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Plea for a European Minimum Wage Policy

In Germany, the debate on the introduction of a statutory minimum wage has been intensifying since 2004. While critics worry about the danger of increasing unemployment or the threat to free collective bargaining, advocates hope that a minimum wage would close wage policy gaps and reduce the number of working poor. In the United Kingdom – contrary to the expectations of many – the introduction of a statutory minimum wage did not lead to massive job losses. Instead, the minimum wage has had a positive effect on employment and the quality of work (“Initiative Mindestlohn 2006”).

Against the background of an increasingly integrated European economy and labour market deregulation, the question of European coordination of national minimum wage regulations is coming up more and more. A European minimum wage policy can be regarded as an important instrument in preventing increasing wage differentiation and dramatic expansion of the low wage sector in the European Union, and positively influencing economic growth in Europe. An independent institution – on the model of the British Low Pay Commission – should accompany the gradual alignment of minimum wages at a uniform level. Such an institution could properly take into account condi-

tions in individual EU states and be able to ensure political feasibility.

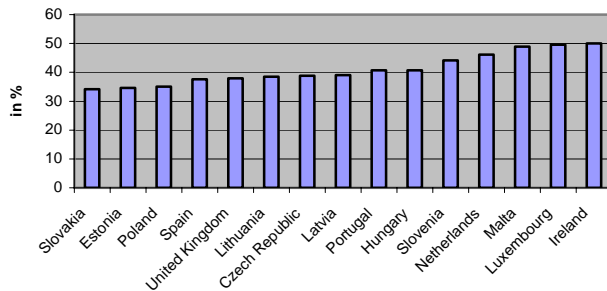
Minimum wage regulations in the European Union

Within the EU, employment and remuneration are the competence of the member states and the social partners. However, the Commission makes recommendations in so-called opinions in which the member states are asked to ensure the right of all workers to adequate remuneration, regardless of gender, handicap, ethnic origin, race, religion or nationality. In addition, the European Social Charter already contains a right to adequate pay.

Minimum wage regulations are laid down in Europe in two ways: through agreement-based and statutory wage determination. In the case of agreement-based regulation minimum wages are laid down in wage agreements or general contracts of employment. However, due to their relatively low level of organisation, the trade unions do not have sufficient negotiating strength in all sectors to enable them to impose an agreement-based minimum wage. Therefore agreement-based regulation is lacking in the traditional low-

wage branches (for example, private services). This is where, in many European countries, the statutory minimum wage comes in to supplement agreement-based minimum wage regulations. Of the 25 EU member states, 18 have a statutory minimum wage (those without are Denmark, Germany, Finland, Italy, Austria, Sweden and Cyprus). The regulations are often insufficient to ensure adequate social standards, however. In most countries the minimum wage is below 50 per cent of average gross monthly earnings, with the exceptions of Luxembourg and Ireland (see Figure 1).

Figure 1: Minimum wage as a proportion of gross monthly earnings in industry and in the service sector in selected EU member states, 2004



Source: Eurostat

In the remaining EU states the minimum wage is regulated exclusively by the trade unions and management (the so-called 'Tarifpartner'). Particularly in Germany, however, there are massive gaps in agreement-based minimum wage regulation. Due to the advent of low-wage branches of private services from the mid-1990s, agreement-based coverage rates have markedly receded.

The effect of minimum wages on employment and income distribution

There are opposing positions in the individual debate on the connection between minimum wages and employment. The classical argument starts from the assumption that political regulation of wages has a negative effect on employment. According to this approach, there is perfect competition on the labour market, as on other markets. On that basis, supply and demand can establish an equilibrium wage. If the state interferes in the functioning of the market by setting a

minimum wage, however, and this is higher than the equilibrium wage, demand for labour falls off. As a consequence, unemployment increases, which particularly harms occupational groups in the lower wage segment.

The assumption that minimum wages have a negative effect on employment (particularly for young people) has been increasingly criticised, however, above all against the background of empirical studies. For example, a US study by Card and Krueger (1995) for the first time reached the conclusion that an increase in the minimum wage has no negative effect on employment. More recent studies in Europe unanimously stress that minimum wages do not lead to higher unemployment but often even to more employment. These empirical conclusions can be underpinned by various theoretical approaches.

On the basis of imperfect labour market conditions, enterprises have so much market power that wages can be set below the equilibrium wage. In cases where there is only one employer (a so-called monopsonist) in a given region, it has no interest in taking on additional employees because then it would have to pay all employees a higher wage. There is only an incentive for the unemployed to take employment if the wage is above the level of state transfer payments. The employment level is therefore lower than with perfect competition. Here the minimum wage steps in and simply compensates for this imbalance. A minimum wage also has a positive effect on employment by contributing to the stabilisation of demand. Since employees in low-wage sectors tend towards a particularly high consumption rate, a large proportion of increasing incomes due to the minimum wage flows directly into consumption. In addition, minimum wages increase the productivity of employees and reduce employee turnover, which in turn positively influences the long-term growth and employment prospects of the national economy (Swiss Trade Union Confederation, 2002).

