Minimum wage developments

Dynamic minimum wage growth as an economic stabiliser

Another way to stabilise the economy from the demand side is to increase minimum wages, since employees at the bottom of the wage structure are more likely to spend the additional money available than are employees further up the wage structure. Figure 4.4 illustrates that in 2019, statutory minimum wages continued to grow dynamically. In 17 of the 21 EU countries with a statutory minimum wage, changes were introduced, with effect from 1 January 2020. In 2019, Latvia was the only country in which the minimum wage was not increased at all; but discussions were held with a view to increasing the monthly minimum wage from €430 to €500 at the beginning of 2021 (Schulten and Lübker 2020: 9). The other exceptions were: Greece, where the minimum wage was increased by more than 10% in February 2019; Ireland, with a minimum wage increase of 3.1% in February 2020; Belgium, with an increase of 2% in March 2020; and the UK, where the minimum wage was increased by more than 12% in two stages, in April 2019 and April 2020. This comparatively strong increase in the UK is part of the government strategy to end low pay. In autumn 2019, the Conservative government announced that it would increase the adult minimum wage for employees aged 25 and over – the so-called National Living Wage – to £10.50 (or two thirds of the median wage) over the next five years until 2024. The caveat, however, was that this would only be implemented if the country's economic situation allowed such an increase (Low Pay Commission 2019).

With respect to changes in the nominal minimum wage, three broad groups can be distinguished. The first group of countries, with a very dynamic growth rate of 8% or more, comprises nine countries, ranging from Estonia and Croatia, with 8.4% each, to Poland, with an increase of 14.7%. With the exception of Greece and the UK, this group consists exclusively of CEE countries. The strong increase of nominal minimum wages in CEE countries means that developments in 2019 followed the pattern of previous years, with a further convergence of minimum wages in the EU. The second group, with increases of between 4.8% and 6%, comprises five countries: Romania (4.8%), Spain (5.7%), Hungary (5.8%), and Portugal and Slovenia with 6% each. The third group comprises countries with a comparatively modest growth rate of around 3% or less. With the exception of Latvia, this group is made up exclusively

Figure 4.5 Development of statutory minimum wages in the EU, 2000-2020* (in %, median change from previous year**)

Source: WSI Minimum Wage Database (WSI 2020)
*Note: * Median of the national change rates: 1 January vs 1 January of the previous year. On the basis of 22 EU countries with a statutory minimum wage (including the UK, as of 1 January 2020).*
*** Price-adjusted according to change in the national consumer prices from the previous year.*

of western European countries, ranging from France, with a nominal increase of 1.2%, to Ireland, with an increase of 3.1%. Taking into account the development of consumer prices, the modest nominal increases in this third group of countries mean that the growth of real minimum wages was below 1%. In the following three countries, minimum wage earners even suffered real wage losses for the second time in a row, having already experienced a decline in real minimum wages in 2018: France (-0,1%), the Netherlands (-0.3%), and Latvia (-3.7%).

In some countries, minimum wage increases for 2021 have already been decided. At the beginning of October 2020, the Irish government, for instance, approved an increase in the Irish National Minimum Wage to €10.20 per hour, effective from 1 January 2021 (Department of Employment Affairs and Social Protection 2020). In Germany, on 30 June 2020, the Minimum Wage Commission submitted its recommendation for a staged increase of the minimum wage over the next two years. According to the proposal, the minimum wage will increase to €9.50 on 1 January 2021, to €9.60 on 1 July 2021, to €9.82 on 1 January 2022 and finally to €10.45 on 1 July 2022 (Mindestlohnkommission 2020). Although the increase in 2021 and at the beginning of 2022 will be fairly modest because of the Covid-19 crisis, the overall increase over two years will amount to 11.8%; this increase is thus more dynamic than the increase of collectively agreed wages in the last two years, which is the orientation mark for the Minimum Wage Commission (Bispinck 2020). Although the biennial recommendations of the Minimum Wage Commission are not legally binding, the government usually follows the recommendations.

