

Maarten Keune

Introduction: Wage moderation, decentralisation of collective bargaining and low pay

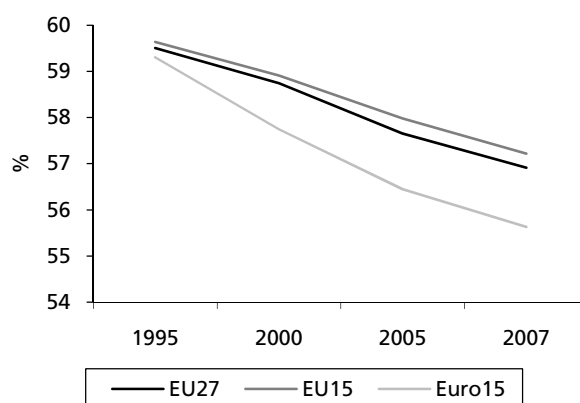
1. Introduction

This volume presents an analysis of wage developments and wage bargaining practices since the mid-1990s in 17 European countries. The country chapters provide a detailed overview of issues such as the growth of wages since 1995, the relationship between wages and productivity, low pay and the role of the minimum wage, gender and sectoral wage differences, and the importance of collective bargaining in wage setting. They also discuss developments concerning the levels at which wage bargaining takes place, bargaining strategies and the role of trade unions, employers' organisations and governments in wage setting, as well as the influence of the European and global contexts on wage bargaining.

The present introductory chapter takes up three crucial and closely interrelated issues that run through most of the country chapters. The first is the widespread practice of wage moderation in Europe and the question of what its causes and mechanisms are (section 2). The second concerns the extent to which wage bargaining is being decentralised and how far this decentralisation is organised or unorganised (section 3). The third deals with the growing concerns about low pay and the renewed salience of the minimum wage as an instrument to address this phenomenon (section 4). Section 5 presents conclusions.

2. Wage moderation: the norm in collective bargaining in Europe

Wage moderation, here understood as a process in which real wage growth is kept below productivity growth, has been an important feature of wage

Figure 1: *Compensation as a share of GDP, 1995–2007*

Source: AMECO.

developments in Europe in recent decades. In the EU-27, between 1995 and 2007 productivity increased by 20.3 per cent while real compensation – that is, wages and employers’ social contributions – grew by only 13.9 per cent. Wage moderation was especially marked in the Euro area, where productivity increased by 16.9 per cent and real compensation by only 6.8 per cent. Wage moderation is also reflected in a decline of the wage share; this declined in the EU-27 from 59.5 per cent to 56.9 per cent, or by 2.6 percentage points (Figure 1). The decline of the wage share was close to the average for the EU-15 (from 59.6 per cent to 57.2 per cent or 2.4 percentage points), but substantially larger for the Euro-15 countries (from 59.3 per cent to 55.7 per cent, or 3.6 percentage points).

This wage moderation is the result of a series of factors that have exerted downward pressure on wage growth throughout the 1990s and 2000s, at both macro and micro level. Here we will discuss the three main factors: European integration, European monetary union and the decline in trade union power. We will then present some of the most important findings from the country chapters concerning wage moderation.

2.1 Factors pushing for wage moderation

European integration and the deepening of the Internal Market

Already more than a decade ago, Fritz Scharpf showed that European integration has been largely a process of ‘negative integration’, that is,

measures that serve to increase market integration by eliminating national restraints on trade and distortions of competition (Scharpf 1996, 2002). ‘Positive integration’ – that is, the development of common European policies to shape the conditions under which markets operate – has been much more limited. Member states have been prepared to transfer much of their economic policy sovereignty to the European level and have been deepening the Internal Market. Negative integration has been aimed at deregulation and eliminating national-level obstacles to the ‘four freedoms’ – free movement of capital, goods, services and people – and the fostering of competition. This is not something which is limited to the EU, however: negative integration is part of more global processes of economic internationalisation and deregulation, as well as of a global ideological shift from – to simplify matters considerably – social democratic Keynesianism to neoliberalism and monetarism. At the same time, arguably it is among the EU countries that market integration is most profoundly institutionalised. Also, although the EU is deeply integrated in the global economy, by far the largest share of the imports and exports of EU countries are with other EU countries.

These processes have created pressure for wage moderation as they have increasingly brought countries and workers into competition with each other (Keune 2008a). This competition is to some extent related to the trade of goods and services and the resulting pressure on labour costs. Although wage moderation is only one way of reducing labour costs – as we will see – it has become a core issue in the call for improvements in competitiveness. Moreover, competition between countries and workers concerns capital, in terms of attracting new investments and fostering the continuity and expansion of existing ones (Galgóczi et al. 2006). The Internal Market has created conditions in which private capital is, at least in principle, extremely mobile, and it has enhanced the importance of private capital in the creation of employment, following the restrictive effects of negative integration on public investment in this respect. Countries and workers have therefore become increasingly dependent on increasingly mobile private capital.

