Minimum Wage Systems and Changing Industrial Relations in Europe: Comparative Report
Damian Grimshaw, September 2010

EXECUTIVE SUMMARY

Background
All European member states have some form of minimum wage system. Minimum wages may be applied using government legislation (currently found in 20 EU member states) or they may be a by-product of social partner collective agreements (found in 7 member states) with supplementary statutory extension regulations in some cases. Within each of these two basic models of minimum wages countries display a variety of rules and conventions that shape the functioning, effectiveness and performance of a minimum wage. There is variety in the use of single or multiple rates, in the roles of social partners and government in minimum wage setting, in the value of the minimum wage and trends over time, its interaction with welfare policy and its distributive effects on wage structure, especially on the incidence of low pay and gender pay equity (Bazen 2000, Brosnan 2003, EC 2008, Eyraud and Saget 2005, Funk and Lesch 2006, Schulten et al. 2006, Vaughan-Whitehead 2009a).

Renewed interest in active minimum wage intervention among policy-makers raises three issues for investigation. First, we need to understand the extent to which policy developments fit with the interests and strategies of government and social partners – with no presumption that such interests are universal or unchanging. Second, we need to explore in more detail the dynamic inter-linkages between a country’s minimum wage system and its model of collective bargaining in order to expose potential tensions and complementarities. Third, new data are needed to illuminate the way changing minimum wage policy impacts upon, and possibly interconnects with, the pay bargaining strategies of trade unions and employers with attention to sector as well as country differences.

Aims and objectives
The aims of this comparative research project were to interrogate the different rules and functions of minimum wages in their country settings and to understand the inter-linkages between a minimum wage system and a country’s model of industrial relations. By shedding light on the way minimum wage systems interact with the pay bargaining strategies of trade unions and employers, the objective is to contribute to the Europe 2020 goals of more effective and sustainable policy development in this area, particularly with regard to fair labour market outcomes and enhanced processes of social dialogue.

Key research questions include:

- Is there evidence of active minimum wage policy intervention and how does this relate to the interests and strategies of unions, employers and government?
- How do minimum wage trends relate to general changes in wage structure, especially the gender pay gap and the incidence of low pay?
- Are there important sector differences in the influence of minimum wages on low pay rates in collective bargaining agreements and, if so, why?
- What are the cross-national patterns of minimum wage trends (e.g. the value relative to average earnings) and are these shaped by different models of collective bargaining?
- Do minimum wage policy developments dovetail with union and employer strategies towards wage bargaining, especially with regard to egalitarian pay bargaining?

Research design
The novelty of this project is its collection and analysis of original comparative data on employer and union approaches to wage bargaining (in national, sector and organisation level collective agreements) in a context of developments in minimum wage policy. The project
brought together five research teams representing Croatia, Germany, Hungary, Spain and the UK. The choice of countries includes old, new and candidate EU member states. Each team produced a national report designed to address the central research questions. Each report includes a review of policy developments, minimum wage trends and earnings data, as well as an analysis of new empirical evidence on collective bargaining. In addition, this comparative report includes an assessment of policy developments in an additional four countries, Estonia, France, Ireland and Sweden in order to include a sufficiently wide review of examples of country practices.

Primary data were collected through interviews with representatives from employer, union and government bodies involved in wage bargaining and/or minimum wage policy. In order to establish the required depth of analysis, each country research team focused on three sectors, selected to reflect issues of minimum wage policy as well as to provide a basis for comparison across countries (table 1). This report includes an analysis of key results from four sectors - retail, security, cleaning and construction. Our objective is to critically analyse the relative merits of different country minimum wage systems in terms of their functioning alongside union and employer wage bargaining strategies, their effectiveness in protecting the low paid and their capacity to enhance social dialogue.

Table 1. Selection of sectors for empirical research into collective bargaining

<table>
<thead>
<tr>
<th>Sector</th>
<th>Croatia</th>
<th>Germany</th>
<th>Hungary</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Construction</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Cleaning</td>
<td></td>
<td>X</td>
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<td></td>
<td>X</td>
</tr>
<tr>
<td>Cleaning</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Security</td>
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<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Clothing</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Temporary work agencies</td>
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<tr>
<td>Hospitality</td>
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<td>X</td>
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</table>

Main findings
There are five main sections in this comparative report, each designed to address a key issue for research. Key findings elaborated in each section are as follows:

1. Minimum wage policy and practice (a 9-country comparison)
   
   - All countries except Estonia and Spain implement additional minimum wage rates for specific workforce groups, although there is variety in the definition and use of youth rates, skilled worker rates and industry rates
   - Only Croatia and France use an automatic formula, although this has traditionally been supplemented by the *coup de pouce* in France and is the object of controversy in Croatia
   - All nine countries have institutionalised some form of social dialogue in uprating the minimum wage, ranging from full engagement in the setting of a minimum wage through collective bargaining (in certain sectors in Germany and Sweden) to the decision by government based on a recommendation by an independent public body in the UK.

