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Article

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MINIMUM WAGE REGIMES IN THE EUROPEAN UNION

National statutory and sectoral regimes

Every EU member state has some form of minimum wage system in place. The different systems, however, vary regarding the levels, scope and the institutional setting of minimum wages (MW). The main distinction can be made between national statutory and sectoral regimes. National statutory regimes define a general wage floor, which is compulsory for all employees. Sectoral regimes have no general wage floor. Instead, multiple minimum wage levels are agreed by social partners in sector-based collective agreements, albeit with varying coverage of the workforce.

Belgium, Luxembourg, France, the Netherlands and Portugal introduced a national statutory MW back in the 1970s, while the **Eastern European** countries followed at the beginning of the 1990s. **Ireland** and the **United Kingdom** implemented a national statutory MW in 1999/2000 and in 2015 the statutory MW was also institutionalised in **Germany**.

Austria, Cyprus, Denmark, Finland, Italy and Sweden are the only EU Member States that do not have a statutory national MW. These countries set minimum wages only at sectoral or occupational level through collective agreements (Figure 1).

Statutory minimum wage regimes vary with respect to the instruments used to determine the level of MW, and these may also change over time. In most countries the minimum wage is currently set by the government (**Czech Republic, Croatia, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Romania, Slovenia, Spain, United Kingdom**). In a second group of countries, the minimum wage is determined by collective agreements or by tripartite arrangements among the state, trade unions and employer representatives (**Belgium, Germany, Bulgaria, Estonia, Poland, Slovak Republic**)¹ (Schulten 2014).

In practice, most countries foresee an institutionalised participation of trade unions and employer representa-

¹ Bulgaria, Estonia, Poland, Slovak Republic: if a tripartite agreement is not concluded, the decision is taken by the legislator.

tives in the process of minimum wage fixing through national bodies (e.g. *Low Pay Commission* in the United Kingdom or *Commission Nationale de la Négociation Collective* in France), even if the level is finally set by the government.

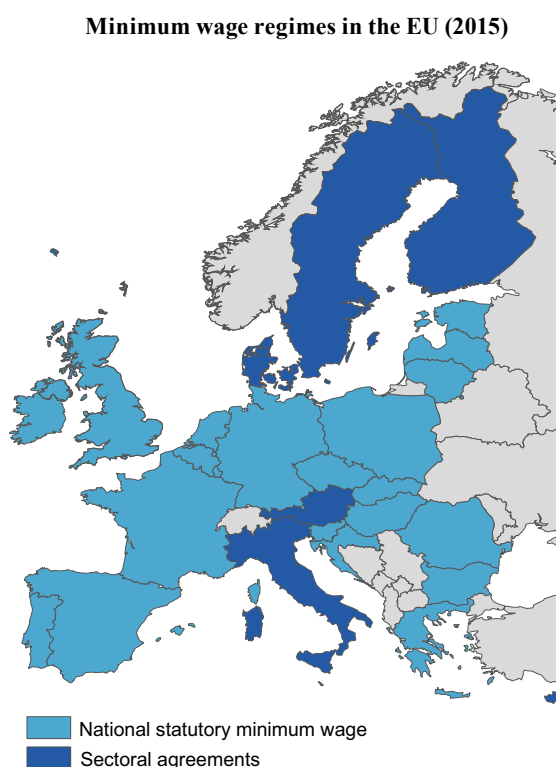
In many countries statutory minimum wage regulation and collective bargaining also form a complementary system. While the government fixes a general wage floor, trade unions conclude higher minimum wages above that level through collective agreements at a sectoral level (ILO 2012).

Minimum wage adjustments

In countries where the minimum wage is set by collective agreements in certain sectors or occupational groups, its level is usually adjusted through regular collective agreements. Countries with a national statutory MW, on the other hand, have implemented different systems. Schulten (2014) distinguishes between four adjustment methods:²

² Broad classification, the differentiation between an institutionalised consultation with social partners and a general “hearing” of social partners is not always distinct.

Figure 1



Source: Schulten (2014).

1. **Index method:** automatic adjustments based on economic indices (e.g. consumer price, wage development outside a MW). During periods of high unemployment, the increase may be temporarily put on hold (**Belgium, Luxembourg, France, Malta, Slovenia, the Netherlands**).
2. **Collective or tripartite agreement:** a MW adjustment is set through negotiations between employee and employer representatives (and academic advisers) (**Bulgaria, Estonia, Germany, Poland, Slovak Republic**). In Belgium the index method is also used).
3. **Institutionalised consultation with employer and employee representatives** (and academic advisers): final decision and political responsibility lies with the government, based on consultation with the social partners (**Croatia, Latvia, Lithuania, Portugal, United Kingdom**. France, Luxembourg, the Netherlands, Slovenia in addition to the index method).
4. **Unilateral decision by the government:** government decides in the absence of predefined rules. This method emerged mainly as a result of the economic crisis, whereas these countries previously set a MW using the above methods.³ There may still be some level of consultation with representatives, but it is not institutionalised (**Greece, Czech Republic, Hungary, Ireland, Romania, Spain**).

In most countries, MW is adjusted on an annual basis. However, some countries have no predefined adjustment frequency and MW changes depend on the respective government and the economic conditions (see [DICE Database 2015a](#) for minimum wage setting mechanisms).