The increased competition between countries and workers has been accompanied by important changes in wage bargaining and wage policy. Indeed, in the context of intensified international trade and capital movements, as well as a shift to market-based ideologies, it resulted, starting in the 1980s, in a gradual replacement of the solidaristic wage bargaining of previous decades by competition-oriented wage bargaining (Schulten 2002; Marginson and Sisson 2004; Marginson et al. 2003). The core of such competitive bargaining is constituted by wage moderation aimed at

strengthening the international competitiveness of business, as well as the attractiveness to capital of national and local settings.¹

At the macro level, competitive wage moderation takes place through social pacts and other macro-level wage setting mechanisms (see below) aimed at regime competitiveness, sometimes referred to as competitive corporatism (Rhodes 1998). ‘Regime competition’ has been intensifying in recent years following EU enlargement (Keune 2008a). Also, European regulations allow for only a limited number of ways of conducting regime competition. Direct investment subsidies, tax incentives or other direct benefits offered to investors have progressively been banned, insofar as they are classified as unfair competition. This strengthens the perceived importance of wage moderation as a remaining instrument to promote competitiveness.

At the micro level, wage moderation is also increasingly emerging as a strategy to safeguard the competitiveness of particular enterprises and/or to prevent them from moving to lower-wage locations. Concerning the latter, capital has always had more scope to pursue its interests by choosing exit options than labour and this ‘mobility differential’ has strongly increased in the last two decades (Hoffmann 2006). The increased exit options for capital have strengthened its power position over against labour. At the enterprise level and especially multinationals this has led to the relocation of certain activities, especially labour-intensive manufacturing, although the proportion of such relocations in total FDI for the moment seems to be limited (see Galgóczi et al. 2006). Possibly more important is the increased use companies are making of the threat of relocation. By threatening to relocate their present activities or to direct their future investments elsewhere, companies are increasingly and successfully demanding concessions from workers in terms of wage moderation, increased flexibility and extension of working time. In exchange they offer not to make use of their exit option and in this way to provide some sort of job security. The recent wave of this type of concession bargaining was initiated by Siemens in Germany, which demanded concessions in exchange for not relocating its mobile phone production to one of the new member states. This example was subsequently followed by many companies throughout Europe. This scenario is not restricted to western European countries but is increasingly affecting the new member states too as multinationals threaten to move their activities even further east. The increased exit options for capital are thus weakening the bargaining strength of workers and leading to downward pressures on wages.

¹ Other elements include working time flexibility, the use of flexible contracts and social peace.

European Monetary Union (EMU)

A second aspect of European integration that has had strong effects on the labour market is European Monetary Union. As of 2008, 15 EU countries have joined EMU, and since all NMS are required at some point to join EMU, its importance will only increase. EMU also leads to pressure for wage moderation, but through very different mechanisms than those described above.

One major effect of EMU is that individual countries entering it lose a number of major instruments for adjusting to economic imbalances and shocks. Under EMU, monetary policy is the competence of the European Central Bank (ECB) which sets a common policy for all EMU members. Individual countries thus have a much more limited range of adjustment mechanisms available than previously in case of asymmetric shocks, increasing the importance of wage adjustments (Dyson 2006: 20). Indeed, under EMU wage moderation gains in importance as a macro adjustment instrument, adding to the earlier discussed pressure for wage moderation stemming from increased competition.

Another effect of EMU is that it sets strict requirements as regards public expenditure and public debt criteria, as well as, for countries preparing for membership, inflation. For these indicators maximum levels are defined, and although experience has shown that the enforcement of these requirements is not always as stringent as originally intended, they do put important limitations on countries. The deficit and debt criteria put direct pressure on government expenditure and hence on public sector wages. The ECB's focus on maintaining low inflation, its position that inflation is caused by wage growth and its threat to raise interest rates if wages increase too much, according to ECB criteria, exert further general pressure on wage growth.

In addition to the present EMU members, monetary union exerts similar pressures on future members, that is, the NMS. In the run up to EMU entry they have to start behaving like full members, facing the same restrictions (Rhodes and Keune 2006). For prospective members, in addition, the inflation criterion adds important further weight to the pressure for wage moderation. Apart from the NMS, similar pressures apply in, for example, Denmark, not an EMU member, given that the Danish National Bank has tied the Danish Krone with the euro and all key actors in the Danish economy dutifully follow the rules of the Stability and Growth Pact (see Andersen and Navrbjerg in this volume).

Trade union power

A third factor pushing for wage moderation is the declining power of trade unions. The above discussed process of European integration and increased competition and capital mobility have already tilted the balance of power between workers and employers in favour of the latter. The ongoing decline of trade union membership in many countries, reducing their resources, only serves to make things worse. Trade union membership declined between 1995 and 2004 from one third to one quarter of European workers (European Commission 2006). Major membership losses occurred first of all in the new member states, where in several countries membership declined by 50 per cent or more; but also in Austria, Germany, Portugal, Ireland and Greece membership rates fell by between 20 and 30 per cent. In the remaining countries small declines or even minor increases (Malta, Luxembourg) can be observed. Membership has become more concentrated in the public sector, which is now the bastion of European trade unionism (Phelan 2007). Significant diversity prevails between countries, however, and today membership ranges from 8 per cent in France to 80 per cent in Denmark.

Not that membership necessarily equals influence: the French and Spanish unions, for example, have low membership rates – 8 and 16 per cent, respectively – and yet have substantial bargaining power. What is more, the coverage of collective agreements is often much higher than membership levels would suggest. For example, largely as a result of the extension of collective agreements by the government, the coverage of collective agreements in the Netherlands is over 80 per cent, while trade union membership is only around 25 per cent. Indeed, the influence of the unions often surpasses their membership levels because of such state-determined extension mechanisms, as well as their mobilisation power or institutional positions in companies or higher-level structures.