The dynamic minimum wage development in individual countries is reflected in the development of minimum wages in the EU, as measured by the median of the changes in 22 EU countries. As Figure 4.5 illustrates, in 2019 the median increase of nominal minimum wages in the EU was 6%. Over the last 20 years, a higher annual median increase (of 6.7%) was recorded only in 2005. Taking inflation into account, the median increase of real minimum wages in the EU was 4.4%, which is also the second-highest increase in the last 20 years.

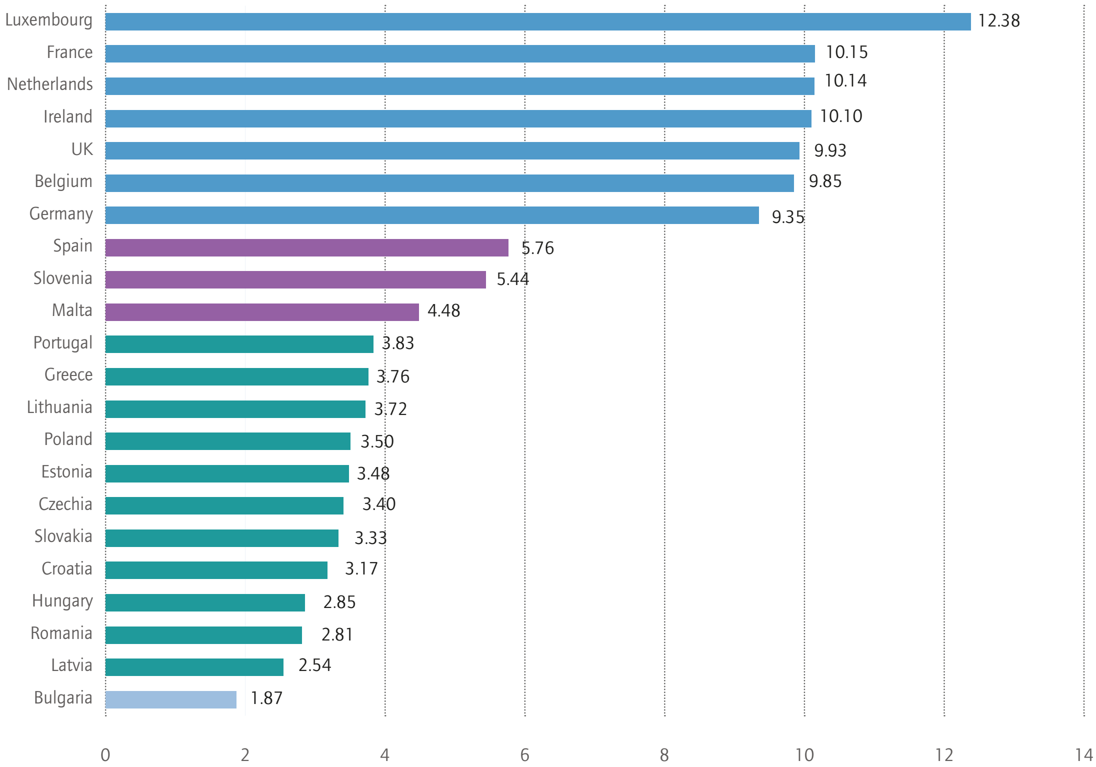
Dynamic minimum wage growth set to continue

There are three main factors that suggest that dynamic minimum wage development will continue in the future, despite the Covid-19 pandemic. First, in many countries, the substantial increase of statutory minimum wages is part of broader government strategies to fight low pay, in-work poverty and wage inequality. The example of the UK has already been mentioned. Further examples include Poland, where the government explicitly justified the minimum wage increase with the intention to transform Poland's business model from an extended workbench and a source of cheap labour for the West into an economy whose growth is based on innovation and modernisation (Schulten and Müller 2020). In October 2019, the government further announced that it intended to raise the minimum wage to 4,000 Polish złoty (approximately €930) over the next three years, until 2023 (Owczarek 2019). This would correspond to an increase of 90% from 2018. In Slovakia, in October 2019 the parliament adopted an amendment to the Minimum Wage Act, which stipulates that from 1 January 2021, in the event that trade unions and employers do not reach an agreement, the minimum wage will be set by the government to at least 60% of the average gross monthly wage of the two previous years (Schulten and Müller 2020). Similar measures have been taken by the new left-wing governments on the Iberian peninsula. In Spain, the government explicitly declared its intention to go beyond the recent minimum wage increases and to raise its level to 60% of the average wage by 2024. In a similar vein, the Portuguese government unveiled its plan to increase the national minimum wage to €750 per month by 2023. In the context of the current dynamic development of the minimum wage in Portugal this would mean a further increase of 18% (Schulten and Müller 2020).

