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# **European Minimum Wage: A Nordic Outlook – an update**



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# Preface

In 2012, Fafo published the report “European Minimum Wage: A Nordic Outlook”<sup>1</sup>, written on assignment from the national trade union confederations (LO) in Norway, Sweden and Denmark, Suomen Ammattiliittojen Keskusjärjestö (SAK) in Finland and Alþýðusamband Islands (ASI) in Iceland. Its purpose was to provide an overview of how minimum wage schemes are designed and function in other European countries and to explain how Nordic social partners stand on the question of national minimum wages.

The information in the 2012 report remains relevant, or no new data have been made available. However, almost three years have now passed since the report was published, and the time has come to update some of the information in it. This pertains especially to the overview of the minimum wage schemes and the level of the statutory minimum wages in the various countries in question. Moreover, a significant development has taken place in Germany, where a decision has been made to introduce statutory minimum wages from 1 January 2015. Against this background, the Council of Nordic Trade Unions has requested us to write a paper with updates on key issues. The paper can be read as a supplement to the main report, which provides significantly more exhaustive descriptions and analyses.

In the paper we have retained the original numbering of the tables and graphical charts, thus to simplify reading for those who wish to refer to the far more comprehensive material in the main report from 2012.

Oslo, November 2014

Line Eldring and Kristin Alsos

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<sup>1</sup> Eldring, L. and K. Alsos (2012), Lovfestet minstelønn: Norden og Europa. Fafo-rapport 2012:07. English translation: [European Minimum Wage: A Nordic Outlook](#). Fafo-report 2012:16. German translation: Gesetzlicher Mindestlohn: Die nordischen Länder und Europa. Fafo-Report 2012:17

# 1 Regulation of minimum wages in Europe: An overview

Regulation of minimum wages in Europe is based on collective agreements and/or national legislation. We can distinguish between three main forms of minimum wages:

*Statutory minimum wages:* This refers to a minimum wage level which is either determined by legislation or pursuant to legislation. A statutory minimum wage level defines a wage floor. This floor will be invariable downwards, but variable upwards. Statutory minimum wages can be guaranteed for all employees of a country, although exceptions can be made for certain groups. The minimum wage level can also be graded, for example on the basis of age. As a rule, however, there will be one single rate for adult employees which will apply to all or most parts of the labour market. As such, the minimum wage level will be well known. The specifics of how the statutory minimum wage level is determined vary from one country to another.<sup>2</sup> The main point is that the legislator has determined a minimum wage level or a procedure for determination of a minimum wage level.

*Collectively agreed minimum wages:* Another form of minimum wages is set by collective agreements. As a rule, the collectively agreed minimum wage will be higher than its statutory counterpart. However, the collectively agreed minimum wages apply only to the parties to the collective agreement – the trade union and the employers' association – and are mandatory only for the parties' members. Employers who are committed by the agreement may still be obligated by it also with regard to unorganised employees in the enterprise. The number of employees who end up being paid at the collectively agreed minimum rate and how many will be paid above this floor as a result of local wage supplements will vary from one bargaining sector to another.<sup>3</sup>

*Extended minimum wages:* Many European countries have mechanisms for expanding the coverage area for collective agreements.<sup>4</sup> As a rule, this takes the form of extension of collective agreements, whereby wage rates and other collectively bargained provisions are given expanded effect. The most common procedure is to apply the provisions not only to the parties to the agreement and their members, but to the entire industry or profession that falls under the scope of the agreement. An unorganised enterprise with

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<sup>2</sup> Vaughan-Whitehead (ed.) (2010), *The Minimum Wage Revisited in the Enlarged EU*. Cheltenham/Geneva: Edward Elgar/ILO; Alsos & Eldring (2012).

<sup>3</sup> Some collective agreements are so-called normal-wage agreements. Such agreements provide far less opportunities for achieving local wage supplements.

<sup>4</sup> Stokke, T.Aa. (ed.) (2010), *Allmenngjøring i Norge og Europa*. Fafo-rapport 2010:14; Alsos, K. & Eldring, L. (2008), Labour Mobility and Wage Dumping: The Case of Norway. *European Journal of Industrial Relations*, 14(4):441–459.

non-unionised employees must thereby conform to the extended minimum wage level, even though the employees' opportunities to bargain collectively for local supplements may be non-existent or far weaker than in organised enterprises.

As a rule, statutory and collectively agreed minimum wages will be determined on the basis of fairly different criteria and mechanisms. Statutory minimum wages are most often determined on social grounds, while the collectively agreed minimum wages emerge from bargaining between the parties and is a result of the bargaining system, the parties' wage policies and their relative bargaining strength (Stokke et al., 2013).<sup>5</sup> The minimum wage determined in a collective agreement reflects the lower limit of the local employer's wage-paying ability. If the employer does not have this ability to pay, then the staffing must be reduced or the enterprise must shut down. If the employer has a better ability to pay, the employees will attempt to negotiate local wage supplements.

In countries that have statutory minimum wages, this level will constitute an absolute lower limit to the wages that can legally be paid in an employment relationship. Statutory minimum wages are very common in Europe – they are applied in 23<sup>6</sup> of the 28 EU countries. The statutory rates amount to approximately 30 to 50 per cent of the average wage level in the countries concerned. The coverage of collective agreements in European countries varies from very high to very low. As can be seen in Table 1, this coverage will not necessarily co-vary with the unionisation rate. This is because most countries have additional schemes for extension of collective agreements. In the table we have grouped the countries according to their application of various schemes for minimum wage regulation.