Even so, the general decline of membership points towards a decline in union power and in their capacity to influence wage developments. This is particularly the case in countries where the coverage of collective bargaining is low and hence plays a limited role in wage setting, for example, in the Baltic countries, or where it is declining, for example in Germany, Hungary or the UK. Furthermore, trade union power has been negatively affected in a number of countries by persistent low growth and high unemployment.

The most crucially important case here is that of Germany where, in a context of low growth and high unemployment, the coverage of industry-wide agreements – the dominant type of agreement in this country – declined in western Germany from 69 per cent in 1996 to 59 per cent in 2005, while in

eastern Germany the decline was from 56 per cent to 42 per cent (Bispinck in this volume).

2.2 Evidence from the country studies

The country studies in this volume provide extensive evidence that wage moderation has indeed become a core feature of wage bargaining in Europe following the above-discussed developments. Wage moderation is the norm today and is institutionalised in a variety of ways. It is often first of all pursued by employers and governments, but also trade unions are increasingly accepting the need for wage moderation or lack the power to contest it successfully.

At the macro level, the Netherlands was the first country to institutionalise wage moderation through the *Wassenaar Accord* of November 1982, the essence of which is the slowing down of wage growth (far) below productivity growth (Salverda in this volume). This put the country on a long-term track of wage moderation aimed at boosting competitiveness and employment creation. Several countries followed in subsequent years. For example, in Denmark, government, business and trade unions have in the past 15 years shared the view that it is necessary to pursue a balanced increase in wage rates in order to ensure the international competitiveness of Danish business, and to maintain – and, preferably, improve – real wages and ensure growth in employment (Andersen and Navrbjerg in this volume). An indication of how deeply wage moderation has become entrenched in the Netherlands and Denmark is the fact that it has continued in recent years though unemployment in both countries has reached extremely low levels.

Also in Belgium competitive pressures have been used as an argument by government and business for prolonged wage moderation, which has put the link between wages and productivity under pressure and has left little space for solidaristic wage distribution (Vervecken et al. in this volume). Wage moderation was institutionalised through the 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, which states that wage increases should remain below those expected in the country's three main neighbours (Germany, France, and the Netherlands). Since then, the development of hourly wage costs in the private sector has mainly been the result of the wage norm agreed by the social partners at interprofessional level every two years in accordance with this Law (ibid.). Belgium trade unions refuse to follow the logic of wage competitiveness and argue that collective bargaining should concentrate on

quality competitiveness. Still, wage moderation has become part of wage setting and between 1997 and 2006 hourly productivity in the private sector increased by 14.9 per cent while real hourly wages grew by only 8.8 per cent.

Further examples of macro-level wage moderation are Ireland and Slovenia. In both these countries the past decade and a half have been characterised by a series of social pacts one of whose main principles has been improved competitiveness through modest wage growth in comparison with productivity growth (see the chapters by Molina and by Stanojević). Also in Italy social pacts have been used to achieve wage moderation, although there has been less continuity in such pacts than in Ireland and Slovenia, and the focus of the social pacts in Italy has to a larger extent been on macroeconomic goals and compliance with the EMU criteria.

In Germany employers have vigorously and successfully pushed for wage moderation in the name of competitiveness. This has first of all put pressure on the sectorally agreed rates of wage growth, in particular in export sectors. On top of this, sectoral agreements more and more include opening and differentiation clauses which, under certain conditions, allow companies to deviate from collectively-agreed wages in order to maintain and improve competitiveness, even if they are not in immediate economic difficulty (Bispinck in this volume). In addition, as will be discussed later in this chapter, there is a growing segment of low paid jobs in Germany, in the growing part of the labour market that is not covered by collective agreements as well as in government-sponsored 'mini jobs' (Leschke and Keune 2008; Bispinck in this volume).

In contrast to Germany, in Austria the coverage of sectoral agreements remains high and decentralised wage bargaining is more successfully opposed by the trade unions (Glassner and Adam in this volume). In spite of this, since the early 1980s a deteriorating labour market situation, slackening economic growth and the opening up of foreign trade resulting from the EU Internal Market have led to very moderate real wage growth, in particular since the mid-1990s, and to real wage growth lagging structurally behind increases in productivity (*ibid.*).

Also in Slovakia wage moderation has been prevalent in recent years: between 1995 and 2005 real wages increased by 24 per cent while productivity increased by 47.4 per cent (Cziria in this volume). Wage moderation has been the norm in Slovakia largely because the combination of relatively low wages with a relatively well qualified labour force is seen by many as beneficial in attracting foreign investment. Also, wage

moderation is considered to be key to saving employment in enterprises facing economic hardship and competitiveness problems. This argumentation is not only followed by employers or government: also the Slovak trade unions' goal in wage bargaining is to achieve a moderate increase in real wages, or in difficult times at least to minimise wage decline (ibid.).

Finally, in Spain the national-level Agreement on Collective Bargaining valid for 2005 and 2006 stipulated, without laying down concrete criteria, that wage increases should take into account the inflation forecast and also productivity gains, and that all or part of any gains in productivity should be reflected in higher pay (Gutiérrez Quintana and Otaegui Jauregui in this volume). In practice, however, effective collective bargaining and wage setting, which takes place most importantly at the regional/sectoral level, has resulted in extremely modest real wage growth since the mid-1990s, lagging far behind the growth of the economy (ibid.).

