Minimum wages under the conditions of the global economic crisis

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1. Causes of the global economic crisis and the meaning of (minimum) wages

In the wake of the current global economic crisis the focus of the debate is on the functioning of financial markets and the necessity of their re-regulation. Obviously, there is a strong need for new rules and public controls to make sure that banks and other financial institutions can fulfil their proper role to support sustainable economic development. However, the focus on the financial system is misleading since it does not tackle other structural causes of the current crisis. The crisis was triggered by the US financial sector, but in order to understand its roots one has to look to the developments in the 'real' economy.

There is a growing awareness that an important structural cause of the current global economic crisis is the rapid increase of income inequality, which led to a chronic deficiency of aggregate demand and lower economic growth rates. [1] During the last two or three decades most industrialised countries, but also many emerging economies, were faced by an increasing inequality, which was mainly driven by a redistribution of market income. While in former times many countries dampened income inequality through social and tax policy, since the mid-1990s they have amplified it by cuts in social welfare expenditures and tax reductions for high income groups (OECD 2008).

As part of this development there was a fundamental shift in wage policies which had basically two dimensions (Schulten 2004, ILO 2008): *First*, most countries saw a clear trend towards declining wage shares in national income, which means that wage increases lagged constantly behind productivity increases. As a result there was a significant redistribution

[1] The growing literature on the link between increasing income inequality and the current global economic crisis includes Fitoussi and Saraceno (2010), Fitoussi and Stiglitz (2009); Horn et.al. (2009), ILO and International Institute for Labour Studies (2009a), Onaran (2009), Stockhammer (2009), Watt (2009).

from labour to capital income. *Secondly*, there was a trend towards much higher wage dispersion which widened from both ends of the wage scale. At the top a relatively small group of wage earners (including managers) saw an enormous increase of their salaries which were totally decoupled from average wage developments. At the bottom there was rapid growth in the group of workers with very low wages, leading to the phenomena of ‘working poor’, with wage levels being below national poverty lines or subsistence levels.

Contrary to orthodox economic thinking there has been no trade off between equality and economic growth. What is true is almost the opposite. There is a twofold link between raising income inequality and the global economic crisis. On the one hand growing profits and high salaries have contributed to high levels of liquidity on financial markets and to the emergence of speculative bubbles. On the other hand stagnating real wage levels and a growing low wage sector dampened the development of aggregate demand.

Against the background of an increasing lack of wage-driven demand, two alternative economic development strategies emerged. The first was a *credit-based growth model* typified by the United States but also found in some European countries such as United Kingdom or Spain. In these countries growth was driven by private consumption but it was mainly based on household borrowing rather than wage income. Moreover, it produced unsustainable consumption patterns by over-indebted households, as, for example, through the sub-prime lending of the kind that has fed the housing bubble in the U.S. A second strategy was followed by countries such as Germany, Japan and China, but also by many smaller Asian and European countries, which developed an *export-led growth model* that sought to offset a lack of domestic demand by export surpluses. For the larger countries, at least, the export-led strategy diminished significantly their growth potential.

Both the credit-based and the export-led growth model were interdependent and have created huge global imbalances (Blanchard and Milesi-Ferretti 2009, Horn, Joebges and Zwiener 2009). The global crisis has now shown that neither growth model is sustainable and that there is a strong need for rebalancing global demand. As pointed out in the recent World Economic Outlook of the International Monetary Fund, “specifically, many economies that have followed export-led growth strategies and have run current account surpluses will need to rely more on domestic demand — notably emerging economies in Asia and elsewhere and Germany and Japan.” (IMF 2009: 32). At the same time countries like the U.S. can not continue with their high degree of debt-financed consumption but have to shift their growth-strategy towards a consumption model which is based more on real assets. A rebalancing of global demand would have significant implications for wage policy. It would requires a return to a more wage-led growth strategy with real wage growth rates in line with productivity developments and a much more equal distribution of income (ILO and International Institute for Labour Studies 2009a).

