

Revisiting the Minimum wage in the Enlarged EU: Addressing changes and challenges in the labour markets

The minimum wage has returned to the core of the EU policy agenda. EU enlargement and increased migration flows for employment and better pay are one factor, but others include the significant rise in non-standard forms of employment, normally associated with lower wages, high proportions of low-paying jobs, rising insecurity and growing numbers of working poor. This week, an ILO–EC Conference in Brussels ^{2/} revisits the question of minimum wages in Europe and their influence on earnings and well-being of low paid workers and their families. ILO Online spoke with Daniel Vaughan-Whitehead from the ILO's Conditions of Work and Employment Programme.

ILO Online: How do you explain the renewed interest in minimum wages in the EU?

Daniel Vaughan-Whitehead: EU enlargement has certainly contributed to this trend. While only 9 out of the former 15 EU member states have introduced a statutory national minimum wage, the integration of the 12 new EU member states has radically increased the proportion of member states with such a system: 20 out of 27 – 75 per cent – now have a national statutory minimum wage. This renewed interest in the minimum wage is confirmed by the fact that between 2000 and 2008 nearly all countries (18 out of the 20 with a statutory minimum wage) have allowed the minimum wage to increase in real terms to improve the purchasing power of workers at the lower end of the labour market. The new context has motivated such a policy shift.

ILO Online: What are the reasons for this renewed interest in minimum wages?

Daniel Vaughan-Whitehead: There are three major reasons. The first is a new labour market configuration characterized by a significant rise in non-standard forms of employment, normally associated with lower entitlements and higher insecurity, including lower wages, high proportions of low-pay jobs and growing numbers of working poor for whom the minimum wage may be seen as a tool to ensure a wage floor for all employees. The second reason is linked to increased movements of labour and capital within the enlarged EU that has given rise to problems of social dumping making use of low-paid migrant workers for putting pressure on wages of workers in the host country. The third reason is declining collective bargaining coverage and trade unionisation which has led a number of trade unions to push for the introduction of such a statutory tool to help them to preserve the real wages and purchasing power of employees at the bottom end of the pay ladder.

ILO Online: Polish workers have been leaving for Ireland and the United Kingdom in search for employment and better pay, and now they are either returning home (since more and better paid jobs are now available in Poland) or leaving for another EU country like Norway, which has a higher minimum wage and has accepted 40,000 Polish workers so far this year, with half coming from Britain. Can you tell us more about the link between minimum wages and migration?

Daniel Vaughan-Whitehead: Many Polish workers have been moving to work in Ireland and in the UK and interviews from our studies show that they have taken into account the Irish and UK minimum

wage before doing so, even if wages were clearly not the only factor. Interestingly some Irish employers also reported that the minimum wage in their country helped them to attract migrant workers and to face labour shortages in some sectors. It does also mean that regular increases in the minimum wage in the sending country – here Poland – may also help in limiting labour emigration from Poland. Clearly, the increased movements of labour and capital generated by EU enlargement to Central and Eastern European countries and intensified flows at the international level have put the ensuing new labour reserve in the spotlight.

ILO Online: There is a strong debate in Germany and in Sweden about the introduction of a generalized minimum wage. What would be the benefits of a minimum wage?

Daniel Vaughan-Whitehead: The interest in a statutory minimum wage in Germany seem to have emerged because the traditional system of minimum wage-fixing by collective bargaining at sectoral level appears to be leaving a growing number of workers uncovered because of increased migration and the rise in atypical labour contracts. In such a context a national statutory minimum wage would ensure full coverage. Similarly in Sweden the recent European court of Justice in the 'Laval' case highlighted weaknesses in the current Swedish collective bargaining model without a statutory minimum wage in the new context of increased migration especially from Baltic countries.

In terms of the minimum wage impact, there is an extensive literature on the employment effects of minimum wages, that shows that, if set at reasonable levels, they have no adverse impact on employment. But very little is known about the effects of the minimum wage on job quality and career prospects, low pay and working poor, wage disparity, tax revenues and wage bargaining. The potential effects of the minimum wage on capital and labour movements should also be investigated, since one of the reasons why the minimum wage has returned to policy-makers' agenda is to counter social dumping. This was one of the aims of the comparative study prepared for this conference.

ILO Online: Are we heading towards an EU minimum wage?

Daniel Vaughan-Whitehead: The new context has led to debates on the possibility of introducing a minimum wage at EU level. This suggestion has been put forward by a number of EU leaders, and has been debated at the European Parliament. Such initiatives at EU level are motivated by the large scope of the minimum wage in the enlarged EU where more than 5 million workers are covered by a statutory minimum wage. However, most observers agree that a common absolute minimum wage level would not be desirable at EU level considering the current gaps in national minimum wage levels and labour productivity. At the same time, proposals have emerged for the introduction of a compulsory national minimum wage and for defining a number of basic common principles in this area.

ILO Online: Will the economic and financial crisis give new impetus to the introduction of minimum wages?

Daniel Vaughan-Whitehead: The new economic and financial uncertainty may bring new conditions for minimum wage fixing. The upward minimum wage developments presented before refer to a period of low inflation and relative high economic growth that may also have contributed to these positive effects. In the future, more uncertain

economic context, it is difficult to tell whether the renewed interest of policy-makers in minimum wages will progressively vanish or, on the contrary, increase further and be seen as a device to protect low-paid workers and the working poor.

In the current crisis labour market institutions have never been as relevant as today. Minimum wage and collective bargaining may, for instance, help limit the decline in purchasing power and protect the most vulnerable workers. The number of low pay workers is likely to increase in Europe. A wage floor could thus play an important role in this difficult period as a tool for motivating workers and mitigating poverty.

^{2/} ILO–EC Conference: Minimum Wage Revisited in the Enlarged EU: Issues and Challenges, Brussels, 30–31 October 2008.