Exemptions and different rates

Many countries set alternative minimum wage rates for categories of workers who may be perceived as meriting special consideration (younger or less experienced people). For example, **Belgium, Greece, France, Ireland, Luxembourg** and the **United Kingdom** each specify youth rates, typically for workers aged 16 and 17 years old. In some countries, the MW is lower in the first or second year of employment (e.g. **Ireland**), or based on

the job category (e.g. **Greece, Hungary**). Lower rates for apprentices apply for example in **Austria** and the **United Kingdom**. **Germany**, which has just introduced a national MW in 2015, has set transition rules for certain occupations (until 2016/17). Exemptions include also minors without a vocational qualification, interns (if an internship is a compulsory part of their education) and the long-term unemployed in the first six months of a new job (see [DICE Database 2015b](#) for an overview of exemptions).

Institutional changes as a result of the economic crisis

In a number of countries the MW has been frozen or cut as a result of the economic crisis, but there have also been some institutional changes in MW setting systems, particularly in countries requiring support from the Troika of the European Commission, the International Monetary Fund and the European Central Bank (Eurofound 2015, ILO 2015). Within the EU's new *Economic Governance Framework* regular country-specific recommendations for national wage-setting have become a normal feature of European policy (Schulten 2012) and the *Memoranda of Understanding* between the Troika and specific (credit receiving) countries have put further pressure on national MW regulation (Eurofound 2014).

For example, in **Cyprus** and **Portugal**, the respective Memoranda of Understanding between the Troika and the governments concerned impose restrictions on the criteria for increases in the MW, and require any increase to be agreed with the Troika (IMF 2011, 2013). In **Spain**, the government discontinued its practice of consulting with social partners before setting the MW level in 2011 (Eurofound 2014). For the first time since the introduction of the national MW, the Spanish government decided to suspend its annual adjustment. At the same time the ECB sent a letter to the Spanish government demanding the introduction of a new form of "mini-jobs" to be paid below the national minimum wage in return for the central bank's purchase of Spanish bonds (ILO 2012). In **Hungary**, the tripartite commission that had determined MW was abolished in 2011, MW is now set by the government (consultative role of representative organisations).

Greece introduced changes to the MW setting in 2012. Whilst previously, the MW was determined by a cross-sector national agreement, MW will now be set

³ Partly only temporarily in force as part of agreements with the Troika, see section on Institutional changes as a result of the economic crisis.

by the government, with the social partners having only a consultative, but no institutionalised, role (Eurofound 2014). Collective bargaining was also decentralised, with priority given to enterprise-level agreements (ILO 2015). As part of this law, the MW in Greece was frozen until 2016 and cut by 22 percent (32 percent for under 25 year-olds).

Development of minimum wage levels since 2000

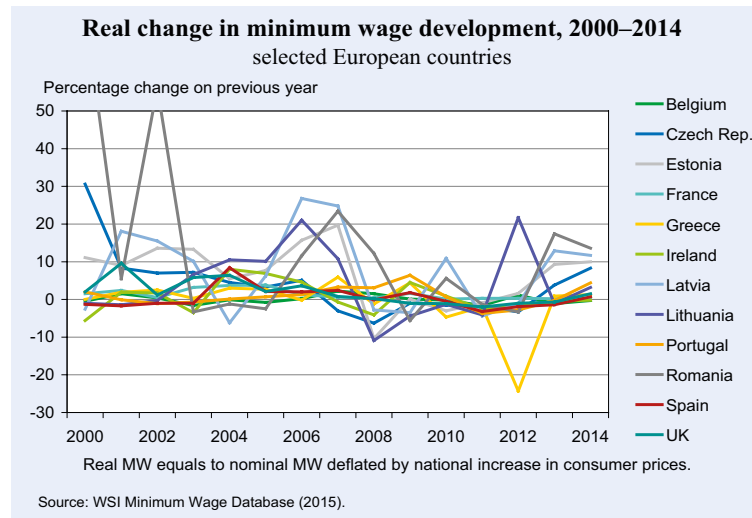
The trend in the MW rates since 2000 shows a relatively patchy picture (Figure 2 for selected countries). In real terms, the MW has developed at a rather moderate pace in **Western and Southern European** countries, on average per annum barely by one percent (WSI Minimum Wage Database 2015). The sharpest rise was in the United Kingdom (1.8 percent on average per annum between 2000–2014), due to strong increases in the early 2000s. Not surprisingly, all of these countries have seen a more or less pronounced cut in MW from 2008 onwards.

A much stronger dynamic can be found in the **Eastern European** countries. Whilst all of these countries have seen cuts in the years since 2008 (**Czech Republic, Lithuania and Estonia** by up to ten percent, again in real terms), the minimum wage in all of the Eastern European countries had risen again by 2014 (in **Estonia, Latvia, Romania** by ten percent or more). These significantly higher increases in the Eastern European countries stand for catch-up processes in general wage development, which, in absolute terms, are still based on a low MW level in these countries (Schulten 2015).

The DICE Database provides an interactive “**Visual Story**” with minimum wage indicators in Europe and other countries. An Excel file containing the underlying data is also available (DICE Database 2015c). Follow the [link](#) to compare different MW rates, nominal and MW real development, MW expressed in purchasing power standards, the ratio of minimum wages to the median earnings of full-time workers and consumer price developments in an interactive format.

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Figure 2



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