Why One Size Does Not Fit All. The case of European minimum wages

Høgedahl, Laust

Publication date:
2020

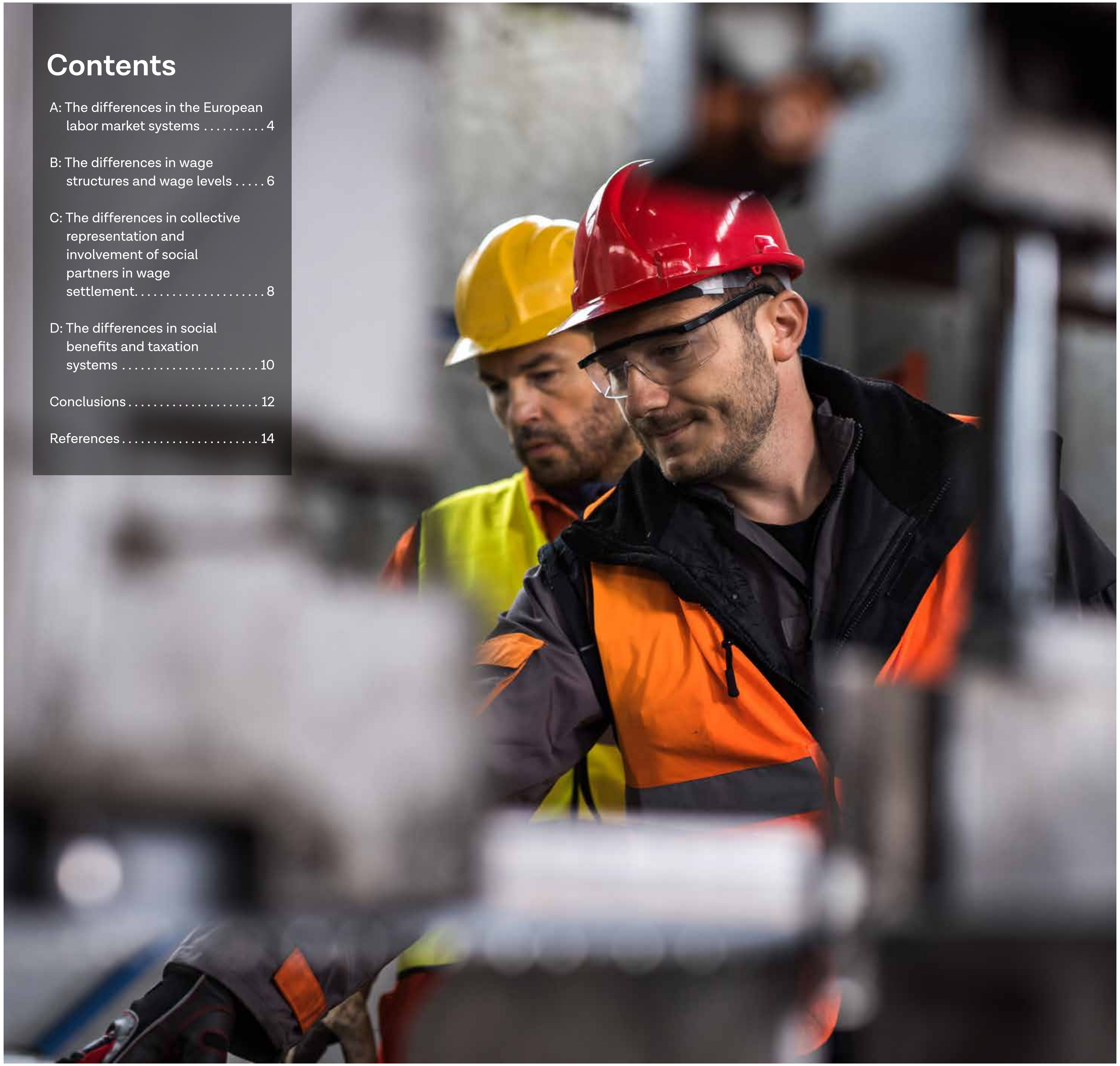
Why One Size Does Not Fit All

- The case of European minimum wages

Associate Professor, Ph.D. Laust Høgedahl*

May 2020

*Aalborg University (DK), Centre for Labour Market Research (CARMA),
Contact: hogedahl@dps.aau.dk



Contents

A: The differences in the European labor market systems 4

B: The differences in wage structures and wage levels 6

C: The differences in collective representation and involvement of social partners in wage settlement.................... 8

D: The differences in social benefits and taxation systems 10

Conclusions..................... 12

References...................... 14

Introduction

The 27 EU Member States have very different approaches to wage settlement. These differences are deeply rooted in national and historical traditions, different institutions and practices. Many EU Member States have introduced a minimum wage by law and some have not - and the process of determining the wage level varies considerably. The EU Member States also have very different labour market and welfare systems, including different social and taxation systems. Consequently, it's difficult to apply a one-size-fits-all European minimum wage in 27 fundamentally different systems.