A further major benefit of minimum wages consists in the fact that they have an extremely positive effect on income distribution. Many studies have come to the conclusion that minimum wages have prevented or even reduced a potential extension of wage differentiation. The minimum wage protects particularly those employees who work in low-wage sectors. Women, young men and ethnic minorities are disproportionately employed in those sectors. The minimum wage can be seen as an effective instrument for, if not re-

moving, at least reducing income discrimination among these groups (Funk/Lesch, 2006).

A minimum wage for Europe?

In the face of increasing liberalisation of the European economy and labour market, particularly in the service sector, as well as mass unemployment in many European countries, wages are coming under pressure. There is therefore a risk that the trade unions will lose negotiating power and wage policy will no longer constitute an adequate instrument to safeguard the minimum wage. The pros and cons of introducing a statutory minimum wage are therefore increasingly being discussed in some countries without legal regulation. But also in those EU states where a statutory minimum wage exists, real wage development is characterised by two fundamental trends. On the one hand, wages have lagged behind productivity growth, which has contributed to a weakening of private consumption and has led to low economic and employment development in many EU countries. On the other hand, in most EU states an increase in wage differentiation can be detected. This can be explained mainly by the fact that the low wage sector has massively expanded. But eastern enlargement has also increased pay differentials within the EU, as well as pressure on the regions close to the border (Schulten/Bispinck/Schäfer, 2006).

Given these developments, it can be established that current national minimum wage regulations – statutory or agreement-based – are no longer adequate in order to respond appropriately to increasing income differentials in the EU and to prevent long-term falling wages. Coordination of national minimum wage policies at European level is therefore becoming pivotal. In countries without a statutory minimum wage – particularly Germany – the main issue is to rectify the deficiencies of wage policy. In countries with statutory minimum wage regulations, on the other hand, there must be a commitment so that just and fair remuneration can be guaranteed. European coordination of national minimum wage regulations is an important instrument for responding to and reducing increasing distributive injustices. The majority of those who would benefit from European minimum wage regulation are women.

What would a European minimum wage policy look like? A proposal from the left wing of the French “Parti Socialiste”, under which a uniform minimum wage sum should be established Europe-wide, was judged

impracticable by critics because of the significant differences between national economic circumstances. Other approaches regard the European minimum wage rather as an EU guideline. It would define a certain national minimum wage level in relation to national economic performance, to which the different EU member states should orientate themselves. A group of German, Swiss and French academics have proposed Europe-wide coordination of national minimum wage policies. All EU states would be obliged to gradually increase minimum wages to a level corresponding to at least 50 per cent – and prospectively 60 per cent – of national average income (Schulten et al. 2005). The open method of coordination has been proposed for implementing this policy. Concrete targets and implementation periods would be established at European level, which ultimately would be implemented at national level with the customary institutions and procedures. Therefore, statutory minimum wages, generally binding wage agreements or combinations of the two forms of regulation could be applied. The European level would in turn have the task of supervising implementation at national level. For the purpose of implementation the European trade unions have been asked to develop a common concept for a European minimum wage policy (Schulten/Bispinck/Schäfer 2006; Burmeister 2006).

Enforceability of a European minimum wage policy

At present, the EU is a long way from a common minimum wage policy. The debate on the introduction of a statutory minimum wage in Germany shows that at national level there is a considerable need for discussion finding order to reach a consensus. The fact that a European minimum wage policy has to take into consideration the economic conditions of 25 member states indicates the difficulties involved. In addition, the institutional circumstances of the EU member states must be considered. For countries which have fully developed social partnership, the institutional adjustment costs for state minimum wage regulations are too great (Busemeyer/Kellermann/Petring/Stuchlik, 2006). To that extent, the proposed open method of coordination would of course be a pragmatic solution. It takes into account the different welfare models and economic conditions of individual EU states and leaves it to them to implement European guidelines in accordance with their own circumstances.

However, it remains under question how EU member states are to be obliged to raise their minimum wage gradually to 50 per cent and, prospectively, to 60 per cent of the national average income. The open method of coordination is based on voluntary cooperation between the EU member states, with no possibilities for sanctions. An important step towards the development of a concept that might attract a consensus on a European minimum wage policy is strengthening the European debate both between the social partners and other interest representatives and between the trade unions themselves. One possibility would be the establishment of an independent institution along the lines of the British Low Pay Commission. The Low Pay Commission consists of representatives of business, academia and the trade unions. It publishes an annual report in which it analyses the effects of the minimum wage on the national economy and the low wage sector. On that basis, it makes recommendations on the future level of the minimum wage in the United Kingdom. A corresponding independent institution with representatives from the member states and the EU could make recommendations on the level of the minimum wage for a given country with the aim of attaining a uniform level across the EU (60 per cent of national average income). It would need to lay down a deadline, within the framework of a policy proposal, by which this goal can be attained for the EU as a whole. Such an institution would have the advantage of being able to mediate between the different interest representatives and contribute to reaching a consensus. This would increase the political feasibility of the long-term aim of establishing by law a uniform minimum wage level and making it binding for all member states, including the related possible sanctions. If the EU member states wish to take seriously their commitments in the Social Charter and the goals of the Lisbon Strategy, they have to make minimum wage regulation, as well as other policy areas, binding throughout Europe.

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