The most common form is to apply both a statutory minimum level and schemes for extension of collective agreements – this pertains to 20<sup>7</sup> of the 31 countries included in the overview in Table 1.1 (28 EU countries plus Iceland, Norway and Switzerland).

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<sup>5</sup> Stokke, T.Aa., Nergaard, K. & Evju, S. (2013), *Det kollektive arbeidslivet. Organisasjoner, tariffavtaler og lønnsoppgjør*. Oslo: Universitetsforlaget.

<sup>6</sup> Including Cyprus, which has adopted statutory minimum wages in nine industries, and Germany (from 1.1.2015).

<sup>7</sup> In Greece, the opportunity to extend collective agreements has been temporarily suspended because of the financial crisis (EirOnline 2013). In Portugal, extensions are still possible, but an austerity policy has reduced the practice considerably (Lima, M.P.C. (2013), *Dramatic decline in collective agreements and worker coverage*. EirOnline PT1302029I). In Spain, legal amendments in the wake of the crisis have reduced the scope of collective agreements, which in turn have reduced the number of employees entitled to extensions (Miguel, P.S. (2013), *One million workers to lose collective agreement protection*. EirOnline ES1307011I).



Table 1.1 Statutory minimum wages, extensions, coverage of collective agreements and trade union density in the EU (and Iceland, Norway and Switzerland).

	Statutory minimum wage	Erga omnes extensions of CA possible	Scope of extension	CA coverage (per cent)*	Trade union density (per cent)*
Austria		x	Low	99	28
Belgium	x	x	High	96	50
Bulgaria	x	x	Not used	18 **	20
Croatia	x	x	Low	60	35
Cyprus	x			52	49 **
Czech Rep.	x	x	High	41 **	17
Denmark				83	69
Estonia	x	x	Low	25	8 **
Finland		x	High	90	69
France	x	x	High	90	8 **
Germany	x	x	Low	61	18
Greece	x	(x)	(High)***		25 **
Hungary	x	x	Low	34 **	17 **
Iceland		x	High	99	85
Ireland	x	x	Low	36	42
Italy				85	35
Latvia	x	x	Not used	20 **	15
Lithuania	x	x	Not used	13	10
Luxembourg	x	x	Low	58 **	37 **
Malta	x			55	49 **
Netherlands	x	x	High	84	19
Norway		x	Low	67	52
Poland	x	x	Not used	29	14
Portugal	x	x	(High)***	90	19
Romania	x	x	Low	20 **	33
Slovakia	x	x	Low	35	17
Slovenia	x	x	Low	92	24 **
Spain	x	x	(High)***	73	16
Sweden				88	69
Switzerland		x	Low	49	17
UK	x			31	27

\* Figures are for 2010/11, but are more recent for the Nordic countries, for which the data mostly stems from 2012.

\*\*Figures for 2008/09. \*\*\*The situation in these countries is unstable/changing rapidly.

Sources: Visser, J. (2013), *ICTWSS Database version 4.0*, Aprile (<http://www.uva-aiaa.net/207>); Stokke, T.Aa. (2010). *Allmenngjøring i Europa*. I: Stokke, T.Aa. (ed.) *Allmenngjøring i Norge og Europa*. Fafo-rapport 2010:14; Eldring & Alsos (2012), Stokke, T. Aa., Nergaard, K. & Evju, S (2013), *Det kollektive arbeidslivet. Organisasjoner, cavgtaler og lønnsoppgjør*. Oslo: Universitetsforlaget; Andersen, S.K., Dølvik, J.E. & Ibsen, C.L. (2014), *De nordiske aftalemodeller i åpne markeder – utfordringer og perspektiver*. Fafo-rapport 2014:08; Eurofound (2011), *Extension of collective bargaining agreements in the EU*. Dublin: European Foundation for the Improvement of Living and Working Conditions.; OECD Database on trade union density; EirOnline.

Only three countries – Italy, Denmark and Sweden – have neither a statutory minimum wage level, nor schemes for extension of collective agreements. In her constitution, however, Italy has a provision stating that all employees are entitled to fair wages, which in practice has meant an extension of the wage rates defined in industry-level collective agreements. Recent court rulings, however, have confirmed the validity of collective agreements that set a lower standard than the rates defined by industry-level bargaining, and this may entail a weakening of this mechanism.<sup>8</sup> When it comes to statutory minimum wage, the proposed new Jobs Act in Italia entails a possibility for introducing such a scheme, but it remains to see if this materialise.<sup>9</sup>

## Nordic minimum wage regulations

The Nordic model is characterised by a high unionisation rate and high collective agreement coverage. Within this framework, however, the countries have chosen widely different solutions. While Denmark and Sweden use collective agreements as their only mechanism for regulation of minimum wage levels, Finland, Iceland and Norway have also started to use *erga omnes* instruments (extension of collective agreements). None of the countries has adopted statutory minimum wage schemes.