Clearly, from the cases discussed here it emerges that wage moderation and competitive wage bargaining are widespread in Europe. The respective pressures often come in the first instance from employers but also governments and increasingly trade unions and workers are sensitive to this line of argumentation. This is the case at a more abstract level because there is a lack of alternative ideologies, while at a more practical level competitiveness is increasingly seen as the main way to preserve or create employment. Indeed, it can be argued that in many countries workers and trade unions have internalised the need for competitive wage bargaining and wage moderation to an important extent (Hancké and Rhodes 2005; Hassel 2006), even though calls for higher settlements in 2006–2007 in several countries suggest that this may not last forever (Parsons and Pochet 2008).

There are two exceptions to this general wage moderation trend among the countries studied in this volume. In the Czech Republic, over the period 1995–2005 real wage growth outperformed productivity growth, increasing by 49 per cent and 37 per cent respectively (Čornejová and Fassmann in this volume). Similarly, in Hungary real wages increased by 54 per cent and productivity by 36.6 per cent in this period (Borbély in this volume). These exceptions have little to do with collective bargaining, however. In both cases, the authors point out that the absence of wage moderation is predominantly the result of the government's role in wage setting. Through dramatic increases in the minimum wage as well as – particularly in Hungary – public sector wages, in both cases linked to the pursuit of social peace and/or electoral success, the respective governments substantially stimulated overall real wage growth.

3. The locus of wage bargaining: organised decentralisation?

As argued above, wage bargaining in Europe has increasingly been dominated by the ‘logic of competitiveness’ (Marginson et al. 2003). One important element of this is a call for greater flexibility in wage setting for firms in order to address their specific competitive needs and problems. Also, it is often suggested that the traditional rationales for higher-level agreements – and in particular the creation of a level playing field on which labour costs are taken out of competition – have become less relevant with the ongoing internationalisation of the economy. This has resulted in pressure from the employers’ side for more extensive company-level bargaining and there is little doubt that since the mid-1990s widespread decentralisation can be observed. The question here is whether decentralisation is the only game in town and what type of decentralisation we can observe.

Traxler (1995) distinguishes between organised decentralisation – increased company-level bargaining but within the framework of rules and standards set by sectoral agreements – and disorganised decentralisation (that is, the replacement of higher level bargaining by company bargaining). Of these two types, it has been suggested that in western Europe, where in particular sectoral bargaining has traditionally been dominant, decentralisation in the past two decades has been of the organised kind, with the exception of the UK (Marginson et al. 2003; Du Caju et al. 2008). What is more, Du Caju et al. (2008) suggest that in general there was no change in the dominant level of wage bargaining between 1995 and 2006, with the exception of certain Eastern European countries.

The country studies presented in this volume suggest, however, that this does not entirely capture the diversity and complexity of change in recent years. This is so on the one hand because change has not always been simply towards decentralisation (section 3.1). On the other hand, alongside the UK today also in Germany, Europe’s major economy, decentralisation is increasingly disorganised (section 3.2).

3.1 Not only decentralisation

Clearly, as suggested in the relevant literature, decentralisation is the main trend as far as the level of collective bargaining is concerned and ample evidence is provided for this in the country chapters in this volume. Here, however, we want to highlight a number of examples that show that there have been meaningful moves towards higher levels as well, often in combination with decentralisation. The focus is on the national level and

attempts to foster – the coordination of – collective bargaining across borders will not be discussed.

In several cases the increased importance of the central level can be observed since the mid-1990s. In Belgium before 1996 centralised wage negotiations took place irregularly and in an informal fashion. However, the abovementioned Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness of 1996 resulted in the institutionalisation of inter-sectoral bargaining on wage norms that provides a constraining framework for wage setting at the (dominant) sectoral level (Houwing and Vandaele 2008; Vervecken et al. in this volume). This can be considered a process of centralisation which took shape in the late 1990s.

In Slovenia since 1994 wage growth has been set in central social pacts supported by the government, unions and employers, creating possibly the most centralised wage setting system in Europe (Stanojević in this volume). In addition, there do not seem to be many signs of decentralisation in Slovenia. Also in Ireland a series of central social pacts have been signed since the late 1980s, although in contrast to Slovenia they form part of a two-tier system of central and company bargaining which is increasingly polarised and in which the sectoral level has become increasingly irrelevant (Molina in this volume).

Also in Spain, the national Agreements on Collective Bargaining signed since 2002 set a framework for goals and models for pay determination at lower levels and have introduced a significant element of centralisation in recent years (Gutiérrez Quintana and Otaegui Jauregui in this volume). These agreements can be considered a return to the centralised wage agreements that had been used in earlier periods (see, for example, Pérez 2000) and hence a contribution to the recentralisation of wage bargaining. This does not change the fact that wage bargaining in Spain continues to be dominated by decentralised regional/sectoral level bargaining, but it (re-)introduces an important additional central element into the system.

Spain, Slovenia and Ireland are part of a larger group of European countries – also including Finland, Portugal, the Netherlands and Greece – in which a series of social pacts have been concluded since the mid-1990s and where centralised elements have played an important role in wage bargaining. Social pacts do not contradict the decentralisation of wage bargaining, however; rather in many cases they complement decentralisation by providing a coordinating framework for wage bargaining that sets wages as a function of sectoral or company-level competitive pressures (Parsons and Pochet 2008).

