

DISCUSSION NOTE ON MINIMUM WAGES IN EUROPE FOR THE WARSCHAU SEMINAR OF THE ETUC COLLECTIVE BARGAINING COMMITTEE

The discussion in Europe on minimum wages is moving

Six years into the crisis it is by now abundantly clear that the crisis management based on cutting wages and neoliberal structural reforms not only failed to generate growth and employment but rather led to far-reaching social repercussions such as a substantial increase of in-work poverty. Against this background, the debate about minimum wages in Europe acquired new momentum.

In the summer of 2014, for instance, Germany decided to introduce a statutory minimum wage of 8.50 Euro from 1 January 2015 onwards, with the possibility of collective bargaining agreements to deviate temporarily from this initial level. Meanwhile, the Renzi government in Italy is proposing the introduction of a statutory minimum wage in an act to reform labour law, an act which, ironically, is mostly about further labour market deregulation.

All this is not without implications for the policy discussion at European level, where the idea of a European minimum wage is gaining ground. This concerns in particular the European S&D party which has used the idea of a European support for minimum wages as one of the prime conditions for their approval of the president-designate of the Commission Jean Claude Juncker. The latter, in his speech before the European Parliament, therefore referred to the idea of Europe making sure that a minimum wage exists in each member state.

State of affairs at the level of the ETUC

In its different resolutions and positions on wages and collective bargaining adopted since the Athens Congress, the ETUC has taken a comprehensive approach, taking into account different factors to define a European coordinated strategy on wages:

- Strengthening coordination of collective bargaining, both internally and in the framework of the Economic Governance;
- Boosting wage increases as an engine for economic growth, by keeping real wages in line with productivity developments;
- Defending and enhancing collective bargaining institutions and autonomy of social partners in negotiating wages;
- Enlarging collective bargaining coverage and erga omnes institutions;
- Introducing and/or reinforcing minimum wages systems set by law or by collective bargaining, according to national practices and in those countries where trade unions consider it necessary.

Regarding the latter, in its resolution for a European Social Compact (June 2012), the ETUC declared itself in favour of minimum wages that respect the standards set by the Council of Europe, which in its 1961 European Social Charter stipulates that “all workers have the right



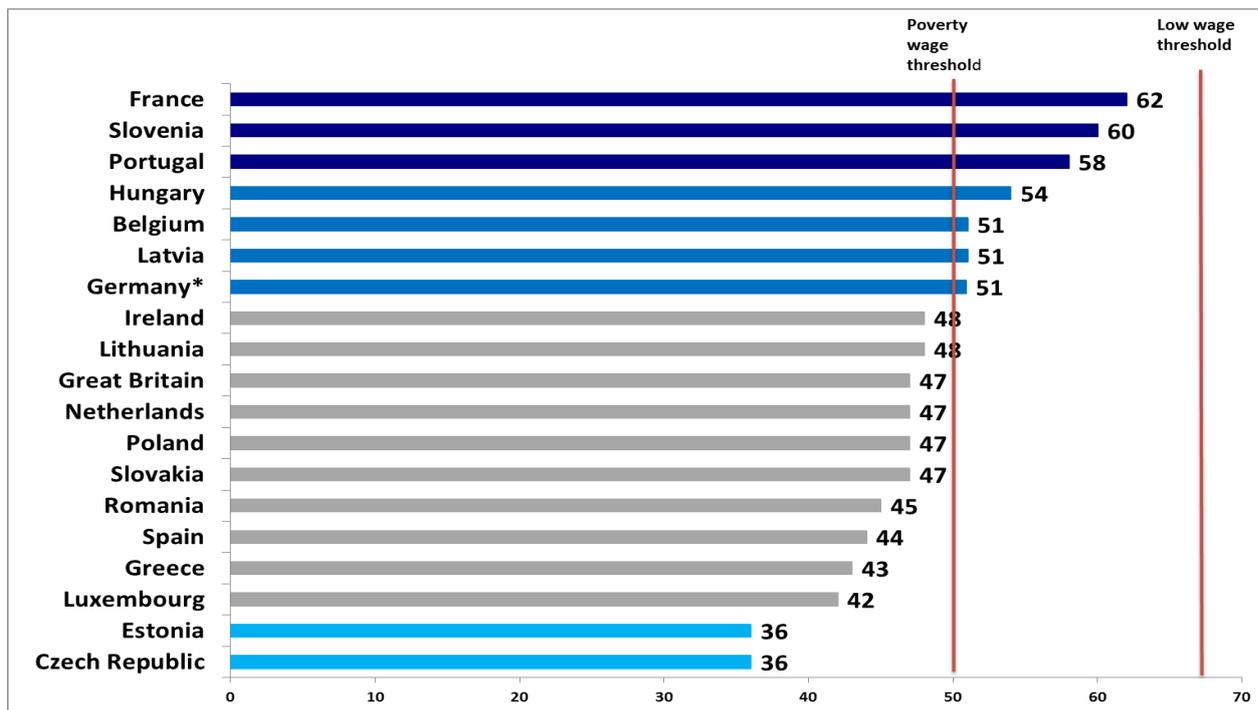
to a fair remuneration sufficient for a decent standard of living for themselves and their families” (Part I, Article 4). The Council’s European Committee of Social Rights (ECSR) has since put forward a definition according to which a “fair” or “decent” wage is at least 60% of the average net wage - and certainly not below a level of 50% of the average net wage.

