

## Minimum Wages in Europe: a Strategy against Wage-Dumping Policies?

by Lars Vande Keybus

In numerous countries such as Ireland, Greece, Portugal, Hungary, and others, the European Commission (EC) - in cooperation with the International Monetary Fund (IMF) and European Central Bank (ECB) - has imposed a dramatic policy mix that consists of blind austerity, privatisation and wage cuts. Following the adoption of the notorious 'six-pack' in December 2011, it is clear that such policies will become a general rule all over Europe. The 'six-pack' sets up a structure in which the EC is granted a role as budgetary supervisor and punisher. The commission has the opportunity to almost automatically punish European Union (EU) members who do not follow recommendations to correct 'excessive budgetary deficits'. The recommendations can range from adjustments in public sector pay, pension systems, indexation systems, unemployment benefits or privatisation schemes. Furthermore the 'six-pack' creates a new system of 'macro-economic surveillance'. On the basis of a scoreboard consisting of a set of ten indicators covering the major sources of macro-economic imbalances, the EC can decide whether a member state suffers from an excessive imbalance. The commission can then provide recommendations and, if these are not thoroughly followed, it can prescribe sanctions. This strategy will ultimately lead to wage devaluation. In the absence of the possibility to devalue currencies, the EC is pushing for a strategy to devalue wages. This strategy is wrong and foolish for several economic and social reasons. But I would like to focus on the strategies to counter this policy.

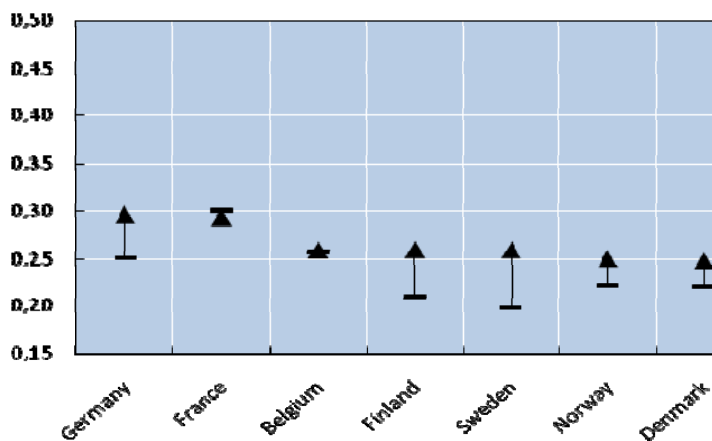
In the coming years it is clear that wage-setting will be executed at a European level. Therefore the European trade union movement needs to develop a Europe-wide offensive to protect wages. Along with coordinating collective bargaining, minimum wages play an essential part in countering the Europe-wide attack on wages. I

would like to elaborate on the possibility of a Europe-wide minimum wage.

In Europe there are several systems of minimum wages. Some countries have a statutory national minimum wage as a universal wage floor - set by the government, or set by an agreement between employers' organisations and trade unions - while others only have sectoral or occupational minimum wages with no universal wage floor. In Belgium employers' organisations and trade unions have agreed on a statutory national minimum wage, but on a sectoral or occupational level higher minimum wages can be agreed.

I strongly believe that minimum wages, covering all workers - including those who are not covered by collective bargaining - are an essential part of cross-sectoral solidarity. In Belgium this has proven to be one of the main methods of preventing inequality from rising in the past 25 years. A recent Organisation for Economic Co-operation and Development (OECD) publication "Divided We Stand: Why inequality keeps rising" (December 2011) demonstrates that in the period 1985-2008 income inequality increased in both high- and low-inequality countries, despite the employment growth in these countries. Belgium was one of the best performing countries. However, in countries that usually obtain high scores in such international comparisons (such as Sweden, Norway, Denmark or Finland) inequality has increased dramatically (see graph below). Inequality was one of the main drivers behind the current economic crisis, without any doubt it should be the focal point of European politics in the years to come.

## Gini coefficients of income inequality, 1985 – 2008



Source: OECD, 2011

Therefore I must plead for a universal system of European minimum wage floors. This system would respect the national traditions of social dialogue, using law and/or collective agreements, but would cover, whatever the tool, all workers. It would define a minimum wage in relative, not in absolute terms, e.g. a percentage of the median or average wage level. In 2009, 8.4% of the people at work in the EU were below the 'at-risk-of-poverty' threshold. 14% of the working people in the EU earned less than 60% of the mean wage. Almost one fifth of those who earn less than 60% of the mean wage were at risk of poverty. When setting the standards it is imperative to find a principle that defines the minimum wage in such a way that it provides a decent wage for everyone and diminishes the percentage of the working poor. In Europe the minimum wage ranges from 30% to 50% of the average monthly earnings (Eurostat), in most cases below the poverty line. This percentage even declined in a number of countries during recent years. Therefore we believe that as a principle (determined by law or national collective agreement) minimum wages should be at least 60% of the relevant national (or sectoral) average wage.

Countries with a high union density and collective bargaining coverage (e.g. Scandinavian countries) are reluctant to support the concept of a universal European wage floor. They believe it forms a threat to their collective bargaining power and their impact as a trade union. This fear is reasonable, but exaggerated. Countries such as Belgium, France, Spain and the Netherlands prove that a national minimum wage (determined by law or a national collective agreement) can be complementary to high collective bargaining coverage. A national minimum wage leads to an increased social legitimacy of trade unions. It is the ultimate proof that they do not only protect those who are covered by collective bargaining, but also those who – unfortunately – do not fall under collective agreements. As trade unions it is our moral duty to protect everyone in society, everyone who cannot or is not permitted to organise themselves.

In times where trade unions plead for more solidarity within the EU, a system of European minimum wages is the way to create solidarity among workers. Minimum wages are not an objective in themselves. They are only an instrument to fight rising inequalities and increased precarious work. The European trade union movement should find a rapid agreement on the principles and standards for a system of European minimum wages. These principles must define, in our view, the standards for national minimum wages, determined either by law or a national collective agreement.

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