A. The differences in the European labor market systems

Wages and wage settlement are key features in any labour market. Yet wage formation is a relatively complicated process in most countries, involving negotiations and regulations (Jørgensen 2002). A range of factors must be taken into account such as productivity, company budgets, the rate of the inflation, economic growth, labour supply and demand, rates of unemployment and employment, the general health of the economy and especially the strength and involvement of the social partners.

The 27 EU Member States have developed very different solutions to labour market regulations, including wage settlement. These differences are deeply rooted in historical traditions, institutions and practices, many of which date back to the early industrialisation in the late 1800rds. This led to the creation of different industrial relations systems. (Crouch 1993; Traxler et al 2003; table 1).

When it comes to wage settlement, one of the key differences between EU Member States when it comes to wage settlement is the level of involvement of the social partners and the role of the state.

In most EU Member States, wage floors set a lower boundary to wage distribution. With the exception of Austria, Cyprus, Denmark, Finland, Italy and Sweden, this is usually done through a national statutory minimum wage (Eurofound 2019).

Although we can identify different clusters of countries with similar industrial relations systems (cf. table 1), each country is unique when it comes to wage settlement. Research also shows great variations across sectors and even regions within each EU Member State (Bechter et al 2012).

In many EU Member States, different extension mechanisms also exist in order to broaden the coverage of collective agreements by law. In France e.g. *erga omnes* clauses mean that all employees are covered by the collective agreement that applies to companies within certain geographical areas and sectors (Liukkunen, 2019).

In the Nordic countries, minimum wages are set by collective agreements at the sectorial level, negotiated voluntarily by the social partners with little or no intervention from the state. Here the state does not provide a statutory minimum wage (Høgedahl 2020).

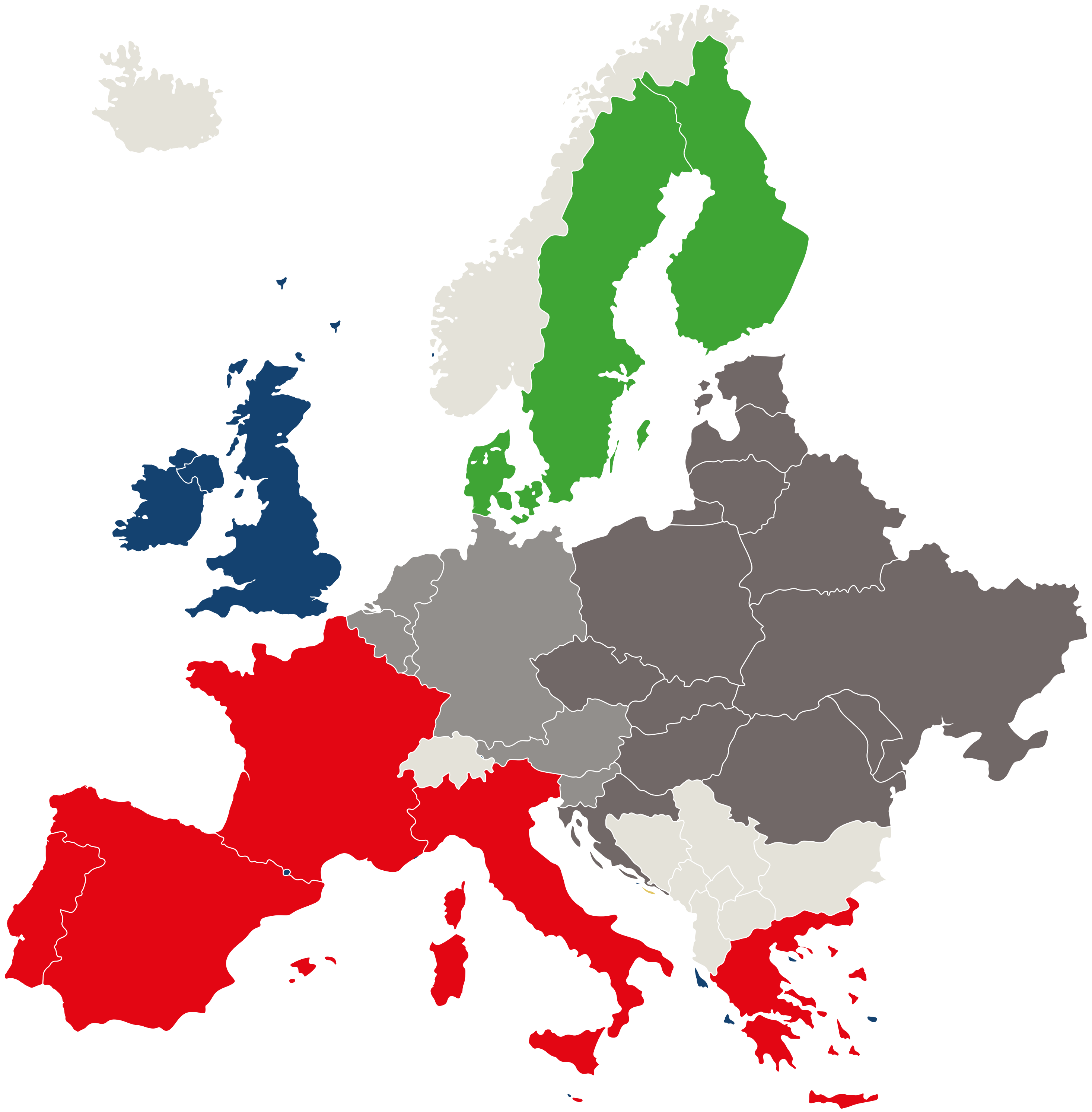
Wage settlement is a complicated process and Member States have found different solutions based on different needs, historical traditions and institutions creating different industrial relations systems as a consequence.