This reference however is not as clear as it may appear to be at first glance. This definition of a “fair” or “decent” wage raises at least three issues for discussion:

(1) Fair, decent and minimum wages – some basic definitions

The Council of Europe does not refer to a ‘minimum’ wage as such but defines the 50 to 60% references as constituting a ‘fair’ wage. This is confusing and needs further clarification. The concept of the **living wage** in the UK comes closest to the definition of the European Social Charter by referring to a wage that enables the individual to meet the basic needs to maintain a safe and decent standard of living within the community, enabling the individual to participate in the social and cultural life. In quantitative terms the national living wage in the UK currently amounts to approximately 60% of the national median wage. The concept of the living wage embraces not only the idea of establishing a basic minimum floor of wages but also the ambition to ensure a “decent” standard of living.

Figure 1: Minimum wage in % of the full-time median wage



Source: OECD and for Germany calculations done by the WSI based on employment statistics provided for by the German Federal Employment Agency

With respect to establishing a minimum floor two other definitions are relevant for the discussion about minimum wages in Europe. These are the low wage threshold defined by the OECD as two thirds of the national median wage and the poverty wage threshold, which in analogy to international poverty research can be defined as 50% of the median wage. The



following figure presenting the various (statutory) national minimum wages as percentage of the national median wage illustrates that the statutory minimum wage in none of the EU countries reaches the low wage threshold as officially defined by the OECD. France with 62%, Slovenia with 60% and Portugal with 58% come closest. It also illustrates that only four further countries (Hungary, Belgium, Latvia and Germany) are above the poverty wage threshold. The situation in the Nordic countries is very different. There, the collectively agreed minimum wages are generally between 60-70% of the national median and therefore significantly higher than in the rest of the EU countries.

(2) Net versus gross wages

The Council of Europe definition refers to net wages rather than gross wages. The advantage of referring to net wages is that, first of all, the reference point is what workers actually receive in their pocket at the end of the month; and secondly, that it takes into account other redistribution policies through, for instance, progressive tax systems. The key problem of referring to net wages is the complexity of calculating the net value of wages after the deduction of social security contributions and taxes. For this reason most of the international databases refer to the gross wage. Another argument against using net wages as reference points is the fact that by using such a reference the burden of providing decent wages is shifted from the employers to the state by ensuring sufficiently high net wages through redistributive policies and compensatory measures.

(3) Average versus median wages

The Council of Europe uses the ‘average’ wage as the concept of reference, not the ‘median’ wage which is usually taken as the point of reference for international comparisons. While the average wage represents the arithmetical mean of all wages, the median wage divides the overall wage structure into two equal segments with one half of the employees earning more and the other half earning less than the median wage. Obviously, the choice of reference has practical implications for comparisons.

Table 1, which ranks the countries with a statutory minimum wage as percentage of the median and average wage, shows that the average wage is much more sensitive to outliers in the overall wage structure than the median wage. Turkey and Portugal are two cases in point. They are both at the top of the table when measuring the minimum wage as percentage of the median wage – and only in the middle of the ranking when the average wage is taken as reference point. In 2013, the minimum wage in Turkey was almost 70% of the median wage but only 38% of the average wage. For Portugal the respective figures are 56% of the median and 38% of the average wage. The differences in the ranking of the two countries can be explained with the highly unequal wage structure in Turkey and Portugal and a large informal economy in which, for many workers, the minimum wage is the standard wage. This means that only a few extremely high wages push up the average wage while the median wage, as the more robust indicator, is less sensitive to the few extreme outliers.



