The former concerns issues such as the cross-border transferability of pension rights. The latter is the ‘race-to-the-bottom’ argument that regulatory competition between – primarily – member states to attract mobile factors of production (capital, highly skilled workers) will restrict the ability of government to impose conditions and standards in social (but also environmental) matters, unleashing a downward spiral in which all countries end up with less regulation than they want or is optimal: the steady decline in corporate tax rates in Europe is a prominent example of this. This would justify the imposition of, at most, harmonised regulations and, at least, minimum European standards that put a ‘floor’ in the market in question.

Does this logic apply to the minimum wage? Yes, at least to a limited extent. There is a single European labour market, and the principle of the free movement of labour applies, even if transitional arrangements are currently in place between some ‘old’ and ‘new’ member states, and the extent of actual migration is still quantitatively limited. Such migration is expected to increase, however. Specifically, various legal cases – among them most prominently the Swedish Vaxholm case (Woolfson and Sommers 2006) – have

arisen in which there is a dispute about whether the pay and other conditions in the country of origin or the country in which the work is performed should apply. More generally, countries, particularly those in the common currency area, facing unemployment but lacking the means to create additional demand using monetary or fiscal policy, have an incentive to depress wage increases below the rate of productivity growth (i.e. engage in real currency depreciation). One way for a country to do this can be to put a brake on the rate of increase of the national minimum wage, and/or to introduce policies that put pressures on unions and workers at the 'bottom' of the labour market, thus affecting the entire national wage structure. Clearly such a strategy cannot be desirable from a European perspective; economically it is at best a zero-sum game. This is quite apart from its negative social impact. European coordination of national minimum wages around an agreed norm would be one way to avoid a potential 'race to the bottom' or beggar-thy-neighbour approach in this area.

And indeed there is evidence that national minimum wage systems are coming under competitive pressure. Historical data on minimum wages are somewhat patchy. Available Eurostat and OECD data suggest that statutory minimum wages have in recent years broadly kept pace with general wage trends (in relation to the median wage, for example). However, calculations by Husson based on OECD data clearly show a steady, longer term and cumulatively substantial erosion in the relative value of the minimum wage (Husson 2006: 22). While further research is clearly necessary, the more recent broadly steady ratio of the minimum to the median wage is probably best interpreted as a stabilisation, which may well prove temporary, after a serious decline. In some countries (US, UK) recent increases in the minimum wage are clearly a political reaction to widespread concern and indeed anger about the widening gap between the lowest-paid and those on average earnings, not to mention the de-linking of those on the

highest salaries (including stock options etc.) from the bulk of the workforce.

In the light of the above, a case can be made for economic and also, of course, social reasons, for the European level to impose at least some constraints on national policy-makers (governments and/or 'social partners') in widening wage differentials by lowering minimum wages (with respect to national average wages). All in all it seems that the national minimum wage could usefully be considered – in economic terms – a matter of 'common concern' at EU level, thus justifying at least OMC-based coordination via the setting of targets and monitoring by the Commission, while leaving implementation and instrument choice to member states, and taking due regard of national differences in overall income levels, etc.

On top of this come strong political arguments for coordination at the European level. A European minimum wage can be seen as a political *quid pro quo* for public (or trade union) acceptance of open markets, the free movement of labour and economic integration more generally, which, whatever their aggregate benefits, do hit specific groups of workers, and typically the low-skilled and low-paid. Like the proposed Globalisation Adjustment Fund (Watt/Kemekliene 2006), a European minimum wage framework can be sold as a sign of European solidarity with those struggling to cope with the pressures of globalisation and Europeanisation. More ambitiously it can serve as a visible expression of a 'European idea' of social and economic cohesion and convergence, and a building block as part of a larger edifice of a 'social Europe'. Such arguments undoubtedly underpin the proposals made by Delors, Juncker and others mentioned earlier.

Some initial steps in the direction of a European minimum wage policy

As a formal basis for a European minimum wage policy it is possible to take the Community Charter of the Fundamental Social

Rights of Workers (1989) which states that “all employment shall be fairly remunerated”. To this end, the EU states are required to ensure that “in accordance with arrangements applying in each country workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living” (Title 1 paragraph 5).

In order to translate the right to a fair wage into practice, in the first half of the 1990s both the European Commission and the European Parliament put forward a series of proposals which amount to a minimum-wage policy coordinated at European level (Schulzen 2006a). Thus, for example, in 1993 a report from the European Parliament’s Social Affairs Committee encouraged all member states to introduce mechanisms to establish a minimum wage in keeping with the national average wage (European Parliament 1993).

These initial steps in the direction of a minimum wage policy coordinated throughout Europe foundered, however, on the opposition of numerous EU member states whose explicit aim was not to limit but actually to foster the low-pay sector and precarious conditions of employment. This explains why, in the “Charter of Fundamental Rights in the European Union” that was adopted in December 2000 at the EU Nice Summit and later was supposed to become part of the European Constitution, the subject of “wages” does not even receive a mention. The proposed inclusion of a right to a “fair wage” failed as a result of the opposition of numerous national governments.

Against the background of a huge low-pay sector that is liable to increase still further in the wake of developments such as the liberalisation of the services market pushed through by the EU, or wage competition resulting both from the rise of low-wage economies such as China and labour migration within the EU, the demand for a European minimum wage policy has recently been taken up again. This matter has been hotly debated in France, in

particular since the French Socialist Party, in its manifesto for the European Parliament elections in 2004, called for the introduction of a European minimum wage (*salaires minimum européen*) (Parti Socialiste 2004).

The debate within European trade unions

The issue of a European minimum wage has been repeatedly discussed within the European trade union movement. Back in 1990 an ETUC Executive Committee Resolution demanded that “every worker must have the right to a guaranteed minimum wage which is underpinned either by legislation or by collective agreement”. The resolution continued as follows: “this principle must be the *subject of Community legislation*” (ETUC 1990: 161, our emphasis).