Tabel 1 – European industrial relations clusters

	Nordic	Centre-west	South	West	Centre-east
Industrial relations regime	Organised corporatism	Social partnership	State-centered	Liberal pluralism	Transition economies
Bargaining style	Integrative		Distributive/conflict-oriented		Acquiescent
Employee representation	Union-based /high coverage	Dual-channel /high coverage	Variable/mixed	Union-based/Small coverage	
Predominant level of collective bargaining	Sector		Sector/company	Company	

Source: Eurofound, 2017

European industrial relations clusters



B. The differences in wage structures and wage levels

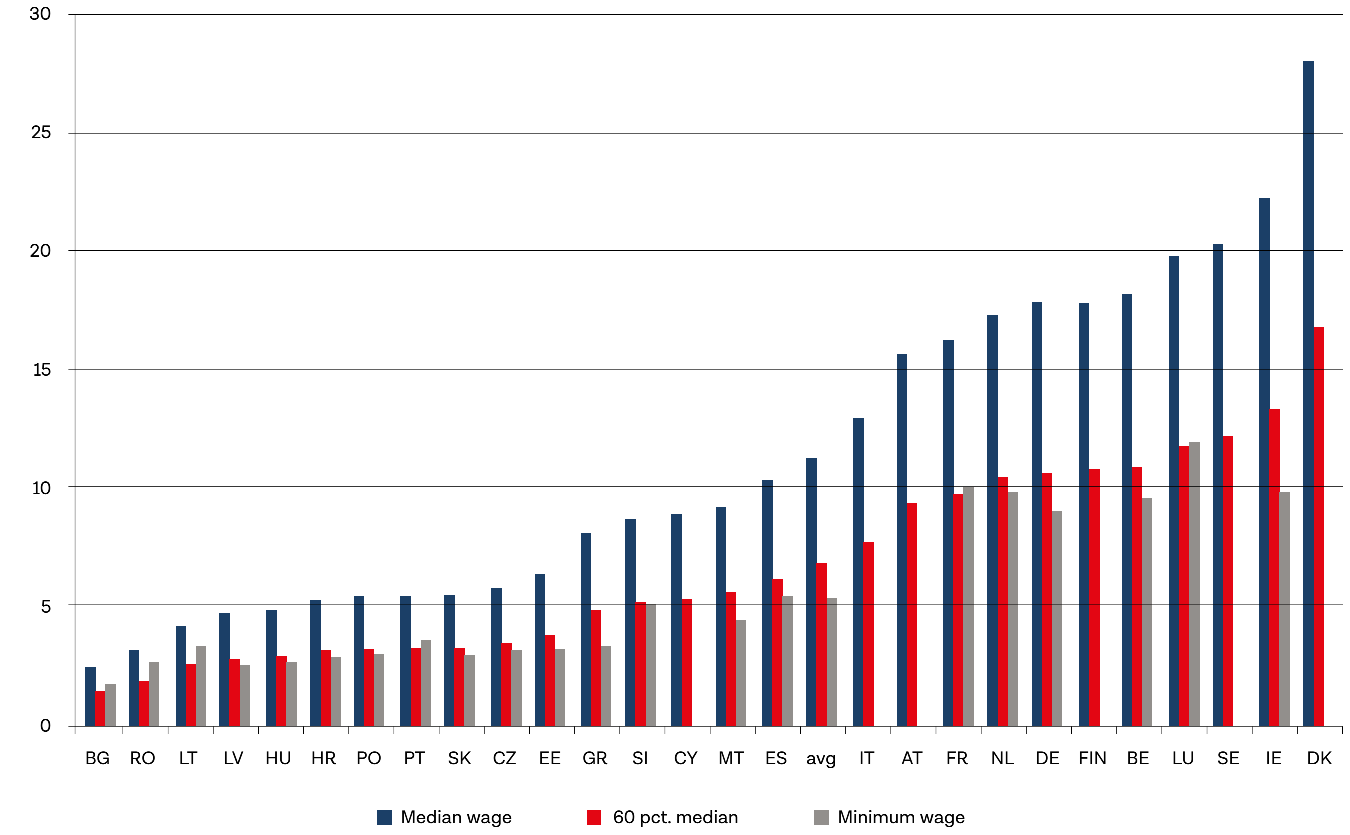
In general, minimum wage floors in the EU Member States are implemented by either collective bargaining, different kinds of extension mechanisms or by a statutory minimum wage (Eurofound 2019; Müller & Schulten; 2019).