Table 1: Statutory minimum wages as percentage of the median and average wages of full-time employees 2013

	Average Wage		Median Wage
France	50	Turkey	69
Slovenia	50	France	61
Ireland	44	Slovenia	61
Belgium	43	Portugal	56
	Average Wage		Median Wage
Netherlands	42	Hungary	54
Hungary	40	Lithuania	52
Poland	40	Belgium	50
Lithuania	40	Poland	50
United Kingdom	39	Romania	50
Portugal	38	Ireland	48
Turkey	38	Latvia	48
Slovak Republic	36	Netherlands	47
Latvia	36	United Kingdom	47
Spain	35	Slovak Republic	46
Luxembourg	34	Greece	45
Romania	34	Spain	41
Estonia	33	Luxembourg	41
Czech Republic	31	Estonia	39
Greece	30	United States	37
United States	27	Czech Republic	36

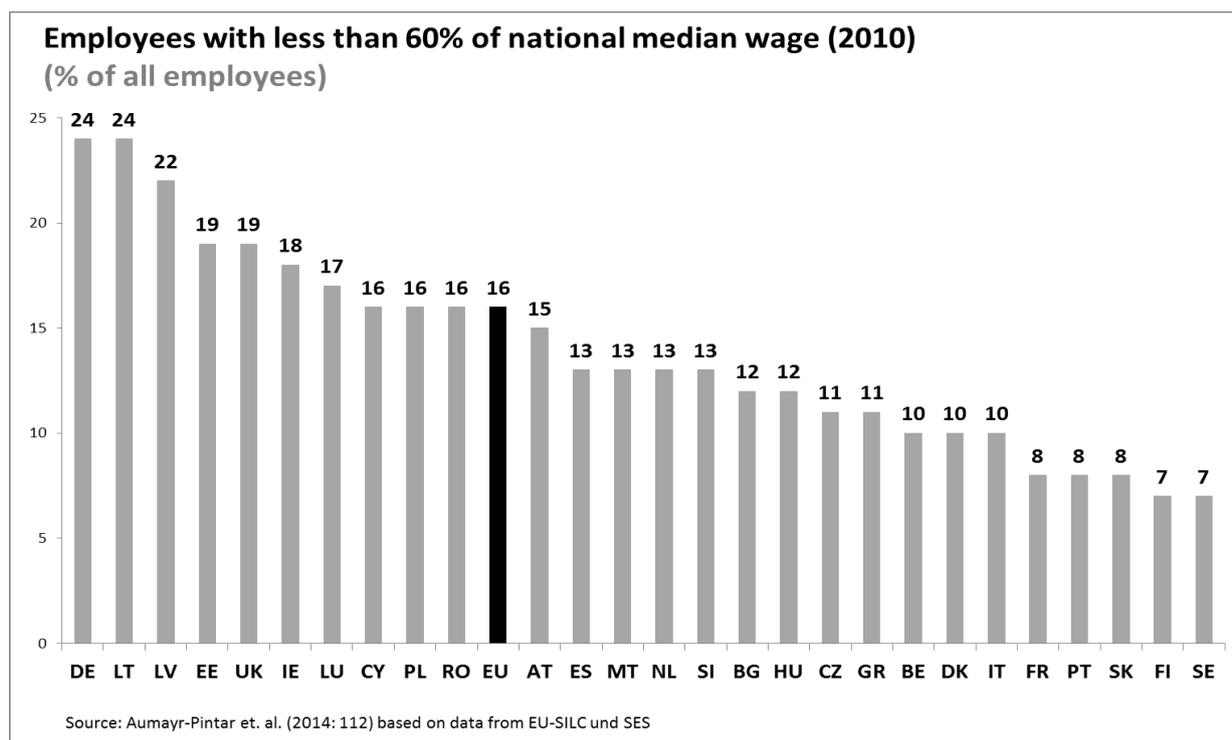
Source: http://stats.oecd.org/BrandedView.aspx?oeed_bv_id=ifs-data-en&doi=data-00313-en

Opportunities of a European minimum wage approach

Minimum wages can be useful as an instrument to increase wage levels paid out to relatively large groups of workers. Estimates show that some 16% of workers in Europe would benefit if minimum wages in Europe would reach the standard of 60% of the median wage (see graph below also illustrating different country situations).