The second factor that points to the continuation of the dynamic minimum wage development in the EU are the numerous trade union campaigns for substantial minimum wage increases in all parts of the EU (Schulten and Müller 2020). In western Europe, for example, the Federation of Dutch Trade Unions (FNV) in the Netherlands and the General Labour Federation of Belgium (ABVV/FGTB) are campaigning for a minimum wage of €14. This would mean an increase of 42% and 38%, respectively. In Germany, where the minimum wage was only introduced five years ago, the trade unions advocate a much faster increase and demand that the minimum wage be raised from the current €9.35 to €12, which would correspond to an increase of 28%. Even in Luxembourg, where the minimum wage is already by far the highest of all countries, trade unions are calling for an additional structural increase of 10%, which would bring the minimum wage close to €14. Concrete minimum wage initiatives also exist in other western European countries (France, the UK, and Ireland), in southern Europe (Malta, Portugal and Spain) and in central and eastern Europe (the Baltic states, Bulgaria, Croatia, Poland, Romania, Slovakia and the Czech Republic), where demands for a minimum wage increase vary between 10% and 30% (Schulten and Müller 2020). Furthermore, the example of Austria shows that trade union minimum wage campaigns need not be limited to countries with statutory minimum wages. The Austrian trade unions demand that no collectively agreed wage should be below €1,700 a month. What all these trade union campaigns have in common is the principal objective of raising the existing minimum wages to a level that ensures a decent standard of living, thus making them genuine living wages (Schulten and Müller 2019).

The push to substantially raise minimum wages is furthermore supported by the mounting empirical evidence that the dire predictions of many economists that higher minimum wages would have catastrophic effects on employment (see, for example, Neumark and Wascher 2007) did not materialise in practice. A

Figure 4.6 Statutory national minimum wage per hour, in euros (May 2020)



Source: WSI Minimum Wage Database (WSI 2020).
Note: Conversion of national currencies into euros based on average exchange rate in 2019.

recent comprehensive overview of the international evidence commissioned by the Conservative UK government found that even significant minimum wage increases have only very limited negative employment effects (Dube 2019). Against this background, for the UK, Dube (2019) sees enough scope to raise the minimum wage to at least two thirds of the national median wage.

Different worlds of minimum wages

Despite these minimum wage increases, in particular in CEE countries, there is still a substantial variation in the statutory minimum wage levels in the EU, ranging from €1.87 per hour in Bulgaria to €12.38 in Luxembourg. As Figure 4.6. illustrates, three major groups of countries can be identified: the first group comprises seven western European countries with minimum wages of around €10. After the frontrunner Luxembourg, the highest minimum wages currently exist in France (€10.15), the Netherlands (€10.14), and Ireland (€10.10). They are followed by minimum wages of just under €10 in the UK (€9.93) and Belgium (€9.85). Germany, with a minimum wage of €9.35, comes in last in this group. Since Figure 4.6 shows the absolute level of the national minimum wage for all countries in euros, it is important to bear in mind the impact of exchange rate developments. The figure for the UK, for instance, is heavily influenced by the devaluation of the British pound vis-à-vis the euro since the Brexit vote in June 2016. Based on the average exchange rate of the 2000s, the current UK minimum wage of £8.21 would be at €11.78, which in turn would be closer to the level of the frontrunner Luxembourg than to that of the other countries of this group (Schulten and Lübker 2020: 5).