In most EU countries, the minimum wage is determined by legislation, i.e. a statute or a regulation. However, there are great differences in the way this process works.

In most EU Member States, the social partners are consulted but the level of involvement varies a great deal. In some countries, the level is set on the basis of bargaining between the social partners (Belgium, Estonia and Greece). In other countries, the level is set through tripartite arrangement (Bulgaria, Poland and Slovakia), where the governments decide if the social partners fail to come to an agreement.

In some EU Member States, such as France and Spain, the minimum wage

Figure 1 – Median wage, 60 pct. median wage and minimum wage (if applied), 2019 in Euros



Source: Eurostat. The calculations are based on structural statistics (2014) and projected labour cost indexed to a 2019 level.

Wage levels and wage structures vary considerably across EU Member States. Countries with a high wage equality and decent standard of living have strong collective bargaining and social dialogue and a low share of non-standard employment.

is automatically adjusted and indexed according to price and wage levels.

The Nordic EU Member States, Austria, Cyprus and Italy do not have a statutory minimum wages. Looking at the wage structure and wage levels, research clearly shows a rather compressed wage structure in the Nordic countries. Blue collar workers with low levels of education in the Nordic countries have rather high wage levels compared to other EU Member States (Ibsen et al 2019). Consequently, the share of employees with low wages - i.e., those who earn less than two thirds of the national median wage - is rather low.

In the OECD Outlook 2018, Denmark is the top performer in Earnings Quality (OECD 2018). Research also connects this wage equality with independent, collective bargaining conducted voluntarily by strong social partners (OECD 2019; Borjas & Van Ours 2010). Research clearly shows that wage systems based on collective bargaining have a lower number of people earning the lowest wages compared to the statutory minimum wage system (Bosch et al. 2019).