In a different fashion, in Denmark a gradual process of ‘centralised decentralisation’ has taken place since the 1990s (Andersen and Navrbjerg in this volume). This process has combined centralisation through a series of organisational mergers, first on the side of the employers and later followed by the unions, with the decentralisation of important elements of wage bargaining. As a result, the Danish system has moved in the direction of a system in which a few sectoral organisations conclude overall framework agreements, and in which the possibilities for company bargaining have increased strongly: it is estimated that two-thirds of the total cost increases in the bargaining rounds are negotiated at company level (*ibid.*). While decentralisation may be the dominant feature of the change of the Danish system, it has been accompanied by important elements of centralisation, too, which play an important role in wage bargaining.

Additionally, D’Aloia et al. (in this volume) argue that in Italy the difficulties experienced within the industrial relations system, combined with the troublesome national economic performance, seem to have reduced rather than increased the scope for decentralised bargaining. This development is indicated, among other things, by the reduced number of local agreements and the absence of the traditional local wage component.

Finally, in two countries presented in this volume where company bargaining is dominant, there has been an increase in the importance of multi-employer wage bargaining. In the Czech Republic higher-level collective agreements (HLCAs) covered 13.9 per cent of employees in 1998, increasing to 21.4 per cent by 2005, even though the number of HLCAs fell from 25 to 18 during the period (Čornejová and Fassmann in this volume). The increase of the coverage rate was due both to a concentration of agreements (fewer agreements covering more employees) and the increased use by the government of the extension of agreements to cover entire branches. These extensions were responsible for about a quarter of the increase of the coverage of the HLCAs (*ibid.*).

In Hungary, since 2003 concerted efforts have been made to develop sectoral social dialogue and sectoral bargaining with support from the government, unions and employers’ organisations (Borbély in this volume). By 2006 this had resulted in the creation of 21 sectoral and subsectoral dialogue committees and the objective should be to expand social dialogue gradually towards sectoral bargaining. As Borbély points out, it remains to be seen to what extent these efforts will indeed result in stable sectoral bargaining but in any case they constitute an attempt to curb decentralisation.

3.2 Disorganised decentralisation in Germany

As already mentioned, decentralisation of collective bargaining is often done in an organised manner, that is, within the framework of higher-level agreements that set the conditions for lower level bargaining. Examples of this trend are presented in the chapters on Austria, Ireland, Denmark and the Netherlands. However, while the UK was long presented as the only case of unorganised decentralisation (for example, Marginson et al. 2003), this does not hold anymore: in recent years, in Germany, too, decentralisation has been increasingly disorganised. The binding power of sectoral agreements in Germany, as well as their coverage, have been in decline, leading to a growth of company bargaining which does not take higher-level agreements into account and to the declining coverage of collective agreements in general (Bispinck in this volume). A number of reasons can be put forward for this development.

German trade unions are confronted with a declining capacity to enforce favourable wage agreements as a result of increasing international competition and the ensuing pressure on wages and working conditions, persistently high unemployment, the socio-economic effects of reunification, labour market deregulation and declining membership (*ibid.*). All these factors have weakened the unions' capacity to conclude and enforce agreements and are putting the traditional system of sectoral or regional agreements, favoured by the unions, under strain.

Employers, for their part, are insisting on decentralisation more and more. This is achieved first of all by pressure for the inclusion of opening clauses in sectoral agreements and by the increasing resort to such clauses (*ibid.*). Also, the employers are showing an increasing readiness to avoid sectoral agreements by abandoning the employers' organisations, leading to a decline in the coverage of sectoral agreements. This effect has been reinforced by the decline in the number of extended collective agreements – which draw employers not normally bound by collective agreements into the system – from 405 in 1995 to 242 in 2005 (*ibid.*).

The expanded use of opening clauses and the declining coverage of sectoral agreements have undermined their binding nature in terms of wage rises and other remuneration elements and have given decentralisation an increasingly disorganised character. This trend has been further accentuated by the increasing differentiation of pay rises between sectors, and by the fact that unions face many difficulties in organising workers and concluding sectoral agreements in the growing segments of the service sector, leading to a *de facto* decentralisation and disorganisation. As a result, wage drift at the

company level is consistently negative and wage growth is depressed, lagging far behind productivity. This has fostered both an increasing low pay segment in the German labour market and negative macroeconomic effects following from weak demand (*ibid.*). Also, whereas Germany used to be the major example of a coordinated market economy (Hall and Soskice 2001), at least where wage setting is concerned it is becoming less and less coordinated.

There are no indications that the trend of disorganised decentralisation and decreased coordination in Germany will end any time soon. Considering the weight of Germany in Europe and its exemplary role as its major coordinated economy, it is not unimaginable that the German developments will have repercussions in other European countries as well, all the more so since with the recent enlargement rounds the EU has become a less organised and coordinated economic space.

4. Low pay and the minimum wage

Low pay has emerged in recent years as an important issue on the European political and industrial relations agenda. This is closely related to a number of the developments we have already discussed. It is often feared that the decentralisation of collective bargaining and the low level or decline of the coverage of collective bargaining in several countries will reduce the protection of workers and increase the risk of low pay and working poverty. This is particularly so for the low skilled segments of the labour market as well as for workers on – the increasingly used – non-standard contracts, of which part-time and fixed-term employment are the most common forms. Mason and Salverda (*forthcoming*, quoted in Vaughan-Whitehead 2008) show that in a number of European countries low pay has increased in recent years and that it affects 29 per cent in the UK, 22 per cent in Germany and 17 per cent in the Netherlands. Working poverty affects some 8 per cent of workers in the EU (Table 1) and varies from 3 per cent in the Czech Republic to 14 per cent in Greece. Men have a slightly higher chance of being working poor than women and employed persons with a part-time or a temporary contract have a much higher risk of working poverty than those on a full-time or permanent contract. Also, the lower the level of education the higher the working poverty risk, while working poverty is above average for young persons and especially the 65 years or older age group in the EU-15.