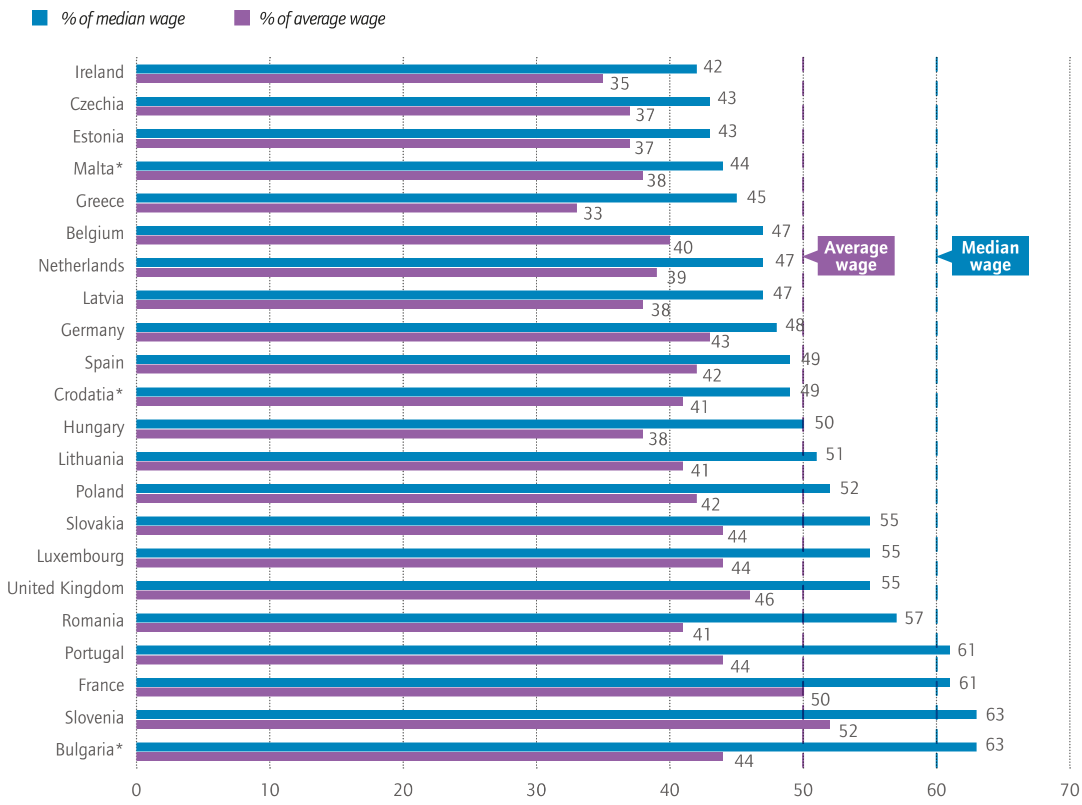
A second, relatively small group includes only three European countries with minimum wages between €4 and €6. This group includes Malta (€4.48), Slovenia (€5.44), and Spain (€5.76). The third group, by far the largest, consists of a dozen EU countries with minimum wages below the €4 mark. These include the southern European countries Portugal (€3.83) and Greece (€3.76) as well as ten central and eastern European EU Member States, where minimum wages range from €1.87 (Bulgaria) to €3.72 (Lithuania).

In the absence of national statutory minimum wages, the minimum wage level in countries where minimum wages are determined by (sectoral) collective agreements can only be determined by analysing the lowest collectively agreed wage groups. Against this background, in the northern European EU states Denmark, Finland and Sweden, the lowest collectively agreed wages in the classic low-wage sectors such as hairdressing, cleaning, and hospitality are generally between €10 and €12 per hour. In Austria, the collectively agreed minimum wage is just under €9, or just under €10.40 if the generally compulsory payment of 14 months of wages is taken into account. In Italy, the lowest collectively agreed wages are between €6 and €7, and in Cyprus the minimum wages for some occupational groups vary in the range of €4.50 to €5.50 (Schulten and Müller 2020).

What is a fair minimum wage?

The value of a minimum wage is not only determined by its nominal or real value, but also and most

Figure 4.7 Minimum wage as % of full-time median and average wages (2019)



Source: own calculations based on OECD Earnings Database (OECD 2020) and European Commission 2020d
** data for 2018*

importantly by its level in relation to the national wage structure. This relative level can be calculated using the 'Kaitz index', which measures the minimum wage as a percentage of the national average or the median wage. The latter is the wage that divides the overall wage structure into two equal segments, i.e. one half of all wage earners earns more and the other half earns less.