C. The differences in collective representation and involvement of social partners in wage settlement

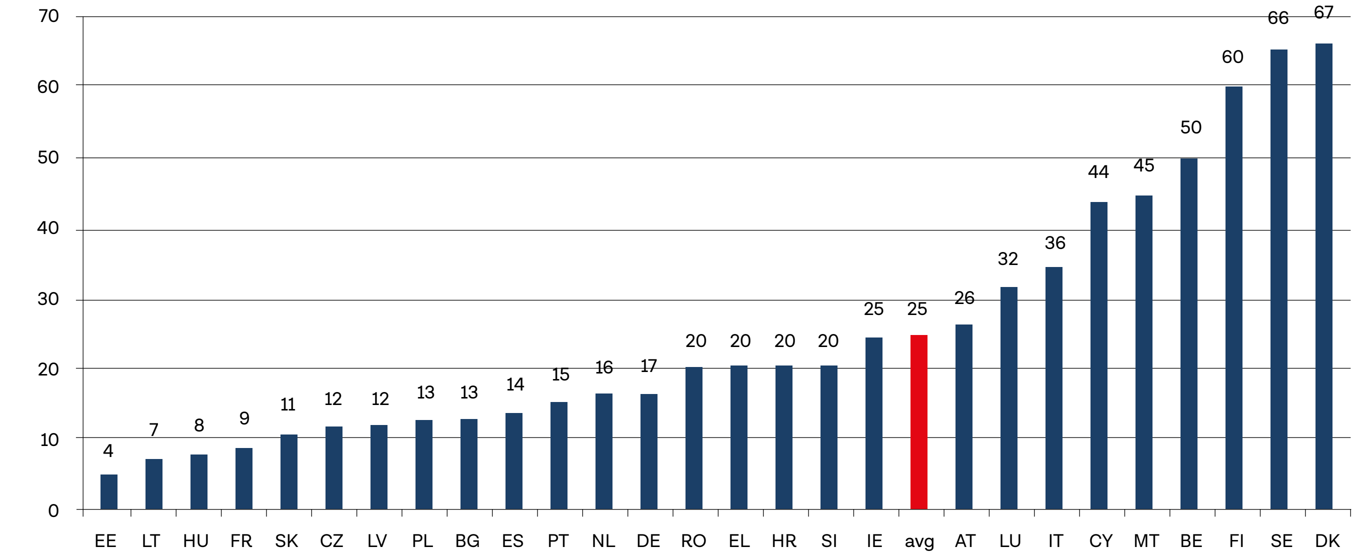
The level of collective labour market representation varies considerably across the EU Member States. In terms of the share of employees who are members of a trade union (trade union density) the numbers range from 4 pct. in Estonia to 67 pct. in Denmark (cf. figure 2).

Another indicator of collective representation is the extent of collective bargaining coverage, which indicates the share of employees who are covered by a collective agreement.

Figure 3 shows that the EU Member States whose bargaining systems can be described as *multi-employer bargaining* have the highest collective bargaining coverage. Here negotiations mainly take place at sectoral or branch level (e.g. Germany), or in some cases at a cross-sectoral level (e.g. Belgium and, until recently, Finland).

Other crucial characteristics of extensive collective bargaining systems are, first, the existence of legal extension mechanisms that ensure that collective agreements also apply to companies with no collective agreement; and second, the existence of broad-based bargaining parties like in Denmark and Sweden, where no legal extension mechanism exists and where high bargaining coverage solely rests on the organisational strength of the social partners (ETUI 2019).

Figure 2 – Union density in EU Member States 2018 (or latest year available), as a percentage of the workforce



Source: Visser (2019)

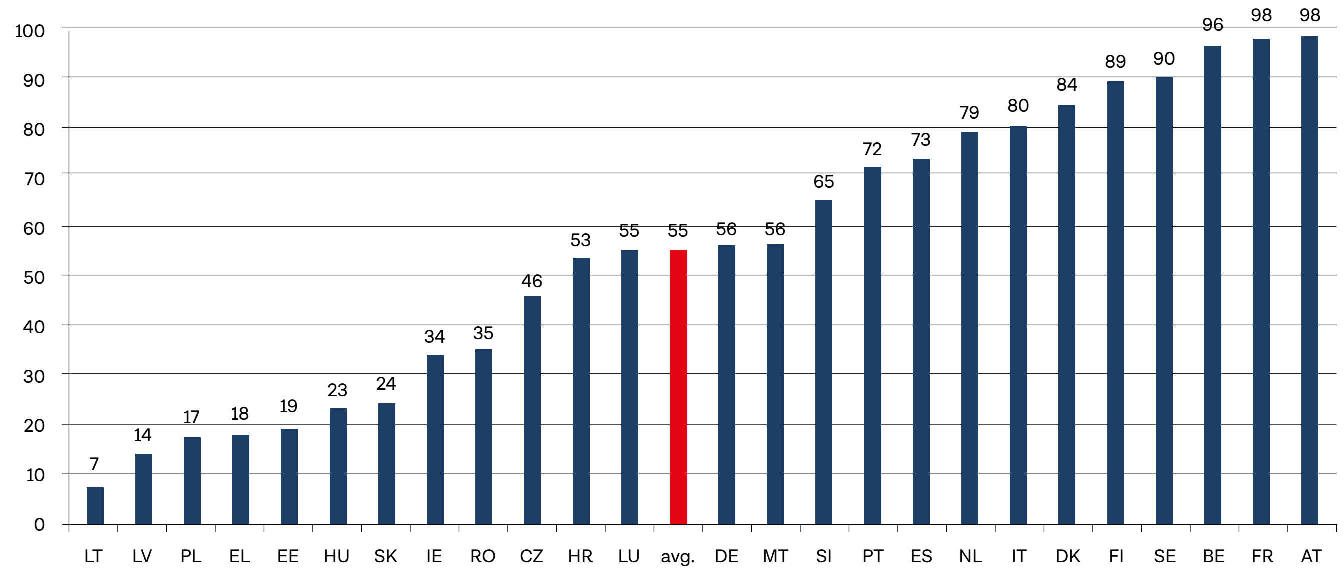
The EU Member States have very different levels of collective representation in terms of employee and employer organisation rates and in collective bargaining coverage. The EU Member States also have different traditions in terms of the use of legal extension mechanisms enabling collective agreements to apply to companies with no collective agreement.