Table 6.1 Wage-formation mechanisms in the Nordic countries

	Collective bargaining coverage in the private sector	Extension of collective agreements	Regime
Denmark	74 %	No	Autonomous collective bargaining model
Sweden	85 %	No	
Norway	50 %	Yes, some	Mixed model
Finland	85 %	Yes, widespread	Statutory regulation (and strong trade unions)
Iceland	95 %	Yes, widespread	

Sources: Dansk Arbejdsgiverforening (2014), *Arbejdsmarkedsrapport 2013*. København: Dansk arbejdsgiverforening; Medlingsinstituttet (2013), *Avtalsrörelsen och lönebildningen. År 2013*. Stockholm: Medlingsinstituttet; Stokke, T. Aa., Nergaard, K. & Evju, S. (2013), *Det kollektive arbeidslivet*. Oslo: Universitetsforlaget; Ahtiainen, L. (2011), *Collective Agreements' Coverage in Finland in 2008*. Publications of the Ministry of Employment and the Economy, Employment and entrepreneurship 23/2011; Andersen, S.K., Dølvik, J.E. & Ibsen, C.L. (2014), *De nordiske aftalemodeller i åbne markeder – udfordringer og perspektiver*. Fafo-rapport 2014:08.

\* Figures from Iceland and Finland include employees covered by extended collective agreements. In Finland, the collective agreement coverage in the private sector, extended collective agreement excluded, amounted to 73% in 2008 (Ahtiainen 2011).

<sup>8</sup> Eurofound (2014), *Changes to wage-setting mechanisms in the context of the crisis and the EU's new economic governance regime*. Dublin: Eurofound.

<sup>9</sup> Mosca, D. (2014), *Il salario minimo legale tra europa e (forse) Italia*. @bollettinoADAPT, 13 ottobre 2014.

In all the Nordic countries, the social partners have the main responsibility for wage regulation, but only Sweden and Denmark apply this model exclusively. All the Nordic countries share the feature that nationwide agreements are reached through industry level bargaining. Minimum wage agreements are the most common form. These agreements determine a floor that cannot be underbid by the parties locally. Norway has tended to have a somewhat lower trade union density and collective agreement coverage than its Nordic neighbours. As shown in Table 6.1, collective agreement coverage in the private sector in Norway amounts to 50 per cent, compared to 74 and 85 per cent in Denmark and Sweden respectively. In Finland and Iceland, where extensions of collective agreements are common, the coverage amounts to 85 and 95 per cent respectively.

## Statutory minimum wage levels

The levels of the national minimum wage rates vary greatly among the European countries, in relative as well as real terms.<sup>10</sup> As of January 2014, rates vary from 11.1 euros (Luxemburg) to 1 euro (Bulgaria). Figure 3.1 shows the minimum wage in euros for all EU countries that have defined a statutory minimum wage level.

In Figure 3.1 we see that the Eastern European countries lie clearly lowest; most of them have rates of 3 euros or less per hour. Among the “old” Western European EU countries Portugal, Spain and Greece stand out in terms of their low rates, while countries such as France, Luxemburg, the Netherlands, Belgium and the UK have far higher ones. Most countries undertake annual adjustments, although the financial crisis caused many countries to freeze the minimum wage levels in 2011 (Ireland, Latvia, Lithuania, Portugal, Spain and the Czech Republic). In early 2014 most countries had increased their rates somewhat over those of the previous year.

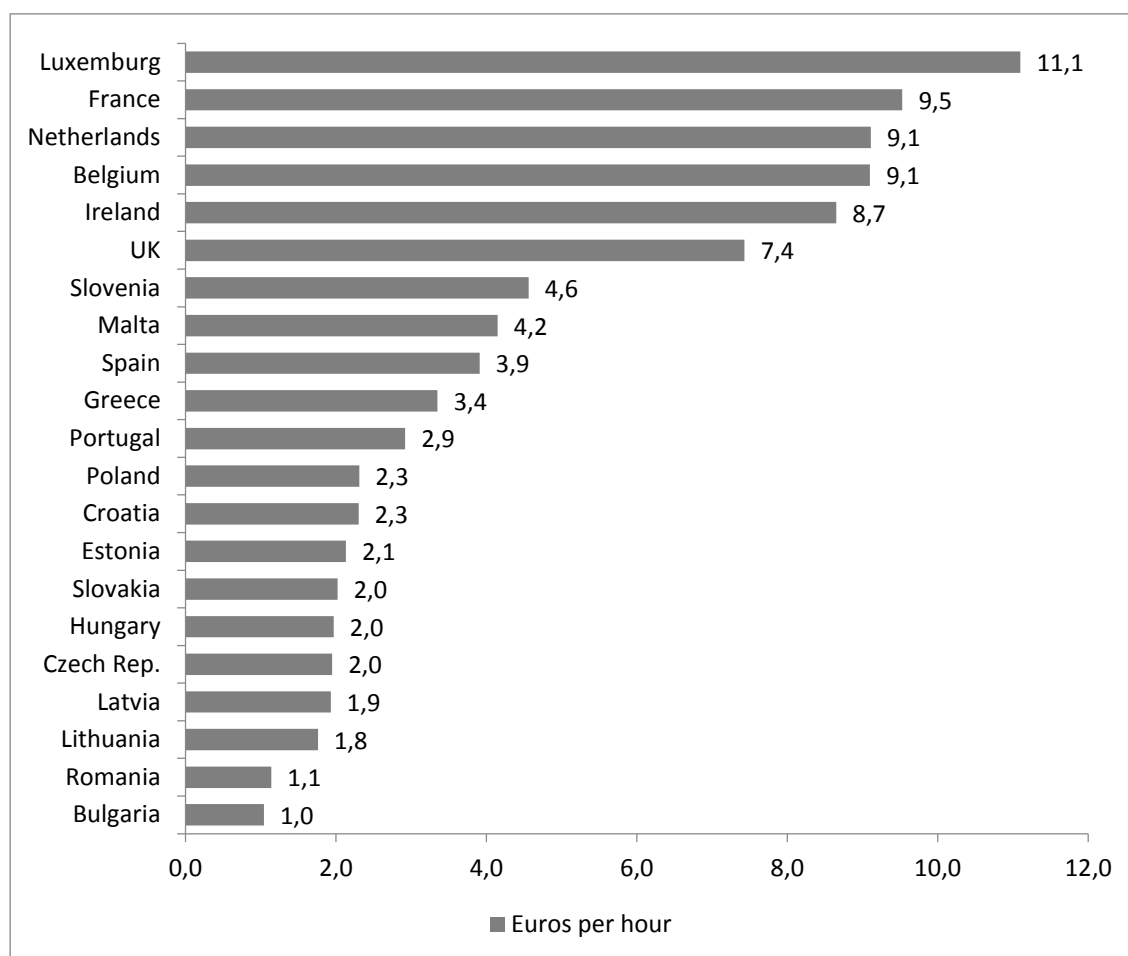
This overview of nominal minimum wage rates conceals national differences in general levels of prosperity and not least in relative wage levels; minimum wage levels measured in one and the same currency provide little information about the real value of these minimum wages in the national context. Even though the majority of the countries have increased their rates, minimum wage rates declined in eight of the EU countries when measured in terms of purchasing power. Seen in light of purchasing power, the Eastern EU countries have undergone the most positive development.<sup>11</sup>