As an analogy to the relative income indicators widely used in poverty research, a minimum wage below 50% of the median wage can be described as a 'poverty wage" in relation to the individual employee, while a minimum wage at 50-60% can be described as a wage with a high risk of poverty (UNECE 2017). A minimum wage can therefore only be considered fair or appropriate if it is at least 60% of the median wage. A minimum wage of at least 60% of the median wage is the wage that should enable a single full-time worker to avoid a life in poverty, regardless of living and household circumstances, without relying on state transfers. Finally, a 'low wage' is a wage that is below two thirds (66.66%) of the median wage. In the international academic and political debate, 60% of the national median wage is, therefore, usually taken as the benchmark for adequate or fair minimum wages (Schulten et al. 2015).

As Figure 4.7 shows, in 2019 all national minimum wages in the EU were below the low wage threshold of two thirds of the median wage. Only four countries (Bulgaria, Slovenia, France and Portugal) had a minimum wage that was above 60% of the median wage. Of the 21 EU countries (plus the UK) who have a statutory minimum wage, the minimum wage in seven countries is at a level of 'high risk of poverty' (between 50% and 60% of the median wage), while in 11 other countries the minimum wage is below 50% of the median and can be described as a 'poverty wage'. The group in which minimum wages are well below the relative poverty threshold also includes countries such as Belgium, Germany, Ireland and the Netherlands, which in nominal terms have some of the highest minimum wages in the EU. Figure 4.7, therefore, demonstrates that in most EU Member States, statutory minimum wages are still far from guaranteeing a decent living standard.

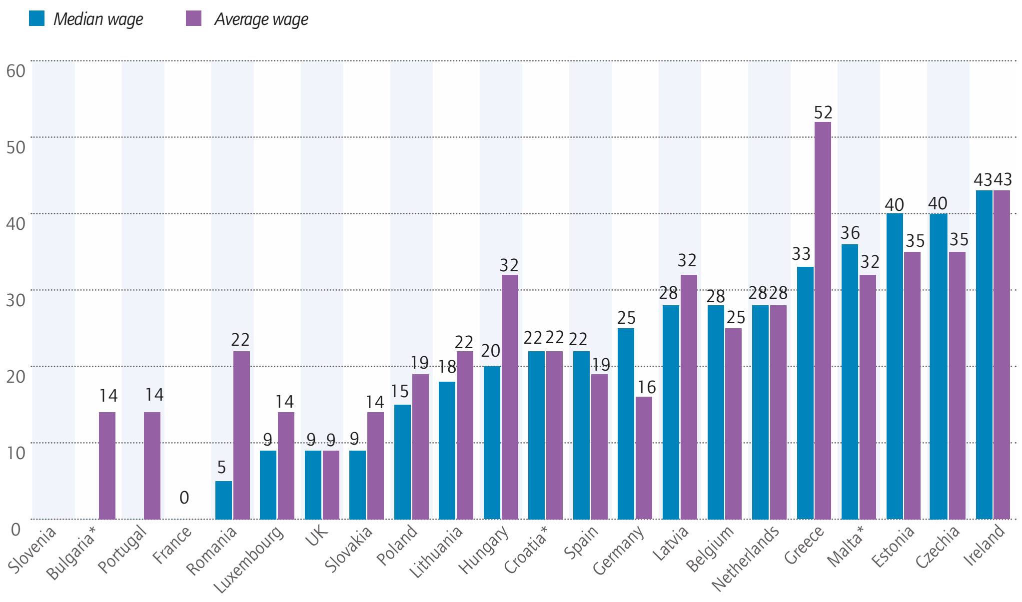
In the countries with collectively bargained minimum wages, the Kaitz index can in turn only be determined approximately by comparing the lowest collectively agreed wages with the national median wage. Accordingly, the highest minimum wages are found in Denmark and Sweden, where the lowest collectively agreed wages in the low-wage sectors account for between 60% and 70% of the median wage. In Finland and Italy, the lowest collectively agreed wages vary between 50% and 60% of the median wage, while in Austria and Cyprus they are generally below 50% (Schulten and Müller 2020).