Research shows a correlation between strong social partners, multi-employer bargaining and high productivity, which facilitates wage increases (Bosch et al. 2019; Grimshaw et al. 2017).

By contrast, countries with single-employer bargaining agreements have the lowest organisation rates. This is the case in a number of central and eastern European countries, such as the Baltic states, Hungary and Poland (cf. figure 3).

Some areas are not covered by collective bargaining in the Nordic countries. However, this does not mean that these areas do not have minimum wage floors or that they have a low quality of work. In fact one of the reasons why the collective bargaining coverage in Sweden and Denmark is not higher is because many employees in the private sector with a higher education prefer individual wage settlement (Høgedahl & Jørgensen 2019). However, research also shows that collective agreements often have 'spill-over effects' to the uncovered labour market, even for employees with low levels of education (McLaughlin, 2009). Companies without collective agreements will often refer to the wage levels set within sectoral agreements in the face of competition to attract qualified employees.

Figure 3 – Collective bargaining coverage in EU Member States, 2016 (or latest year available), as a percentage of the workforce



Source: ETUI (2019)

Note: No data available for Bulgaria and Cyprus

D. The differences in social benefits and taxation systems

The distribution and efficiency of a minimum wage system depends, in large part, on the social welfare system in which it is embedded (Freeman 1996). The social security and taxation system are important in relation to the take-home value of minimum wages (Lee & Saez 2012). In addition, wages are only part of the hourly cost of labour. All of the EU Member States have additional market-determined or collectively bargained benefits, ranging from contributions to private pensions to subsidized lunch breaks to paid vacations and holidays.

Some EU Member States also require employers to make national insurance contributions that depend on wages. Employers who are only required to pay a minimum hourly wage may reduce other benefits, which could potentially reduce workers' total payment. In short, wages - and minimum wages in particular - must be considered in the context of broader issues that also play a predominant role in the labour market, such as social security, safety and taxation systems.

The EU Member States have very different welfare state regimes, as illustrated in figure 4.