Figure2: Employees with less than 60% of national median wage (2010)



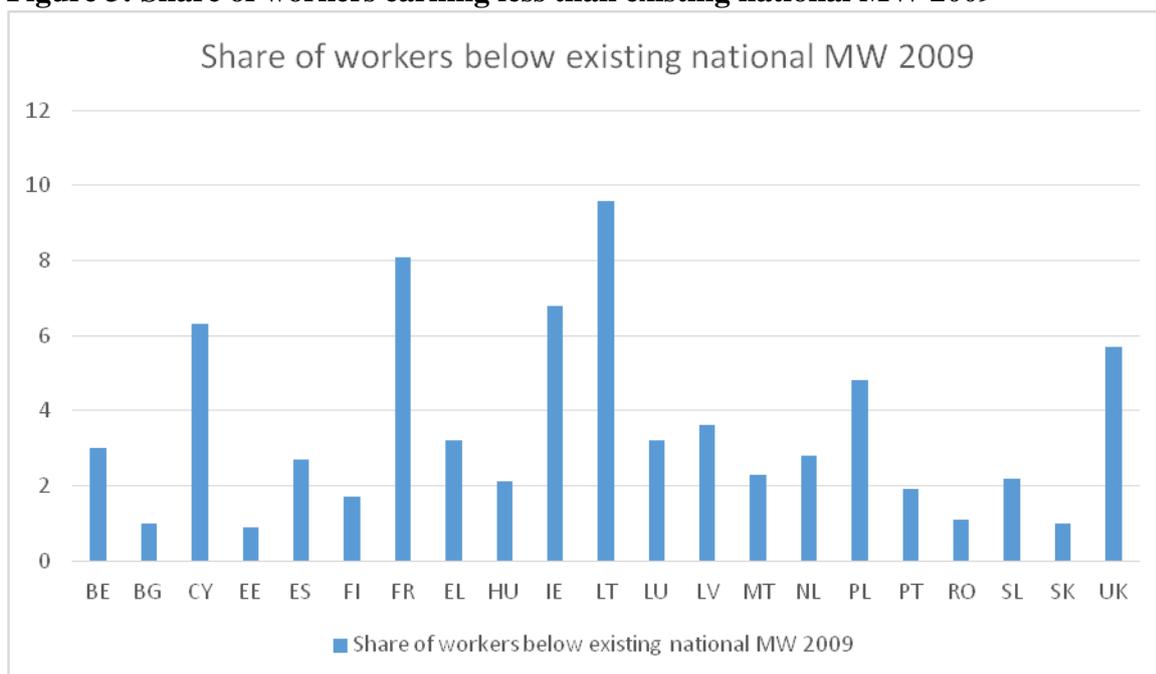
On top of that, there would probably be additional positive effects on the two next deciles of workers, implying that around one third of workers could see benefits from an approach using 60% of the national median wage as the reference point for the minimum wage.

There are, however, some caveats to these estimates:

(1) Statutory minimum wages are not always fully binding. This can be seen from the next graph. It is based on a study from Eurofound and shows that there are several countries (France, Lithuania, Ireland, UK) where between 5% and almost 10% of workers earn a wage that is **below** the statutory minimum wage. This can be explained by the problem of non-compliance and the existence of certain exceptions to statutory minimum wages (for example for young workers). A recent illustration is the German minimum wage that is boosting the wages of 4 million workers but does not have an effect on the wages of more than 2 million of other workers since workers below the age of 18 years, as well as long term unemployed during the first 6 months of their job, are excluded from the minimum wage regulation.