The need for a 'double decency' threshold

The fact that a country meets the 60% median wage threshold, however, does not necessarily mean that its minimum wage provides an adequate standard of living. In Bulgaria, Portugal and Romania, for instance, the comparatively high Kaitz indices do not reflect the adequacy of minimum wages as much as they reflect poor wages overall. The relatively high Kaitz indices in these countries are primarily the result of a highly polarised wage structure with a

The key measure, however, to ensure that workers can make ends meet from a minimum wage that meets the double decency threshold is the strengthening of (cross-) sectoral collective bargaining.”

Figure 4.8 increases (%) in the minimum wage needed to reach 60% of the median and 50% of the average (2019)

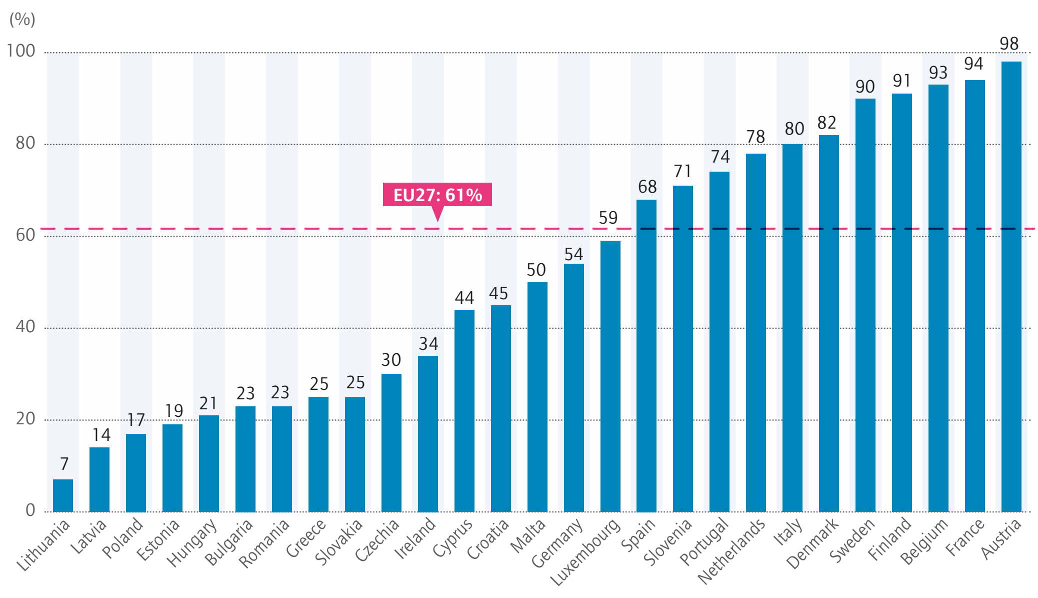


Sources: own calculations based on OECD Earnings Database (OECD 2020) and European Commission (2020d)
** data for 2018*

high concentration of employees at the lower end of the wage spectrum. The Kaitz index measured as a percentage of the median is therefore not enough for setting fair minimum wages.

Particularly in CEE countries, it is customary (including among trade union and political advocates) to use the average wage as the reference value for the relative minimum wage level. A European regulation which uses both the median and the average wage as benchmarks for fair minimum wages would therefore be much more in line with political realities in all EU countries, while integrating the various national initiatives for a substantial minimum-wage increase into an overall European strategy. The European standard for adequate minimum wages in the European Commission's proposed Directive should therefore be clearly defined in the legal provisions at 60% of the median and 50% of the average (Müller and Schulten 2020b). Figure 4.8 shows by how much the minimum wage in various countries would have to rise to reach the respective minimum floors. Application of the double 60/50% decency threshold would lead to a (sometimes considerable) minimum wage increase in all EU countries with a statutory minimum wage with the exception of Slovenia and France. In twelve countries the 60% of the median threshold, and in six countries the 50% of the average threshold, would have the greater impact; in four countries (the UK, Ireland, Croatia and the Netherlands) the outcome would be the same. The double decency threshold would thus take into account the large differences in national wage structures and contribute to a general upward convergence of minimum wages across Europe.