Worries concerning low pay are further strengthened by the increased mobility of labour and capital within the EU (Vaughan-Whitehead 2008). In countries receiving immigrants from Central and Eastern Europe it is often

Table 1: *In work at-risk-of-poverty rate after social transfers for different characteristics, 2006*

| | Gender | | Age | | | | Contract | | Full-time/ part-time work | | Educational level | | | |
|--------|--------|-------|---------|-------|-------|-------|----------------|----------------|------------------------------|---------------|----------------------|-------|--------|--------|
| | Total | Males | Females | 18-24 | 25-54 | 55-64 | 65 and over | Perma- nent | Tempo- rary | Full- time | Part- time | Lower | Middle | Higher |
| EU-25 | 8 | 8 | 7 | 9 | 8 | 7 | 12 | 4 | 12 | 7 | 11 | 14 | 7 | 3 |
| EU-15 | 7 | 8 | 7 | 9 | 7 | 7 | 13 | 4 | 12 | 6 | 10 | 13 | 6 | 4 |
| NMS-10 | 9 | 10 | 9 | 10 | 10 | 6 | 5 | 5 | 13 | 8 | 19 | 22 | 10 | 2 |

Note: At-risk-of-poverty rate (cut-off point: 60% of median equivalised income after social transfers).

Source: Eurostat.

feared that immigrant workers will see themselves forced to accept low pay and also that this will result in downward wage pressure for domestic workers. In sending countries low pay is seen as an increasing motive for outward migration and is leading to shortages of workers and skills.

The increasing concerns about low pay have led to a heightening of attention to the maintenance of the purchasing power of wages in collective bargaining. As several of the chapters in this volume show, for trade unions maintaining purchasing power is today often the first goal in their wage bargaining strategies, with attempts to convert part of productivity increases into real wage increases coming only second. However, where unions consider wage increases in line with inflation as a minimum and hence as a starting point, employers more and more see them as a maximum and the end point of wage growth.

The focus on low pay and the maintenance of the real value of wages is shown by a number of mechanisms that are in place in EU countries. They include automatic wage indexation mechanisms in Belgium and Luxembourg, minimum wage rates in collective agreements, the pay review clauses in most Spanish collective agreements that compensate for higher-than-expected inflation at the end of the year, and a similar mechanism established by the Italian social pact of 1993, even if there are problems with its implementation (D'Aloia et al. in this volume).

Undoubtedly the most salient issue in this respect, however, is the statutory minimum wage, which today exists in 20 EU member states. Since the mid-1990s the minimum wage has been at the heart of the wage debate in many countries and recently also at the European level (Vaughan-Whitehead 2008; Schulten et al. 2006). In many countries the minimum wage has been explicitly used to address problems of low pay. This was the motive for adopting a statutory minimum wage in the UK in 1999 and in Ireland in 2000, and these two countries now have among the highest minimum wages in Europe (Table 2). In the UK this has helped to reduce the level of low pay (Leschke and Keune 2008). Also, in Spain since 2004 the two Zapatero governments have increased the minimum wage much faster than the average wage to recover the loss of purchasing power it had suffered in previous years, even though its present value of €700 is still very low. In the Czech Republic, the social democratic Zeman government increased the minimum wage by 26 per cent in 1999 and by 20 per cent in 2000, far beyond average wage growth. Even more spectacularly, in Hungary the minimum wage was doubled – from HUF 25,500 to HUF 50,000 – by two huge increases in 2001 and 2002, implemented by the right-conservative Orbán government.

Table 2: *Minimum wages in the EU, 2000–2008 (national currencies [NAC] and €)*

| | NAC | | EUR | | Average annual growth rate (NAC in %) 2000 to 2008 | |
|------|--------|--------|-------|-------|--|------|
| | 2000* | 2008 | 2000 | 2008 | Nominal | Real |
| BE | 1 118 | 1 336 | 1 118 | 1 336 | 2.3 | -0.2 |
| BG | 75 | 220 | 38 | 112 | 14.4 | 6.7 |
| CZ | 4 500 | 8 000 | 125 | 329 | 7.5 | 4.6 |
| EE | 1 850 | 4 350 | 118 | 278 | – | – |
| IE | 945 | 1 462 | 945 | 1 462 | 5.6 | 2.2 |
| GR | 534 | 681 | 534 | 681 | 3.1 | -0.5 |
| ES | 425 | 700 | 425 | 700 | 6.4 | 2.8 |
| FR | 1 083 | 1 321 | 1 083 | 1 321 | 2.5 | 0.3 |
| LV | 50 | 160 | 88 | 228 | 15.7 | 8.5 |
| LT | 430 | 800 | 113 | 232 | 8.1 | 4.8 |
| LU | 1 221 | 1 610 | 1 221 | 1 610 | 3.5 | 0.4 |
| HU | 25 500 | 69 000 | 98 | 285 | 13.3 | 6.8 |
| MT** | 208 | 612 | 507 | 612 | 3 | 0.5 |
| NL | 1 092 | 1 357 | 1 092 | 1 357 | 2.8 | 0.3 |
| PL | 700 | 1 126 | 168 | 334 | 6.1 | 3.3 |
| PT | 371 | 497 | 371 | 497 | 3.7 | 0.6 |
| RO | 70 | 500 | 35 | 137 | 27.9 | 12.2 |
| SI** | 77 010 | 567 | 373 | 567 | 7.3 | 2 |
| SK | 5 570 | 8 100 | 126 | 267 | – | – |
| UK | 625 | 909 | 993 | 1 148 | 4.8 | 2.8 |