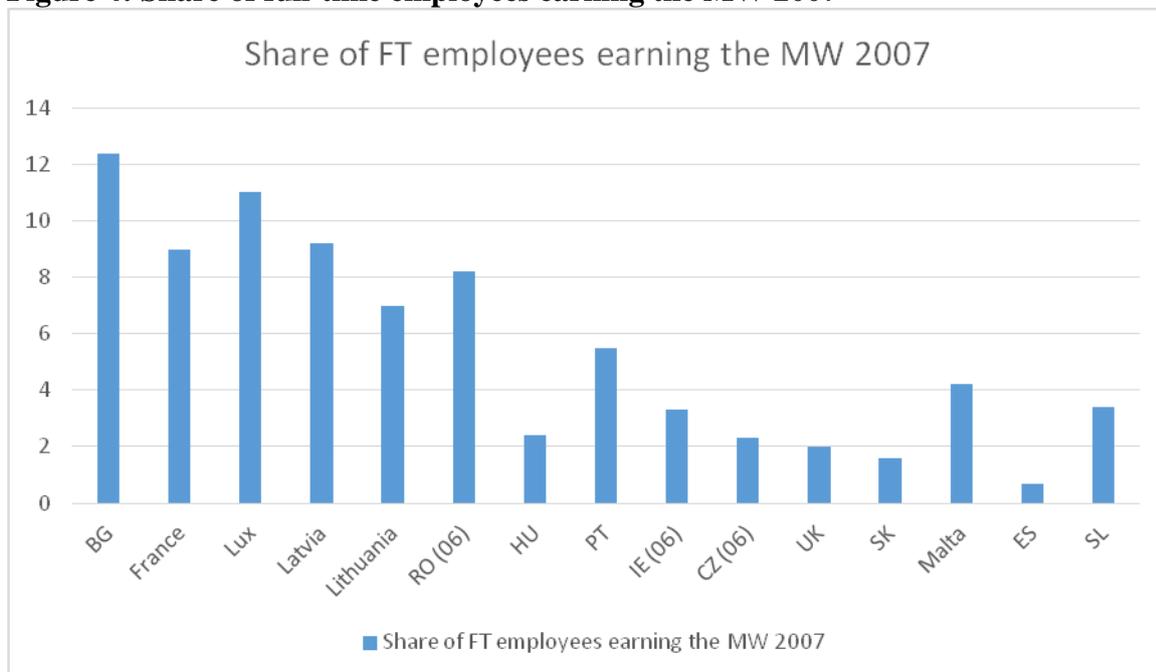


Figure 3: Share of workers earning less than existing national MW 2009



Another way to look at this is the proportion of workers actually getting paid the existing minimum wage itself. Their number tends to be fairly limited, with the exception of France, Luxemburg, Bulgaria.

Figure 4: Share of full-time employees earning the MW 2007



Source: Commission, DG ECFIN at ETUI 2012 seminar What do and don't we know about minimum wages?



In other words, raising minimum wages from present levels will not tend to impact on big groups of workers unless the minimum wage level is seriously hiked. In the latter case, such as when using the 60% median criterion, this will most probably be accompanied by all kinds of exceptions. This implies that the estimate of 16% of workers benefiting from a 60% minimum wage will in reality turn out to be an overestimation.

(2) Linked to this is the discussion on the impact of minimum wages on jobs. Whereas there is no evidence whatsoever that minimum wages, as they stand today at a maximum of around 50% of the median wage, destroy jobs, we do not know what would happen at minimum wage rates of 60% of the median wage. Here, one could further argue that, theoretically, a legal minimum wage of 60% of the median wage that is binding for all sectors would be more prone to triggering job destruction than minimum wages that are collectively bargained and can show variation over the sectors (with some sectors paying below the 60% of the economy's median wage and other sectors paying above).

(3)

(4) An additional advantage of a European approach to minimum wages is that it would show that Europe also has a social face. As such, it can be thought of as instrumental in keeping the support of workers and trade unions for the continuing process of European integration when building European economic governance and completing the internal market of competition.

Limits and pitfalls of a European minimum wage approach

When discussing a European minimum wage approach, there are certain aspects that need to be taken into account:

(1) **“60% of a very low wage is still a low wage”**. In many member states, average or median wages are extremely low, as low as 5 or 6 Euro an hour in industry and this despite sometimes enormous increases in productivity. A rule of 60% minimum wages of the median wage would lift the minimum wage as such in these cases, but its impact on the overall situation of wages being much too low is limited.

(2) **“When the overall wage building is coming down, the wage floor will also collapse”**. This is what happened in Greece. The Troika undermined the entire system of collective bargaining and as a result average and median wages went down. This in turn automatically increased the existing minimum wage as a percentage of the median wage to 50%. The Troika could not tolerate this and decided to cut the minimum wages in absolute/nominal terms and bring it back to 40% of the median wage. Thus, the European minimum wage approach always needs to be discussed in combination with the question of how to strengthen national collective bargaining systems in order to prevent a downward slide of the overall wage building.

(3) **Laval judgment and danger of a European floor becoming a national ceiling**. The Laval judgment and related cases made us aware of the fact that, in the context of the posted worker directive, a minimum wage is used as a threshold to define social dumping and



whether trade unions are allowed to undertake action to enforce the collectively bargained wage. Setting a European threshold for a minimum wage could be used in the same way to claim that there is no problem if this European reference is respected, even if this would mean paying less than the collectively bargained wages. This could also relate to posted worker situations and be extended to all workers by, for example, putting into question the need to extend collective bargaining agreements or the necessity to pay a higher minimum wage that was set at the national level. In this respect, recent discussions in the European Social Dialogue are telling, with the employers saying that they do not subscribe to the principle of ‘the same wage for the same work’ and that they only feel obliged to pay a minimum wage.