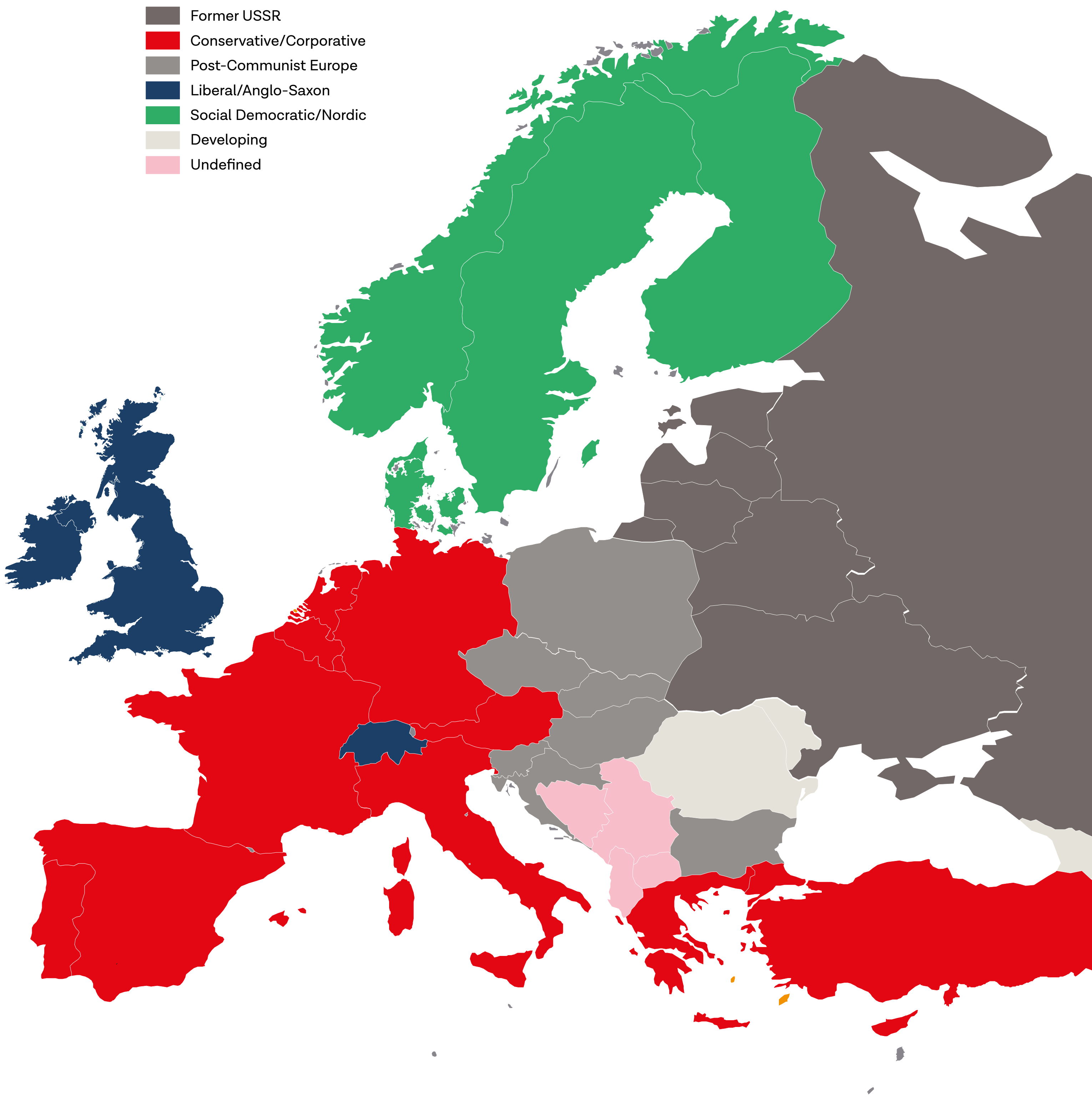
The welfare state regimes in Europe are based on rather different social benefit and taxation systems. The social security and taxation systems are important in relation to the take-home value of minimum wages. Consequently, setting statutory minimum wages fitting all EU Member States is extremely difficult.

In the Nordic countries (Sweden, Finland and Denmark) the welfare and social benefit systems are mainly financed by income- and other taxes, creating a rather large redistribution (Andersen 2007). In other countries, such as Belgium, employers are more obligated to finance or co-finance many social benefits for their employees.

In the conservative/corporatist model (Centre-West and Southern Europe), welfare services are dependent on social distribution instead of taxes.

Social contributions are common in many continental countries but the financial burden for companies has been reduced during the last decades. The newest EU Member States (Centre-East Europe) are similar to the conservative model but with some distinct, institutional features (Rapacki et al 2020). In the Liberal welfare states (Ireland, Switzerland and the United Kingdom) there is a low level of total state spending on social protection relying on the private market instead.

Figure 4 – Welfare state regimes in the EU



Source: Esping Andersen (1990); Fenger (2007)

Conclusions

The 27 EU Member States have very different industrial relations – and welfare state systems.

Wage settlement is a complicated process involving negotiations and regulations. These processes are deeply rooted in national and historical traditions, institutions and practices.

Each EU Member State has its own unique way to secure minimum wage floors for workers, either by collective bargaining, different kinds of extension mechanisms or by a statutory minimum wage.

Another fundamental difference is the diverging levels of collective labour market representation, which is evident in the markedly divergent trade union densities and collective bargaining coverages.

It is also important to note that wages, and especially minimum wages, cannot be isolated from broader issues which also play a predominated role on the labour market including social security, protection – and taxation systems. Wages are only part of the hourly cost of labour and the take-home value of minimum wages must be seen in a broader context.

Together, the fundamentally different elements in the 27 EU Member States' industrial, labour market and welfare state systems make an effective one-size-fits-all minimum wage for all EU Member States practically difficult.