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<sup>10</sup> The relationship between minimum wages and working hours varies considerably among the countries, in the sense that some countries have defined a minimum pay for overtime, while others have left such issues to be settled in each employment relationship. The same applies to payment for work during inconvenient hours, shift-work supplements etc.

<sup>11</sup> Schulten, T. (2014), WSI-Mindestlohnbericht 2014 – Stagnierende Mindestlöhne. In: *WSI Mitteilungen* 2/2014.

Figure 3.1 Statutory minimum wage rates in EU countries, in euros, January 2014



Source: WSI-Mindestlohn datenbank 2014

A commonly used method to provide a more realistic picture of the value of the minimum wage rates is the so-called Kaitz index, which measures the minimum wage in light of national average or median wages.<sup>12</sup> In Europe, the limit to what is regarded as low wages is normally set at 60 per cent of the median wage.<sup>13</sup> Figures 3.2 and 3.3 indicate national minimum wage rates as percentages of the national median and average wage levels respectively. The figures show that in 2012, the statutory minimum wage rates varied from 36 per cent (Estonia) to 62 per cent (France) of the median wage and from 30 per cent (Greece) to 50 per cent (France) of the average wage level. The distinctions between the various regions of Europe are no longer as marked when these relative measures are applied.

<sup>12</sup> The median wage is the wage received by those who are at the mid-point when the cumulative wage distribution is divided into two groups of equal size. The average means the sum of the wages received by all units, divided by the number of units.

<sup>13</sup> Eurofound (2010), *Working Poor in Europe*. Dublin: European Foundation for the improvement of Living and Working Conditions.

Figure 3.2 Statutory wages as a percentage of median wages for full-time work. 2012.