(4) Potential transfer of competence on wages to governments, finance ministers, central banks. When the minimum wage becomes statutory and imposed by labour law, governments have the direct power to increase and also to cut the minimum wage. This is certainly to be wary of in a context where the political choice has been made to pursue an internal devaluation of wages to replace competitive currency devaluations. Moreover, the IMF and others are already using a standard of a minimum wage that should not be lower than 30% and not higher than 40% of the median wage.

On the other hand, one should also be careful in avoiding an outcome where national wage formation systems are being seriously hollowed out, without having in place any limit to downwards wage competition in Europe.

Why exactly do we need a minimum wage?

There are usually two different but complementary arguments for the need of a minimum wage:

(1) The first argument is **normative** in nature and refers to the simple fact that every worker has a right to a decent wage. A right which was already enshrined as a fundamental social right in the United Nation’s 1948 Universal Declaration of Human Rights. This normative judgement also implies the objective to reduce poverty in general and in particular the phenomenon of the working poor.

(2) The second argument is **economic** in nature and aims at ensuring a model of self-sustained growth through a process of wage-led demand as well as by avoiding deflationary trends. Here, the specific role of a minimum wage is to prevent workers being paid below their contribution to productivity by ensuring a fair wage at the bottom of the wage scale. However, even if a minimum wage is useful and necessary to this purpose, it will not be sufficient and will need to be complemented at the same time by policies to strengthen collective bargaining coverage if we really want to achieve wage led growth (different forms of extension and erga omnes rules or an equivalent in the form of high membership rates).

Different approaches also imply the use of different indicators.

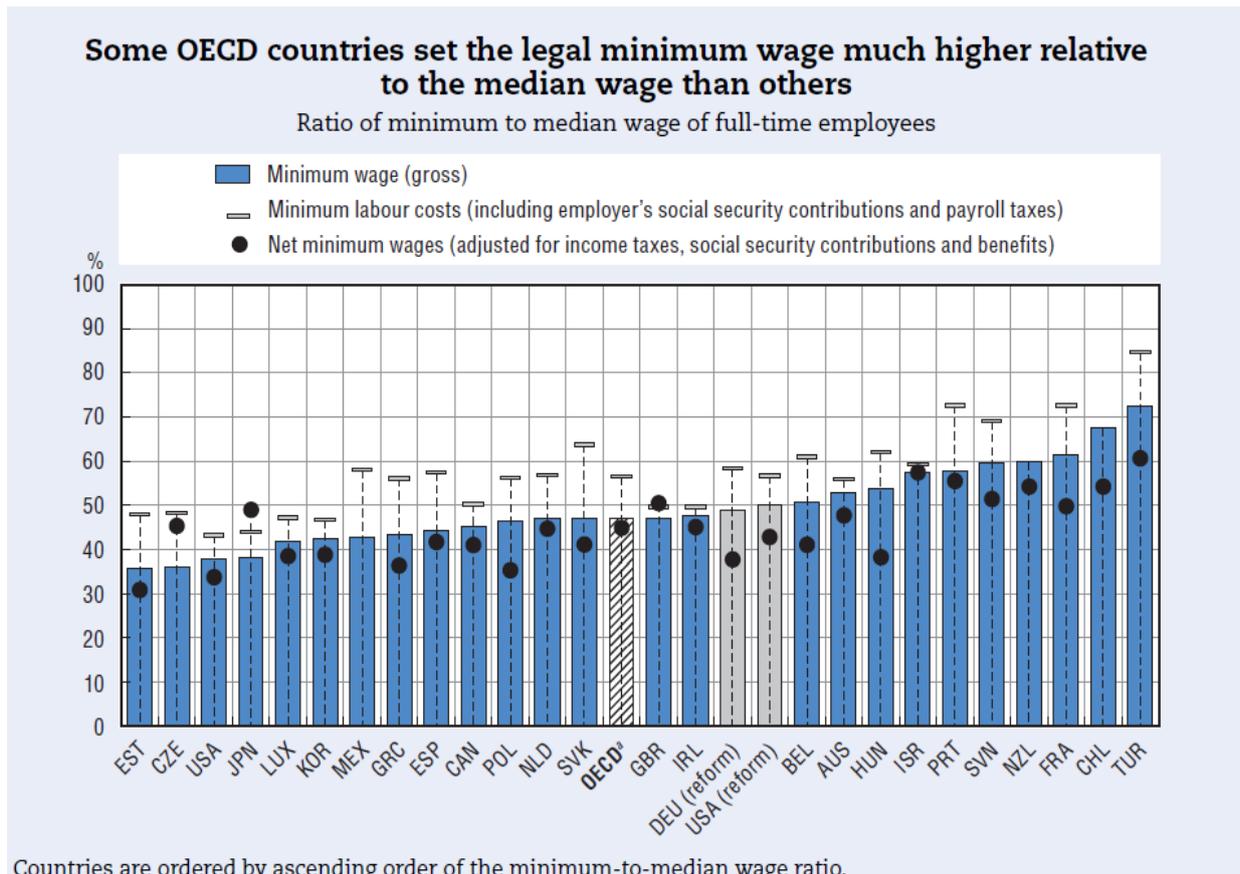
The first approach implies looking at the level of the minimum wage as a percentage of the median /average wage in net terms. The graph below, taken from the latest OECD Employment Outlook, shows that relative minimum wages in net terms are quite low. Only