References:

Andersen, J. G. (2007), The Danish welfare state as 'politics for markets': Combining equality and competitiveness in a global economy. New Political Economy, 12(1), 71-78.
Bechter, B., Brandl, B., & Meardi, G. (2012). Sectors or countries? Typologies and levels of analysis in comparative industrial relations. European Journal of Industrial Relations, 18(3), 185-202.
Bosch, G., Hüttenhoff F. and Weinkopf C, (2019): Kontrolle von Mindestlöhnen, Springer Verlag, Berlin
Crouch, C. (1993). Industrial relations and European state traditions. Oxford University Press.
Eldring, L., & Alsos, K. (2012). European minimum wage: A Nordic outlook. Fafo report, 16.
ETUI (2019) Benchmarking Working Europe 2019. ETUI, Brussels
Eurofound (2017), Mapping varieties of industrial relations: Eurofound's analytical framework applied, Publications Office of the European Union, Luxembourg.
Eurofound (2019), Minimum wages in 2019: Annual review, Publications Office of the European Union, Luxembourg
European Commission (2017) Proposal for a directive of the European Parliament and of the Council on transparent and predictable working conditions in the European Union, COM(2017) 797 final, 21 December 2017. http://eur-lex. europa.eu/legal-content/EN/TXT/?uri=COM:2017:0797:FIN
Esping-Andersen, G. (1990). The three worlds of welfare capitalism. Princeton, N.J.: Princeton University Press.
Fenger, M. (2007). Welfare regimes in Central and Eastern Europe: Incorporating post-communist countries in a welfare regime typology. Contemporary issues and ideas in social sciences, 3(2), 1-30.
Grimshaw, D., Fagan, C., & Hebson, G. (Eds.). (2017). Making work more equal: A new labour market segmentation approach. Manchester University Press.
Høgedahl, L., & Jørgensen, H. (2017). Development in the Regulation of Wages and Working Conditions: The Employee Perspective. Nordic Journal of Working Life Studies, 7(1).
Høgedahl, L (2020 forthcoming). The Danish Labour Market Model: Is the Bumblebee Still Flying? In Oxford Handbook of Danish Politics. Christiansen, P. M., Elklit, J., & Nedergaard, P. (Eds.) Oxford University Press
Ibsen, F., Holm, J. R., & Rasmussen, S. (2019). Lønpræmie for lønmodtagere dækket af en overenskomst? Danmark som case. Tidsskrift for Arbejdsliv, 21(1), 98 - 116.
Jørgensen, H. (2002). Consensus, Cooperation and Conflict: The Policy Making Process in Denmark The Policy Making Process in Denmark. Edward Elgar Publishing.
Lee, D., & Saez, E. (2012). Optimal minimum wage policy in competitive labor markets. Journal of Public Economics, 96(9-10), 739-749.
Liukkunen, U. (Ed.). (2019). Collective Bargaining in Labour Law Regimes: A Global Perspective (Vol. 32). Springer Nature
McLaughlin, C. (2009). The productivity-enhancing impacts of the minimum wage: Lessons from Denmark and New Zealand. British Journal of Industrial Relations, 47(2), 327-348.
Müller, T., & Schulten, T. (2019). Ein Ende des lohnpolitischen Interventionismus? Perspektiven für eine lohnpolitische Neuorientierung in Europa. Kirsches' in Richtung eines sozialen Europa, Wien, Arbeiterkammer Wien, 59-71.OECD (2018), OECD Employment Outlook 2018, OECD Publishing, Paris
OECD (2019), OECD Employment Outlook 2019, OECD Publishing, Paris
Rapacki, R., Gardawski, J., Czerniak, A., Horbaczewska, B., Karbowski, A., Maszczyk, P., & Prochniak, M. (2020). Emerging varieties of post-communist capitalism in Central and Eastern Europe: Where do we stand?. Europe-Asia Studies, 1-28.
Traxler, F., Blaschke, S., & Kittel, B. (2001). National labour relations in internationalized markets: A comparative study of institutions, change, and performance. Oxford: Oxford University Press.
Visser, J. (2009), 'The quality of industrial relations and the Lisbon Strategy', in European Commission, Industrial relations in Europe 2008, Publications Office of the European Union, Luxembourg, pp 45–73.
Visser J. (2019) ICTWSS Database. Version 6.0. May 2019, Amsterdam, Amsterdam Institute for Advanced Labour Studies, University of Amsterdam. http://www.uva-aias.net/en/ictwss

United Federation of
Workers in Denmark