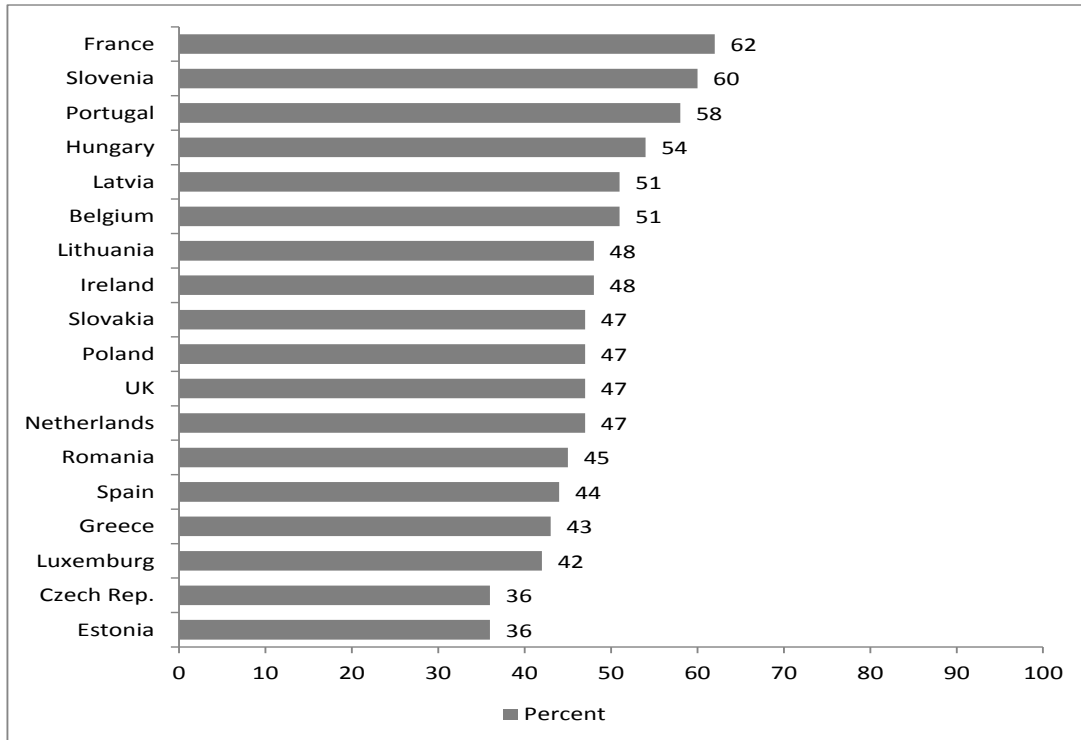
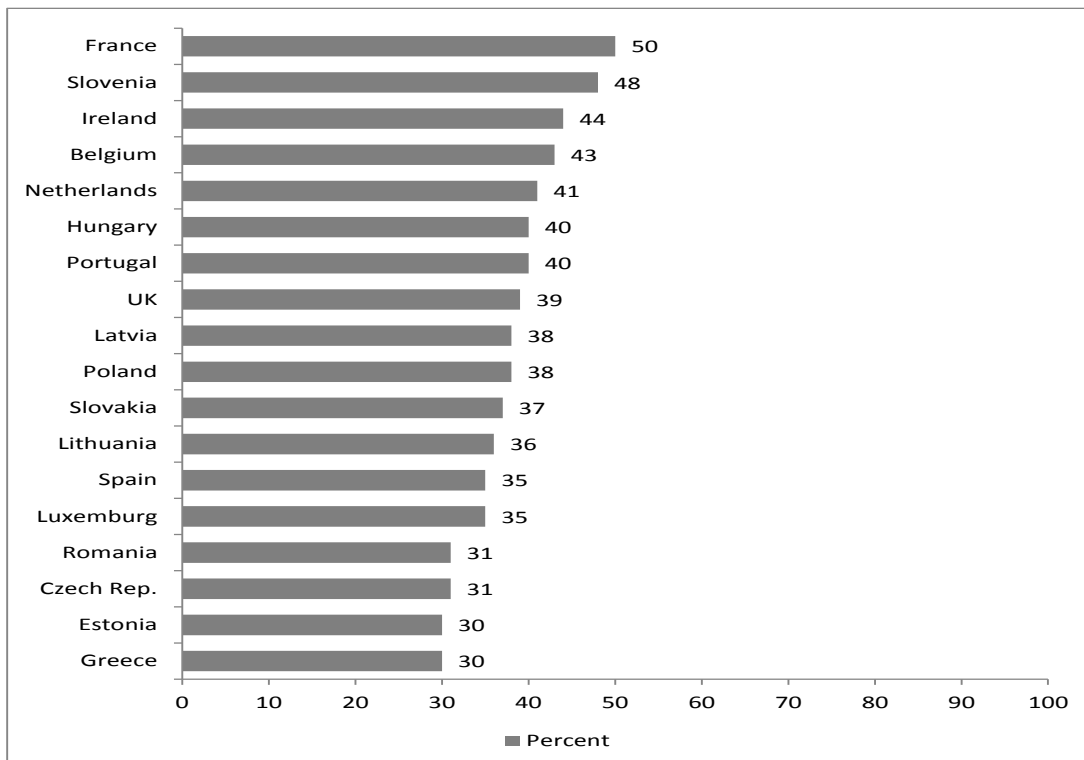


Figure 3.3 Statutory minimum wages as a percentage of average wages for full-time work. 2012.



Source: OECD <http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

## 2 Statutory minimum wage in Germany<sup>14</sup>

During the last twenty years, the unionisation rate and collective bargaining coverage have been declining in Germany, accompanied by a strong increase in the number of low-wage workers. Measured in terms of having an income of less than two-thirds of the median wage, the number of low-wage workers increased from 5.9 million to 8.4 million in the period from 1995 to 2012, which means that Germany is among the European countries that have the highest number of low-paid workers.<sup>15</sup>

From 1998 to 2013, collective bargaining coverage declined from 76 to 60 per cent in the western part of the country and from 63 to 47 per cent in the eastern part.<sup>16</sup> During the same period, the unionisation rate declined from 26 per cent to its current level at approximately 18 per cent.<sup>17</sup> The original German scheme for extension of collective agreements is being used far less frequently than before, while industry-level minimum-wage regulations have increased in importance through the Posted Workers Act. The German social partners disagree over what should be considered appropriate and desirable instruments with regard to minimum wages. The trade unions have wished to enhance the role of collective agreement extensions as well as introduce a statutory minimum wage, while this proposal has encountered stiff resistance from central-level employers' organisations and until recently also from the government. Most likely, the internal German debate on statutory minimum wage has served to kindle the interest in establishing European regulations in this area.<sup>18</sup>

After a lot of debate and internal controversies in the German trade union movement, the Deutsche Gewerkschaftsbund (DGB) launched a demand for the introduction of a national statutory minimum wage in Germany in 2006. In the period from 2003 to 2006, the various unions held widely differing views on this issue, and the manufacturing unions in particular were sceptical. However, in 2006 all the member

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<sup>14</sup> Many thanks to Thorsten Schulten for useful comments to this chapter.