France, Slovenia, the Netherlands and Portugal reach a level of around 50% of the median wage.

The second approach refers to the minimum wage as the total price to be paid by the employer, with the price of labour covering both the net wage as well as taxes and social contributions paid by the workers and social contributions paid by the employer. This would correspond with what the OECD calls ‘minimum labour costs’. Here, France, Slovenia and Portugal show indicators as high as 70% of the median wage.

Figure 5



Finally, to be noted here is that the reference of the Council of Europe of a wage between 50 and 60% of the average (not the median wage) is further complicated by the fact that the Council is looking at this in ‘net terms’, in terms of the net purchasing power of the minimum wage after taxes and work related benefits. This definition is not so clear but would nevertheless most probably imply looking at the net indicators in this OECD graph.

How to proceed further?

There is indeed progress in terms of the introduction of a minimum wage in Germany, a ‘reform’ that has been long overdue and which is now also influencing the debate on wages in Europe.



However, key issues for the ETUC and its affiliates remain:

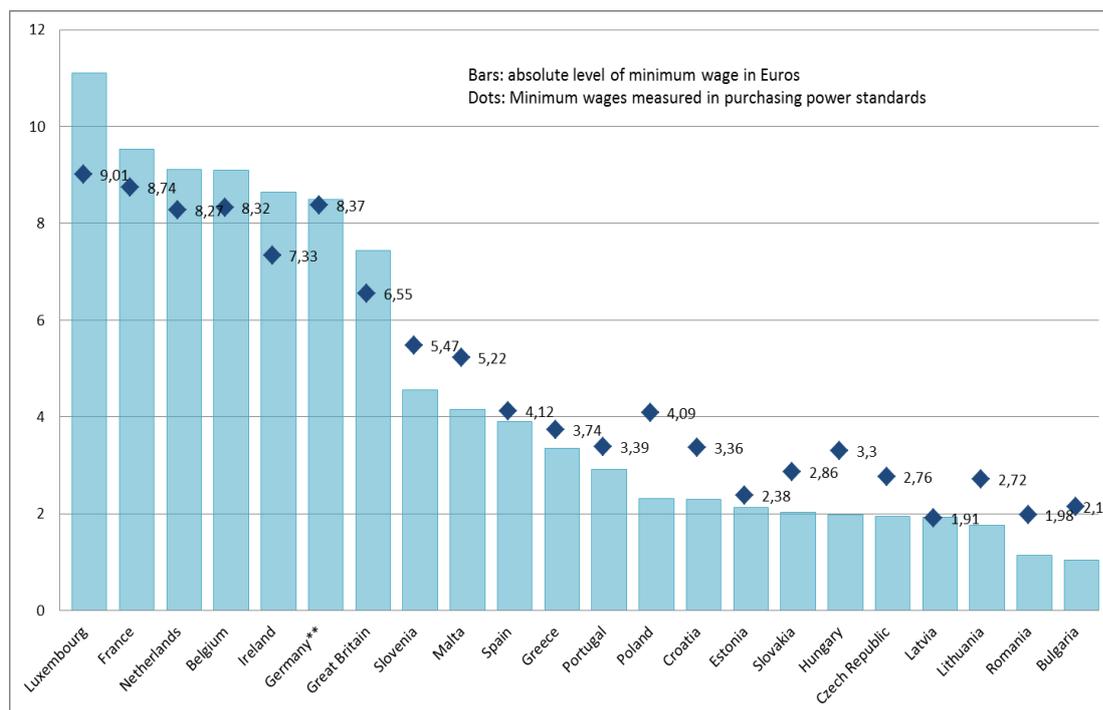
(1) One key issue is that our definition of a European standard of minimum wages is not exactly clear and thus needs to be clarified (see the several points made above).