Notes: * 2002 data for EE and SK; ** 2008 data are in euros.

Source: P. Regnard, 'Minimum wages 2008', *Statistics in Focus*, 105/2008, Eurostat.

This is not to say that around Europe the minimum wage has experienced strong growth. Indeed, in a number of countries – including Belgium, Greece, the Netherlands and Poland – the minimum wage has been losing ground in relation to the average wage. Also, the (strongly varying) existence of low pay and working poverty in countries that have a minimum wage shows that either its value is too low to protect workers sufficiently or that there are

compliance problems. Still, the trend in the majority of countries seems to be a more rapid increase of the minimum compared to the average wage and a strengthening of its purchasing power (Vaughan-Whitehead 2008).

In some countries currently without a statutory minimum wage – Austria, Cyprus, Denmark, Germany, Finland, Italy and Sweden – the possibility of having something similar to such a legal minimum is now under debate. In Austria unions and employers agreed on a minimum wage floor of €1,000 that will start to be implemented in 2009. In Germany, low pay has increased rapidly, in particular in the service sector where it rose from 19.5 per cent in 1997 to 26.4 per cent in 2005 (Leschke and Keune 2008). This, combined with the decentralisation and declining coverage of collective agreements, has led to widespread union campaigns for a statutory minimum wage with the objective of tackling low pay. Even in Sweden the possibility of a statutory minimum wage is today part of the debate, especially after the ruling of the European Court of Justice (ECJ) in the Laval case, which undermines the general applicability of collectively agreed minimum rates.

One of the side-effects of a statutory minimum wage is that its definition often involves some form of central-level dialogue between government, trade unions and employers' organisations. This is of special significance in the countries where social dialogue is weak. For example, in the UK the Low Pay Commission, which recommends minimum wage rates to the government (which so far has always accepted these recommendations), represents the most important instance of social dialogue. Also, in many of the new member states, setting the minimum wage is the key competence of the existing national tripartite bodies. At the same time, one of the arguments forwarded by trade unions in countries such as Italy or Denmark against a statutory minimum wage is that this would deprive unions of one of their core tasks, namely negotiating minimum rates in collective agreements.

Finally, for the last few years there has also been a debate about the possibility of a European minimum wage. Jacques Delors and Claude Juncker have both referred to such an instrument, while a group of German, Swiss and French researchers, as well as the European Public Services Union (EPSU) have been actively campaigning for it (Schulten et al. 2006). The idea behind such a European minimum wage would not be to fix a common rate in euros for all EU countries but rather a common minimum percentage of the average wage (for example, 50 or 60 per cent) to be implemented at national level through a statutory minimum wage or through collective bargaining.

So far, little progress has been made on this issue. Employers' organisations are against a European minimum wage as part of their rejection of further European regulation of the labour market. Most trade unions in Europe also seem reluctant as they fear losing an important role at national level in negotiating minimum pay rates, regardless of whether these are statutory or not. No initiative has been taken on the part of the member states or the Commission, either. At the same time, the increased attention to low pay issues and the limits recent ECJ cases have imposed on national industrial relations systems may well change this situation in the future.

5. Conclusions

Within the context of a global ideological shift towards neoliberal and monetarist ideas and global economic integration since the mid-1990s, European integration, the deepening of the Internal Market, EMU and the declining power of trade unions have resulted in wage moderation becoming the norm in collective bargaining and wage setting in Europe. Governments, employers and increasingly also unions consider wage moderation as an unavoidable instrument to strengthen competitiveness and to fulfil the obligations of monetary union. And where unions oppose wage moderation, generally they lack the resources to oppose it effectively.

The same factors have often also spurred the decentralisation of collective bargaining and sometimes a decline in its coverage. Decentralisation is organised in most countries, but apart from the UK – the standard case of disorganised decentralisation – in recent years also in Germany, Europe's biggest economy and the traditional example of a coordinated market economy, decentralisation increasingly has a disorganised character. However, as has been argued in this chapter, decentralisation is not the only game in town and meaningful processes of (re-)centralisation are taking place in a number of EU countries. In several cases, centralisation and decentralisation go hand in hand and do not contradict each other.

As a result of the above processes, real wage growth has been depressed, there has been a shift of income from labour to capital, and low pay and working poverty have become major concerns. Also, the minimum wage is high on the agenda as an instrument to counter these trends.

If wage moderation and decentralisation continue in the near future, they may well affect the coordinated and solidaristic nature of wage bargaining in most EU countries, especially if decentralisation becomes increasingly disorganised. The present power constellation, as well as the absence of

alternative visions concerning socio-economic development, seem to point in this direction. At the same time, the present crisis of the global economy demonstrates the bankruptcy of the sole focus on markets and deregulation and may well draw more attention to the benefits of redistribution, stable demand and coordination.