Figure 4.9 Collective bargaining coverage in the EU27 + UK (2016-2018*)



Source: ICTWSS Database Version 6.1, November 2019 (AIAS 2020).
Note: Percentage of workforce covered by a collective agreement.
** most recent data available*

> *It is not surprising that the countries with the highest decline in collective bargaining coverage over the past 20 years were affected by decentralisation of collective bargaining."*

The need to strengthen collective bargaining

This, however, still leaves unresolved the fundamental problem that, overall, in countries with low wages – for instance, as a result of low collective bargaining coverage – even a minimum wage which meets the double decency threshold may not be sufficient to ensure a decent standard of living. Minimum wages calculated on the basis of the double decency threshold should thus be subjected to a 'real life' test, for instance by using a country-specific basket of goods and services, defined with the full involvement of trade unions and employers' organisations, as to whether they secure a decent standard of living. In order to ensure a level playing field across Europe, the overall categories of the elements to be included in the basket of goods and services should also be defined at European level.

The key measure, however, to ensure that workers can make ends meet from a minimum wage that meets the double decency threshold is the strengthening of (cross-)sectoral collective bargaining, which in turn ensures a higher collective bargaining coverage. According to calculations based on a sample of 48 OECD countries, the level of bargaining accounts for about three quarters of the cross-national variation in bargaining coverage (Visser et al. 2015). Thus, as illustrated in Figure 4.9, the countries with the highest bargaining coverage are all countries in which multi-employer bargaining at (cross-)sectoral level is still the dominant mode of determining the terms and conditions of the employment relationship. By the same token, bargaining coverage in all countries characterised by single-employer bargaining is below 50%.

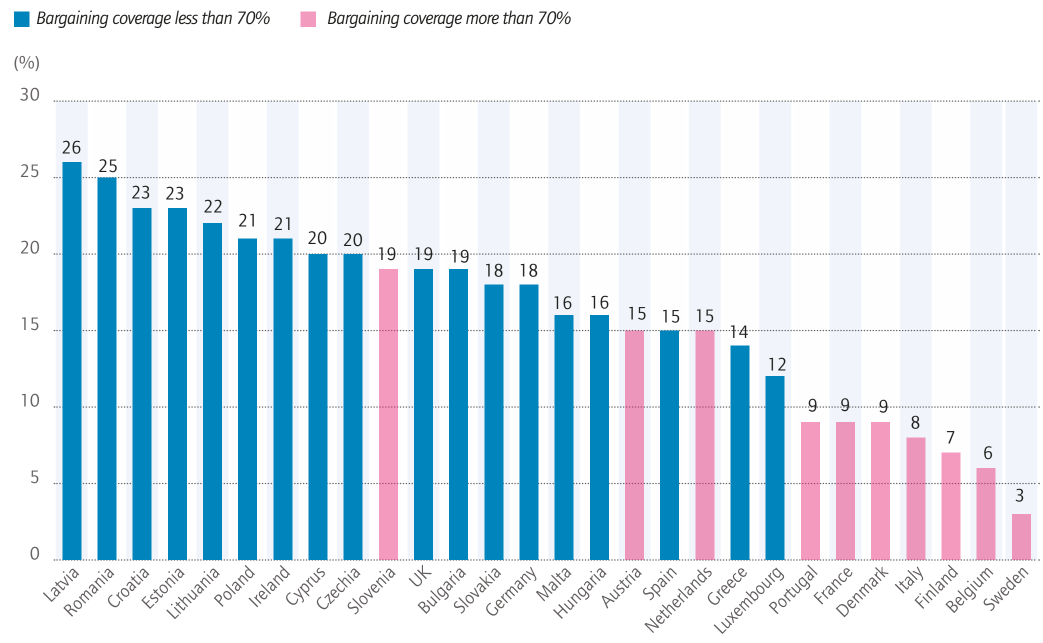
Every country with a bargaining coverage above the EU27 value of 61% shares at least one of the following three characteristics (Müller et al. 2019: 640): first, legal extension mechanisms, or functional equivalents, that ensure that sectoral agreements also apply to companies that did not sign the agreement or are not affiliated to the employers' association signatory to the agreement; second, erga omnes practices that extend agreements at company level to all workers of the respective company, regardless of whether or not they are unionised; and third, broad-based bargaining parties that are willing to participate in collective bargaining and hence ensure wide coverage of collective agreements. The latter applies to Denmark and Sweden, where no legal extension mechanism or erga omnes rules exist, but high bargaining coverage rests solely on the organisational strength of the two sides of industry. Against this background, it is not surprising that the countries with the highest decline in collective bargaining coverage over the past 20 years, particularly after the 2008/2009 economic crisis, were affected by measures that led to the decentralisation of bargaining and/or that suspended or curtailed legal extension mechanisms (Schulten and Müller 2015).