(2) The other key issue is how to avoid policy makers and employers using our demand for minimum wages against us; i.e. against wages being set by collective bargaining systems and against the principle of ‘equal pay for equal work’.

We can start searching for answers to these questions in the following approaches towards minimum wages in Europe:

(1) Redirect our standard from a relative wage of a national average/median wage towards a single European wage standard adjusted for purchasing power parities. The advantage of such an approach is that it takes into account the differing costs of living within the various European countries. The following figure 6 compares the absolute level of minimum wages in Euro with the value of the minimum wages measured in purchasing power standards (PPS). This comparison illustrates that the differences in the level of the minimum wage when measured in PPS are much lower than the differences in absolute terms measured in Euros. Whereas the difference between the highest and the lowest minimum wage measured in Euros is roughly 1:11, the difference in terms of PPS is much smaller at approximately 1:4.5.

Figure 6: Absolute level of minimum wages compared to minimum wages measured in absolute purchasing power standards



Source: WSI Minimum Wage Database (January 2014)

One method of calculating an appropriate wage standard, which could be used in combination with other methods, could for example be to take one national minimum wage measured in PPS and use this as a benchmark for minimum wage levels in other countries, but then



adjusted for the difference in living standards as reflected in the different levels of prices in member states.

(2) Another option could be to evolve from this to a staged ‘living wage’ approach. The living wage is usually calculated on the basis of the wage that is needed to cover the costs of a standard basket of basic goods which usually includes (a) the cost of basic needs such as a nutritious low-cost diet, basic housing and adequate clothing and footwear as well as (b) costs of other needs such as transportation, child education, health care, child care, household furnishings, recreation and cultural activities, communication and personal care. For instance, in the case of the London Living Wage (see in other texts provided concerning the discussion going on in the UK on this issue), this “Basic Living Cost” approach is one dimension of the calculation. The other dimension is the so-called “Income Distribution” approach, which simply takes 60% of the median wage as the benchmark. The final Living Wage is then calculated as the average of the two figures resulting from the Basic Living Cost and the Income Distribution approach (plus a 15% margin to cover against unforeseen events).

The advantage of a calculation based on a basket of goods is that it has a sound empirical basis on how much money people really need to ensure a decent living standard. The disadvantage obviously is the complexity of calculating the exact standard, in particular when looking at 28 different European countries. However, there are already examples of countries where such a method based on a standardized basket of goods is used for collective bargaining purposes. In Belgium for instance it is used as a tool to determine the indexation of wages and in Sweden and Italy, for instance, this method is used to define wage claims at the lower end of the wage scale or for setting wage increases linked to inflation developments.

In the light of the great diversity of national minimum wage levels (see figure 1), a staged living wage approach seems politically more feasible. Such a staged approach could include the short-term objective of raising minimum wages in all European countries to at least the poverty wage threshold of 50% of the national median wage. Once this threshold is achieved the next target then is the living wage threshold.

(3) Such a European wage standard or Living Wage should in any case be set by law and/or by collective bargaining according to the different national practices and trade union strategies.

(4) However, no matter which standard will be chosen, the key element of every approach is insisting upon the link with strong collective bargaining systems on wages by promoting high coverage rates of bargaining, to be achieved by different instruments (*erga omnes*, other forms of extension, or high trade union membership rates which can be seen as functional equivalents). Here, it should be noted that Germany did not only introduce a minimum wage but also decided to make the application of ‘*erga omnes*’ much more practicable, thereby strengthening the system of collective bargaining. This is very ironic as at European level the German government is one of the key actors pushing the countries which are in financial difficulties towards structural reforms which involve exactly the opposite: the weakening and abolishment of extension and ‘*erga omnes*’ rules.

To conclude, the aim of this note is to start a broader discussion on the different issues and approaches, and try to find a balanced combination of them in order to define a clearer and more effective ETUC position on the growing debate at EU level on minimum wages and wage floor setting.