References

- Du Caju, Ph., E. Gautier, D. Momferatou and M. Ward-Warmedinger (2008) 'Institutional features of wage bargaining in 23 European countries, the US and Japan,' IZA Discussion Paper No. 3867, Bonn: IZA.
- Dyson, K. (ed.) (2006) *Enlarging the Euro area. External empowerment and domestic transformation in East Central Europe*, Oxford: Oxford University Press.
- European Commission (2006) *Industrial relations in Europe 2006*, Luxembourg: Office for Official Publications of the European Communities.
- Galgóczi, B., M. Keune and A. Watt (2006) 'Relocation: concepts, facts and policy challenges,' *Transfer* 12 (4): 499–520.
- Hall, P., and D. Soskice (2001) 'An introduction to varieties of capitalism', in P. Hall and D. Soskice (eds), *Varieties of capitalism: the institutional foundations of comparative advantage*, Oxford: Oxford University Press.
- Hancké, B., and M. Rhodes (2005) 'EMU and labor market institutions in Europe: the rise and fall of national social pacts,' *Work and Occupation* 32 (2) (May): 196–228.
- Hassel, A. (2006) *Wage setting, social pacts and the euro. A new role for the state*, Amsterdam: Amsterdam University Press.
- Hoffmann, J. (2006) 'The relevance of the exit option: the challenges for European trade unions of Post-fordism, internationalisation of the economy and financial market capitalism,' *Transfer* 4: 609–20.
- Houwing, H., and K. Vandaele (2008) 'Distinctive trajectories, further divergence? The political economy of adjustment in the Low Countries,' paper presented at the conference 'Change and continuity in the small west European countries' capitalisms,' Amsterdam, 19–20 June 2008.
- Keune, M. (2008a) 'Die Grenzen der europäischen Arbeitsmarktintegration: Koalitionen, Interessenvielfalt und institutionelle Hindernisse,' in M. Hoepner and A. Schaefer (eds), *Die politische Ökonomie der europäischen Integration*, Frankfurt a.M. and New York: Campus.
- Keune, M. (2008b) *The coordination of collective bargaining in Europe. Annual Report 2008*, Brussels: ETUC.
- Leschke, J., and M. Keune (2008), 'Precarious employment in the public and private sector: comparing the UK and Germany,' in M. Keune, J. Leschke and A. Watt (eds), *Privatisation and liberalisation of public services in Europe. An analysis of economic and labour market impacts*, Brussels: ETUI.
- Marginson, P., and K. Sisson (2004) *European integration and industrial relations. Multi-level governance in the making*, Houndmills and New York: Palgrave Macmillan.

- Marginson, M., K. Sisson and J. Arrowsmith (2003) 'Between decentralisation and Europeanisation: sectoral bargaining in four countries and to sectors,' *European Journal of Industrial Relations* 9 (2): 163–87.
- Mason, G., and W. Salverda (forthcoming) 'Low pay, living standards and employment,' in Schmitt et al. (eds), *Low-wage employment in the United States and Europe*, Russell Sage.
- Parsons, N., and P. Pochet (2008) 'Wages and collective bargaining', in K. Dyson (ed.), *The Euro at ten: Europeanisation, power and convergence*, Oxford: Oxford University Press.
- Pérez, S. (2000) 'Social pacts in Spain,' in G. Fajertag and P. Pochet (eds), *Social pacts in Europe – new dynamics*, Brussels: ETUI/OSE.
- Phelan, C. (2007) 'Worldwide trends and prospects for trade union revitalisation,' in C. Phelan (ed.), *Trade union revitalisation. Trends and prospects in 34 countries*, Bern: Peter Lang.
- Rhodes, M. (1998) 'Globalisation, labour markets and welfare states: A future of "competitive corporatism"?', in M. Rhodes and Y. Mény (eds), *The future of European welfare*, Houndmills: Macmillan.
- Rhodes, M., and M. Keune (2006) 'EMU and welfare state adjustment in Central and Eastern Europe,' in K. Dyson (ed.), *Enlarging the Euro area. External empowerment and domestic transformation in East Central Europe*, Oxford: Oxford University Press.
- Scharpf, F. (1996) 'Negative and positive integration in the political economy of European welfare states,' in G. Marks, F. Scharpf, P. Schmitter and W. Streeck (eds), *Governance in the European Union*, London: Sage.
- Scharpf, F. (2002) 'The European social model: coping with the challenges of diversity,' *Journal of Common Market Studies* 40 (4): 645–70.
- Schulzen, T. (2002) 'A European solidaristic wage policy?,' *European Journal of Industrial Relations* 8 (2): 173–96.
- Schulzen, T., R. Bispinck and C. Schäfer (eds) (2006) *Minimum wages in Europe*, Brussels: ETUI and WSI.
- Traxler, F. (1995) 'Farewell to labour market associations? Organised versus disorganised decentralisation as a map for industrial relations,' in C. Crouch and F. Traxler (eds), *Organised industrial relations in Europe: what future?*, Aldershot: Avebury.
- Vaughan-Whitehead, D. (2008) 'Minimum wage revival in the enlarged EU: explanatory factors and developments,' in D. Vaughan-Whitehead (ed.), *The minimum wage revisited in the enlarged EU*, Geneva: ILO.