<sup>15</sup> Kalina, T. & Weinkopf, C. (2014), *Niedriglohnbeschäftigung 2012 und was ein gesetzlicher Mindestlohn von 8,50 € verändern könnte*. Duisburg/Essen: IAQ-Report No. 02/2014 (<http://www.iaq.uni-due.de/iaq-report/2014/report2014-02.pdf>); Schulten, T. (2014) *Minimum Wage Regimes in Europe ... and What Germany Can Learn from Them*. Berlin: Study for the Friedrich Ebert Foundation (FES) (<http://library.fes.de/pdf-files/id-moe/10558.pdf>).

<sup>16</sup> Schulten, T. & Bispinck, R. (2014), *Wages, Collective Bargaining and Economic Development in Germany*. WSI Discussion Paper No. 191. Düsseldorf: Hans-Böckler-Stiftung ([http://www.boeckler.de/pdf/p\\_wsi\\_disp\\_191.pdf](http://www.boeckler.de/pdf/p_wsi_disp_191.pdf)).

<sup>17</sup> Visser, J. (2013), ICTWSS Database version 4.0, Aprile (<http://www.uva-aias.net/207>).

<sup>18</sup> Alsos, K. & Eldring, L. (2014), Lovfestet minstelønn i Norge? *Søkelys på arbeidslivet* 31(3):249-266.

unions of the DGB, with one exception, declared their support for a national minimum wage scheme. Initially, the minimum wage demand amounted to EUR 7.50 per hour, before being raised to EUR 8.50 per hour in 2010.

In 2013, the minimum wage was (again) a hot topic in the election campaign, and in the subsequent coalition negotiations between Angela Merkel's Christian Democratic party (CDU) and the Social Democratic Party (SPD), this became a key issue. As a result of the negotiations, the parties agreed to introduce a national minimum wage, and the German Bundestag adopted the proposal in July 2014.

## **The Act relating to reinforcement of collective bargaining – Tarifautonomiestärkungsgesetz**

The Act recently adopted in Germany has a scope that goes beyond statutory minimum wage, and this is also reflected in its name. The Act is referred to as “The Act relating to reinforcement of collective bargaining” – *Gesetz zur Stärkung der Tarifautonomie (Tarifautonomiestärkungsgesetz)* – and will enter into force on 1 January 2015. The Act consists of several parts, which as a whole have the objective of ensuring a general minimum wage floor and reinforcing the collective bargaining system. The key elements of the Act are:

- *A new Statutory Minimum Wage Act.*<sup>19</sup> This Act is described in more detail below.
- *Amendments to the provisions for extension in the Act relating to collective agreements.*<sup>20</sup> Currently, two criteria must be fulfilled before a decision to extend a collective agreement can be made. First, the Act requires that employers who are already bound by the agreement must employ at least 50 per cent of the workers in the area concerned. Second, an extension must be necessary *with a view to the public interest*. Because of the declining collective bargaining coverage, compliance with the requirement for 50 percent inclusion has become increasingly difficult, and it has now been deleted from the Act. Another reason why so few agreements have been extended is that the peak organisations of German social partners are represented by an equal number of members in the Collective Agreement Committee, and the parties thus need to agree in order to make a decision. Ever since the 1990s, the key partners have disagreed as to what constitutes the public interest in this context. Although the resistance of the employers' federation *Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA)* towards extensions has not always been supported by their sector associations, it has nevertheless resulted in almost a blockage of extensions through this mechanism. Since the composition of the committee has not changed,

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<sup>19</sup> Gesetz zur Regelung eines allgemeinen Mindestlohns (Mindestlohngesetz – MiLoG), Article 1 of the Tarifautonomiestärkungsgesetz.

<sup>20</sup> Tarifvertragsgesetz, Section 5, Article 5 of the Tarifautonomiestärkungsgesetz.

we may assume that gaining acceptance for extensions of collective agreements by way of this Act will remain difficult.

- *Amendments to the Posted Workers Act.*<sup>21</sup> The purpose of the Act is “to produce and implement reasonable minimum labour conditions for workers who are posted across borders and employed on German territory, as well as to ensure fair and well-functioning conditions of competition”.<sup>22</sup> This is ensured through extension of some of the minimum standards in collective agreements and has formed an important measure that has complemented the traditional form of extension, the practice of which has lost much of its importance. An extension pursuant to the Posted Workers Act is not dependent on a decision in the Collective Agreement Committee (*Tarifausschuß*). The Ministry of Labour can overrule its assessment of what is in the public interest, and introduce an extension through a legal injunction. The Act identifies the types of general labour conditions that can be made applicable to posted workers (working hours, holidays, working environment, leasing of labour, maternity leave, equal treatment etc.) according to the Posting of Workers Directive or through regulations and legal injunctions. Prior to a request for an extension through the AEntG, the parties commonly conclude a special collective agreement that reflects the provisions of the directive, while additional conditions are included in other agreements (that are not covered by the request for extension). In practice, minimum provisions related to wage levels and holidays constitute the main elements of extension through the AEntG. Since its introduction in 1996, the Act has been amended on several occasions to include further industries, but until today, the Act has encompassed only a few selected sectors. From 1 January the scope of the Act is expanded to apply to all industries, and this will entail a significant increase in the area in which extensions are applicable.
- In addition, the Act includes a number of articles that entail amendments to other legislation, but these are mostly of a legal-technical nature.