The consequence of the partly EU-induced dismantling of sectoral collective bargaining in the context of the handling of the 2008/2009 economic crisis was a drop in the overall bargaining coverage in the EU27 from 73% in 2000 to 61% in 2018. The proposed Directive takes account of this development. Article 4 explicitly requires Member States to take action to promote collective bargaining and to establish national action plans to increase bargaining coverage if less than 70% of workers are covered by a collective agreement (European Commission 2020b: 23). This is an important step to reach an overall wage level which is sufficient to ensure that minimum wages which meet the double decency threshold enable minimum wage earners to enjoy a decent living standard. However, in order to ensure effectiveness, the Directive should specify measures to be included in the action plans. These should be measures that in the past have proven to

73% to 61%

Drop in the overall bargaining coverage in the EU27 (2000 to 2018)

Figure 4.10 Low wage sector and collective bargaining coverage in the EU and the UK (in % of full-time employees with a wage below two-thirds of the national median wage, 2014-2018*)



Source: OECD Earnings Database, Eurostat, ICTWSS Database (AIAS 2020).
Note: Percentage of full-time employees with a wage below two thirds of the national median wage.
** most recent data available*

be effective in increasing bargaining coverage, such as less restrictive criteria for extension mechanisms, protection against victimisation of workers who exercise their right to collective bargaining and to join a union, and the right of access to the workplace for trade unions.

Sectoral bargaining to fight low pay

Figure 4.10, which illustrates the link between the number of low-wage earners and collective bargaining coverage, clearly demonstrates the significance of collective agreements in ensuring decent pay. Within the EU, there are large differences in the number of employees earning less than two thirds of the national median wage, ranging from 26% of the workforce in Latvia to just 3% in Sweden. However, of the 12 countries with the smallest proportion of low-wage earners, nine countries (marked in red in Figure 4.10) have a bargaining coverage of more than 70%; furthermore, these countries are all characterised by multi-employer bargaining at (cross-)sectoral level. It is, therefore, essentially the high level of collective bargaining coverage in these countries that limits the size of the low-wage sector.

Ways to strengthen sectoral bargaining

There are different ways to strengthen collective bargaining. An all-encompassing strategy includes firstly, strengthening collective bargaining 'from below' by fostering the formation of more encompassing bargaining parties with a stronger membership base; and, secondly, strengthening collective bargaining 'from above' by mobilising political and societal support for collective bargaining (Müller et al. 2019). While strengthening collective bargaining from below is an important element in the overall approach, increasing unions' membership base and ensuring a union presence at the workplace is resource-intensive. In some countries and industries, trade unions are so weak that improving the regulatory capacity of collective bargaining will not be possible without the support of the state, i.e. strengthening collective bargaining from above. In this regard, the EU level can play an important supportive role: first, for instance, by including in the proposed Directive on adequate minimum wages the right for trade unions to gain access to the workplace (both physically and digitally) to organise workers without the fear of victimisation; second, by including in the public procurement rules the requirement to recognise the right to trade union organisation and collective bargaining as one of the conditions imposed on companies tendering for public contracts. This means that companies which refuse to bargain or implement collective agreements should be barred from state contracts, grants and other European financial support. Finally, European policymakers could use the country-specific recommendations to support and strengthen the development of multi-employer bargaining at (cross-)sectoral level. What works in one direction to decentralise and dismantle multi-employer bargaining could surely work in the other direction to reverse these processes. If European policymakers are serious about supporting strong collective bargaining institutions, then this should be reflected in the measures proposed in the country-specific recommendations. How the trade unions themselves are faring in terms of developing their membership base and in terms of their capacities to mobilise for collective action – and how these dimensions have been affected by the Covid-19 crisis – will be dealt with in the remainder of this chapter.