2. The changing value of the minimum wage

Harmonised earnings data from Eurostat provide a measure of the monthly minimum wage as a percentage of average gross earnings (the Kaitz index). The evidence suggests a range of values, from 35% and lower in Romania, Estonia, Slovakia and the Czech Republic to 48% and higher in France, Greece and Malta.

Trend earnings data from the OECD for 16 countries (including the US and Japan) confirm other studies that point to an upwards trend in the 2000s up to the recession.
In the chart, 11 out of 16 countries experienced a rise in the value of the minimum wage between 2000 and 2008. Detailed policy evidence for the nine countries in this study suggests the upward trend is the result of explicit policy intervention, driven either by government or by agreement among social partners that was subsequently ratified by government.

3. Minimum wages and collective bargaining

The debates and conflicts over minimum wage policy reflect a raft of tensions among the interests of government, unions and employers and their approaches to the minimum wage. Country findings include:

- Active support and guidance from government in Spain where minimum wage policy is intended to improve low incomes and social cohesion
- A cautious government position in Croatia, reflecting minimum wage links to unemployment benefits
- Supportive trade unions in all five countries (since 2006 in Germany)
- A mix of pragmatic and conservative employer approaches albeit with a general focus on its utility as a wage floor rather than as a redistributive tool. Opposition only evident in Germany.

Three observations can be made about the macro-level interaction between a minimum wage system and the country model of collective bargaining:

1. **Countries with strong models of collective bargaining tend not to have a statutory minimum wage;**
2. **Among countries with a statutory wage, the stronger the collective bargaining the higher the relative value of the minimum wage; and**
3. **The value of the minimum wage has tended in recent years to increase more in those countries with weak collective bargaining, as the following chart shows:**
4. **Redistributive effects on wage structure**

Minimum wages can redistribute earnings to low wage workers, most of whom tend to be women, but the redistributive effects depend on the model of collective bargaining and the conditions of the labour market in which it functions (Freeman 1996).

- A high value statutory minimum wage is an important institutional instrument for combating gender pay inequality among the lowest paid: the gender pay gap at the bottom earnings decile is lowest in countries with a high statutory minimum wage.
- Women are more likely than men to be low paid in all countries except Hungary, up to a factor of 3.4 in Germany (OECD earnings database).

![Chart showing minimum wage as % of average wage and % incidence of low pay across countries.](chart.png)

- Eurostat data suggest a strongly negative correlation (-0.59) between the value of a country’s minimum wage and the incidence of low wage employment (see chart).
- Women’s relative risk of low pay is higher in countries with weak collective bargaining and no or low value minimum wage.

5. **Pay bargaining strategies: four sectors across five countries**

The character of pay bargaining and the inter-linkages with minimum wage policy developments are influenced to a great extent by the general characteristics of each sector of economic activity. Some of the key features common across countries are as follows:

- **Cleaning**: expanding sector due to outsourcing; cost-led contracting; over-representation of part-time (and very short part-time) employment;
- **Security**: cost-led contracting; strongly male-dominated; industry training standards; long working hours; potential for technology upgrading/upskilling;
- **Retail**: female-dominated workforce; over-representation of part-time employment;
- **Construction**: strong negative impact of recession; high numbers of self-employed/informal contracting; vulnerable to competition from posted workers.

Across the five countries we find different developments in collective bargaining in each sector, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cleaning</th>
<th>Security</th>
<th>Retail</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>--</td>
<td>--</td>
<td>Legally extended sector agreement</td>
<td>Sector agreement</td>
</tr>
<tr>
<td>Germany</td>
<td>Legally binding sector minimum wages (indoor/outdoor)</td>
<td>--</td>
<td>--</td>
<td>Strong partnership; Legally binding sector minimum wages (skilled/standard)</td>
</tr>
<tr>
<td>Hungary</td>
<td>--</td>
<td>Sector agreement repealed; Weak unions &amp; employer bodies</td>
<td>Company bargaining; Weak unions</td>
<td>Legally extended sector agreement – but problems of compliance</td>
</tr>
<tr>
<td>Spain</td>
<td>National framework agreement &amp; multiple provincial agreements</td>
<td>--</td>
<td>Multiple provincial agreements</td>
<td>--</td>
</tr>
<tr>
<td>UK</td>
<td>Limited bargaining except extended public sector agreement to private contractors</td>
<td>Complex contract-led company bargaining</td>
<td>Company bargaining</td>
<td>--</td>
</tr>
</tbody>
</table>

In each case, the case studies reveal a variety of pay bargaining strategies in response to changing minimum wage policy, with varying implications for social
dialogue and pay equity trends. Some of the issues include:

- Collectively agreed base wages below the statutory minimum wage (eg. retail workers in Croatia)
- Minimum wage used as the ‘going rate’ (eg. for unskilled construction workers in Hungary, and for construction workers in Croatia and Eastern Germany)
- Base wages supplemented by enhancements (eg. Croatia)
- Shrinking gap with the minimum wage (eg. retail workers in Spain and the UK, and in Hungary where downgraded from skilled to unskilled)
- Bottom-weighted pay bargaining strategies (retail union in Hungary, public service union in the UK)