### **The Minimum Wage Act - MiLoG**

The main content of this Act is:

- All employees older than 18 years are entitled to the minimum wage. People younger than 18 years are totally exempted, in contrast to many other European countries where a separate and lower rate is applied to youths.<sup>23</sup> There is also an exemption for long-term unemployed in the first six months of re-employment.<sup>24</sup>

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<sup>21</sup> Arbeitnehmer-Entsendegesetz (AEntG), Article 6 of the Tarifautonomiestärkungsgesetz.

<sup>22</sup> Our translation.

<sup>23</sup> Amlinger, M., Bispinck, R. & Schulten, T. (2014), *Jugend ohne Mindestlohn?* WSI Report No. 14 ([http://www.boeckler.de/pdf/p\\_wsi\\_report\\_14\\_2014.pdf](http://www.boeckler.de/pdf/p_wsi_report_14_2014.pdf)).

<sup>24</sup> Amlinger, M., Bispinck, R. & Schulten, T. (2014), *Kein Mindestlohn für Langzeitarbeitslose?* WSI Report No. 15 ([http://www.boeckler.de/pdf/p\\_wsi\\_report\\_15\\_2014.pdf](http://www.boeckler.de/pdf/p_wsi_report_15_2014.pdf)).



- From 1 January 2015, the minimum wage rate will amount to EUR 8.50 per hour. The minimum wage rate is regulated according to proposals from a Minimum Wage Commission (Mindestlohnkommission) and determined by the government through a legal injunction. The first decision on adjustment of the minimum wage rate will be taken no later than 10 June 2016 and take effect from 1 January 2017. Thereafter, the Minimum Wage Commission will undertake adjustments of the rates every two years.
- Minimum wage regulation through extended collective agreements takes precedence over the Minimum Wage Act if the former determines higher hourly rates.
- Labour contracts that underbid the minimum rate of EUR 8.50 are invalid.
- Certain exemptions will apply during a transitional two-year period. These include an opportunity for the partners to sign agreements on extension of industry-level minimum wage rates (through the Posting of Workers Act, AEntG) with minimum rates lower than EUR 8.50 per hour. This amounts to a gradual introduction of the national minimum wage level while also introducing extended collective agreements, and this may have a beneficial effect in the longer term. To date, this opportunity has been used e.g. in agriculture, for hairdressers and in the meat-processing industry.
- The Minimum Wage Commission is appointed for a period of five years. It includes a chair, six members from the social partners and two expert advisers. Only the representatives of the social partners can vote. The main labour confederations and employers' federations propose three members each, whereof at least one must be a woman. The chair is appointed by the government after a joint proposal by the parties.
- Decisions in the Minimum Wage Commission are made by simple majority. As a rule, the chair of the commission does not vote. If a proposal fails to win a majority, the chair will submit a compromise proposal. If this proposal also fails to win a majority vote, the chair shall exercise his right to vote.
- The commission must present a joint assessment of what level the minimum wage should be at in order to provide a reasonable minimum protection of workers as well as fair and well-functioning conditions of competition, but without causing damage to employment. When determining the minimum wage rate, the commission must keep itself updated with regard to current collective bargaining development. The meetings of the Minimum Wage Commission are not open to the public, and the content of the deliberations is confidential.
- An office/secretariat will be established to support the commission in its activities, with advisory as well as administrative services. This unit is also responsible for providing information to workers on the minimum wage.
- The German Customs and Excise Authority (Abteilung Finanzkontrolle Schwarzarbeit) is charged with ensuring that the employers comply with the Minimum Wage Act. According to the DGB, the government has promised to

upgrade this unit considerably with up 1600 new positions.<sup>25</sup> Moreover, an “Infohotline” will be established for workers to call if they are not paid the minimum wage. Non-compliance is punishable by fines.

Despite the debate over certain elements in this new legislation, the introduction of a national minimum wage is considered a major success in the German trade union movement, not least because it is joined by a reinforcement of the opportunity to extend collective agreements. Until 2017, the minimum wage is likely to remain a hot topic in the German debate on labour issues. The social partners will monitor the development keenly, with regard to the functionality as well as the effects of the scheme. Furthermore, there will be a strong pressure to raise the minimum rate from EUR 8.50; the DGB launched this demand as early as 2010. The exemptions from the Act, especially the exclusion of people under 18 years of age and the exclusion of long-term unemployed, may also become subject to rematches.

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<sup>25</sup> <http://www.dgb.de/themen/++co++dab9686c-5835-11e4-bcfb-52540023ef1a?k:list=Arbeit&k:list=Mindestlohn>. See also Schulten, T., Böhlke, N., Burgess, P., Vincent, C. & Wagner, I. (2014), *Umsetzung und Kontrolle von Mindestlöhnen Europäische Erfahrungen und was Deutschland von ihnen lernen kann*. GIB Arbeitspapiere No. 49. Bottrop: Gesellschaft für innovative Beschäftigungsförderung.