More recently, the European Federation of Public Service Unions (EPSU) has decided to launch a campaign against low pay in Europe. The campaign will include both a “political campaign on statutory minimum wage rates and a co-ordinated campaign of collective bargaining targeting minimum wages in collective agreements.” As first steps it is planned to

- “circulate low pay policy document to all affiliates;
- update and extend information from affiliates on existing initiatives to tackle low pay and confirm data on lowest pay rates and lowest paid occupations in each agreement;
- contact anti-poverty groups and MEPs to see if they will back a campaign against low pay and plan launch meeting; and
- send low pay policy document to ETUC Collective Bargaining Committee and see if the ETUC will develop a policy on low pay” (EPSU 2006: 18).

A European minimum wage is not currently a specific demand of the ETUC. The most recent Congress action programme (2003) calls more generally for upward harmonisa-

tion of living standards and greater social cohesion. It is, however, very much an issue that is up for debate at this year's Congress in Seville within the context of a focus on establishing basic standards that apply across an integrating European labour market so as to counter precarious work.

The debate within the European trade union movement in recent years to some extent mirrors that within certain countries that have been debating whether or not to introduce a statutory minimum wage: those unions and national union federations that are strongly entrenched, with highly developed collective bargaining and high density are sceptical of government involvement in the wage-setting process generally, arguing that it will tend to weaken their structures and membership mobilisation. Within countries this argument tends to come from industrial unions; within Europe in particular from the Scandinavian countries. Pressure for minimum wage legislation has come from those sectoral unions that have always or increasingly found it difficult to impose decent minimum standards, including on pay, for all workers in an industry via collective bargaining. On top of this comes a more general difference of opinion between national trade union federations regarding the degree of 'interference' by 'Brussels' in national politics that is desirable.

In terms of the European debate, therefore, it is important to be clear about what coordination towards a European minimum wage actually means. Critically, member states would be free to set wages at the bottom of the labour market by means of whatever 'machinery' they wish, in accordance with national traditions. Countries must simply ensure that the lowest wage paid is at least a given percentage of the average wage in that country. Specifically, it is of no importance whether this is achieved through collective bargaining or legislation.

It will be argued that countries with autonomous bargaining that do not meet the

target will, in the end, be obliged to resort to statutory measures. However, the countries concerned, in particular the Scandinavian countries, have some of the most compressed wage structures in the world (European Commission 2005) and are therefore unlikely to encounter the problem. And if it is the case that wage inequality in such countries is growing wider, under pressure from globalisation, European liberalisation of services and – at least in some sectors – increasing labour migration, and/or falling union membership, etc, then, given the inevitably not particularly ambitious target that will be set at European level, a debate within the labour movements on the feasibility, indeed acceptability, of continuing to rely on collective bargaining will in any case take place. In Germany – after a long and controversial internal debate – the DGB has decided to call for the introduction of a statutory minimum wage as a complementary instrument to collective agreements, since declining bargaining coverage has become a major cause of the strong increase in the numbers of low paid workers (Schulten 2006b).

Towards concrete proposals for a European minimum wage

Specific proposals relating to a European minimum wage policy aim to achieve not a single European minimum wage in absolute terms, but a Europe-wide standard that would define criteria for a national minimum wage level in relation to each country's economic potential and performance (Garabiol-Furet 2006). The "Theses for a European minimum wage policy" developed jointly by researchers from the Economics and Social Sciences Institute (WSI) of the Hans Böckler Foundation in Germany, the "Denknetz" in Switzerland and the Economic and Social Research Institute (IRES) in France, propose, for example, that all countries of Europe should gradually raise their minimum wage to a level corresponding in the first instance to 50%, and subsequently rising to 60%, of the national average wage (Schulten *et al.* 2006: 301-306).

EPSU has proposed that statutory minimum wage rates be increased to 60% of national median earnings in each country while collectively agreed minimum rates should be even higher (EPSU 2006: 19)

For the implementation of a European minimum wage policy it would be possible to combine two strategic approaches. The *first approach* concerns the political institutions at EU and national level. A European minimum wage policy would be introduced via the so-called open method of coordination (OMC): specific concrete goals and deadlines are set at European level which can then be implemented in the national frameworks via the customary institutions and procedures. Depending on national tradition it is possible to use statutory minimum wages, generally binding collective agreements or combinations of the two types of procedure. The European level then has the task of overseeing the implementation at national level and of contributing, through a comprehensive monitoring of national minimum wage policies and wage outcomes, to the spread of good national practices. The *second approach* would be to make minimum wages a part of European trade union policy towards a coordination of collective bargaining. Here the European unions could set their own targets regarding the lowest collectively agreed wages and could organise a joint campaign against low pay – as already proposed by EPSU.

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Conclusion

Against the background of an integrating European labour market and increasing sense of precarity among many European workers, the recent comments by leading European politicians may have opened a "window of opportunity" for political initiatives aimed at establishing certain minimum standards in EU labour markets, including minimum wage standards.

A campaign for a European minimum wage policy could bring together an alliance of trade unions, political parties and NGOs and social movements that would have more in common, and more to fight for, than mere rejection of a neoliberal Europe. Rather they would have the goal of implementing a framework in which national minimum wages would be protected from erosion and the lowest-paid workers in each European country assured a decent standard of living and their societies a minimum of social cohesion. Particularly in the context of recent enlargement, it would also ensure that the lowest paid in the new member states – and thus the lowest paid in the EU as a whole – benefit proportionally from the now rising average wage in these countries. All this would give effective, concrete and visible expression to the wider demand for a social Europe.

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