### 3 European and Nordic minimum wage policies

The debate on European minimum wage policies formed the backdrop for the Fafo report from 2012. The background to the desire for a European minimum wage has been a strong concern for development of the European labour markets, which in many countries have been characterised by a strongly increasing number of low-paid workers and declining collective agreement coverage. In addition, the after-effects of the financial crisis have been considerable, producing powerful economic downturns in many member states. Moreover, the EU enlargements in 2004 and 2007 caused comprehensive mobility of labour from the East to the West, and this has been a further prominent factor. At an early stage, it became clear that this would give rise to a considerable risk of social dumping and low-wage competition, and the importance of robust national minimum wage regimes hence would increase.<sup>26</sup> We have not undertaken any new systematic analysis of the development, but we wish to point out some items that ought to be taken into consideration with regard to developments in Nordic and European minimum wage policies:

- *The EU's competencies are unchanged.* In recent years, the question of a European minimum wage has emerged in various European contexts, in the European Parliament as well as in the European Trade Union Confederation. In 2012 we ascertained that the EU has no authority to adopt directives or take other measures with regard to wage issues, and no formal amendments have been made in this area. This notwithstanding, the fact that the EU Commission has issued recommendations for reducing the minimum wage rates in crisis-stricken EU countries can be interpreted as a kind of “maximum-wage policy”. Whether this also may pave the way for a minimum wage policy remains to be seen.
- *New EU president – new signals?* On the occasion of his appointment as President of the EU in July 2014, Jean-Claude Juncker stated that all EU countries ought to introduce a minimum wage or minimum income.<sup>27</sup> Juncker has made similar statements also on earlier occasions, so these ideas are not new on his part. The question is whether this should be interpreted as signalling that the EU now wants to gain more influence over the minimum wage policies of the member states. It is still

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<sup>26</sup> Dølvik, J.E. & Eldring, L. (2008), *Mobility of labour from the new EU states to the Nordic region. Development, trends and consequences*. TemaNord 2008:537. Copenhagen: Nordic Council of Ministers.

<sup>27</sup> <http://www.euractiv.com/sections/social-europe-jobs/juncker-calls-minimum-wage-all-eu-countries-303484>

too early to tell, but if nothing else, Juncker's speech indicates that the topic of a "European minimum wage" may remain high on the agenda.<sup>28</sup>

- *Pressure from below?* Given that most European countries already have introduced statutory minimum wage schemes, one may wonder why this issue has become so salient. This is particularly so because the majority of those countries that do not have such schemes do not wish to see one introduced at the European level. One explanation of the wish for European regulations could be that the trade unions in countries with low minimum wage levels would like to raise these levels above what can be achieved by way of national bargaining and consultations. There is also reason to believe that the national debate in Germany has helped spur the interest in raising the debate of a statutory minimum wage to the European level. It could also mean that if the new German scheme proves successful, the pressure on a European scheme is likely to abate. A third factor is that some countries are quite happy with their minimum wage schemes, and would be glad to see their national policies vindicated at the European level. One example is France, where the Ministry of Finance recently published an article providing ideas for what the European minimum wage standards should be.<sup>29</sup>
- *Persistent strong Nordic opposition to statutory minimum wages.* In the Nordic trade unions, and to a great extent also among the employers, proposals for a statutory minimum wage have met with scepticism. Unless minimum wages are imposed as a requirement from the outside, as would be the situation in case of a European minimum wage scheme, their introduction will most likely come as an effect of a failure to function on the part of the national system. If the unionisation rates and collective agreement coverage are declining, this may give rise to a need for statutory regulation of wages, as seen in Germany. No major changes have occurred in the Nordic countries over the last years in terms of the strength of the organisations, and it is our impression that the Nordic trade unions remain unanimously opposed to statutory minimum wage regulations. At the basis of this opposition lies the concern that such a scheme may undermine the autonomy and bargaining freedom of the social partners, cause the erosion of collective agreements, exert a negative pressure on wage levels and weaken the incentives for unionisation among workers and employers alike. Even though some workers may stand to gain from a common minimum wage floor, there are concerns that a great many others will fall towards the minimum level.
- *Minimum wage regulation through extension of collective agreements.* The Nordic countries have different traditions and practices with regard to extension of collective agreements. In Finland and Iceland most agreements are extended, while this

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<sup>28</sup> Schulten, T. & Müller, T. (2014), *Back on the agenda: a European minimum wage standard*. ETUI Policy Brief 8/2014. Brussels: ETUI.

<sup>29</sup> Brischoux, M. et al. (2014), *Mapping out the options for a European minimum wage standard*. Trésor-Economics No. 133. Paris: Ministère des Finances et des Comptes Publics, Ministère de l'Économie du Redressement Productif et du Numérique.

remains a fairly new instrument for ensuring a minimum wage floor in certain industries in Norway. To date, Denmark and Sweden have no mechanisms for the extension of collective agreements. All the Nordic countries face problems raised by labour migration from the East and increasing low-wage competition, and it may appear as though the topic of extension is now brought more frequently to the fore in the Danish and Swedish debate. Even though we have no clear indications that these countries plan to introduce schemes for the extension of collective agreements, it seems far more likely than that they will introduce statutory minimum wages. In Norway there is still widespread disagreement regarding the functionality of the current extension scheme, and some of the employers' associations have on repeated occasions voiced their view that a statutory minimum wage would represent a better solution. This contrasts with Germany, for example, where the statutory minimum wage is not introduced as an alternative to the extension of collective agreements. On the contrary, the act foresees a reinforcement of the opportunity to extend collective agreements to ensure that these constitute the main basis for wage formation.

# European Minimum Wage: A Nordic Outlook – an update

The topic of statutory minimum wage regulation has gained new relevance in Europe. Most European countries already have schemes for statutory minimum wage, while this has been an alien concept in the Nordic text. In this paper we give an update of the key information in the report «European Minimum Wage: A Nordic Outlook» (2012), and we also take a closer look at the introduction of statutory minimum wage in Germany. The paper is written on assignment from the Council of Nordic Trade Unions.



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