However, whether a new wage-led growth model is emerging is far from clear. On the contrary, there is some strong evidence that the current economic crisis might even enlarge income inequality (Onaran 2009). The very modest wage developments and the increasing wage dispersion during the last decades was mainly the result of a major shift in the power relations between capital and labour which led to a significant weakening of trade unions' bargaining power. The latter was enforced by neo-liberal policies which in many countries weakened labour market institutions and promoted the increase of precarious employment. In times of economic crises the employee's bargaining position became further undermined by growing unemployment. While companies and public authorities try to get out of the crisis through a further reduction of labour costs and call for a freeze or even cut in wages, employees are often ready to make wage concessions in order to save their jobs. However, what might be rational from an individual employer's and employee's point of view could have disastrous effects for the whole economy as it would further weaken private demand and promote deflation (Krugman 2009a; ILO and International Institute for Labour Studies 2009a).

Against that background the International Labour Organisation has adopted a "Global Jobs Pact" which calls for a "decent work response to the crisis" (ILO 2009). The latter should make sure that the current economic crisis does not lead to a further deterioration of wages and working conditions. Instead, the ILO calls for a labour policy which is suitable to overcome the more structural causes of the crises. Among a broad set of policy measures recommended by the ILO Global Jobs Pact minimum wages play a relatively prominent role. The ILO explicitly demands that "Governments should consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability." Furthermore, it emphasises the role of minimum wages "in order to avoid deflationary wage spirals" (ibid.). In a further study the ILO suggests that states should guarantee "the purchasing power of minimum wages, so that they act as an anchor to all wages" (ILO and International Institute for Labour Studies 2009a: XIII).

In many countries statutory minimum wages are a core institution of national wage setting. They do not only provide a general wage floor, but also affect wages well up the income ladder and have an important impact on the overall wage dispersion. Therefore, minimum wages are not only an instrument to protect workers at the bottom of the wage scale but often become "a middle-class issue" (Levin-Waldman and Whalen 2007). This is even more true for those countries which have relatively weak collective bargaining systems and a low bargaining coverage as well as for countries with a large informal sector, where national minimum wages are often a central point of reference (Lemos 2004, Khamis 2009). Besides wage bargaining between employers and employees it is the state which via the setting of statutory minimum wages has a core influence on the overall wage growth.

This paper will begin with a comparative overview on most recent developments of minimum wage policies. Based on an analysis of the scope and levels of minimum wages, it will discuss the different perceptions of the various social actors (governments, employers, trade unions, etc.) on how to deal with minimum wages under the conditions of the current global economic crisis. Finally, it will also ask to what extent current minimum wage policies fit with the requirements made in the ILO Global Jobs Pact.

2. Scope, levels and developments of minimum wages

Minimum wages are an important policy instrument to protect workers and to regulate the labour market in almost every country. The ILO database on minimum wages contains more than 100 countries which cover around 90% of the world population (Eyraud and Saget 2005; ILO 2008).[2] There are two main ILO Conventions on minimum wages (No. 26 from 1928 and No. 131 from 1979) of which more than 130 states had ratified at least one of them.

Around the world minimum wages show huge differences regarding their absolute levels, their underlying purchasing power and their relative levels compared to average or median wages as well as regarding their scope, development and adjustment. The following analysis will be based on 23 countries for which most recent data are available from the WSI Database on Minimum Wages (*see: Figure 1*).[3] It focuses mainly on OECD countries from Asia, Europe and North America with occasional references to other countries. All countries covered here have a nation-wide single minimum wage rate with the exception of Canada and Japan, where minimum wages are set on a regional level, so that a weighted national average has to be used.

Absolute levels of minimum wages in US$ on 1 January 2010

Regarding the absolute levels of minimum wages among the countries covered in *Figure 1* it is possible to identify three groups: The *first group* with rather high minimum wages of more than 10 US$ per hour covers Australia and some western European countries. The highest minimum wage level of nearly 13.60 US$ per hour can be found in Luxembourg, followed by France, Ireland and the Netherlands with minimum wages of more than 12 US$ and Belgium and Australia with more than 11US$. A *second group* has minimum wages of between 5 US$ and 10 US$ per hour and compromises countries such as Canada, USA, New Zealand and

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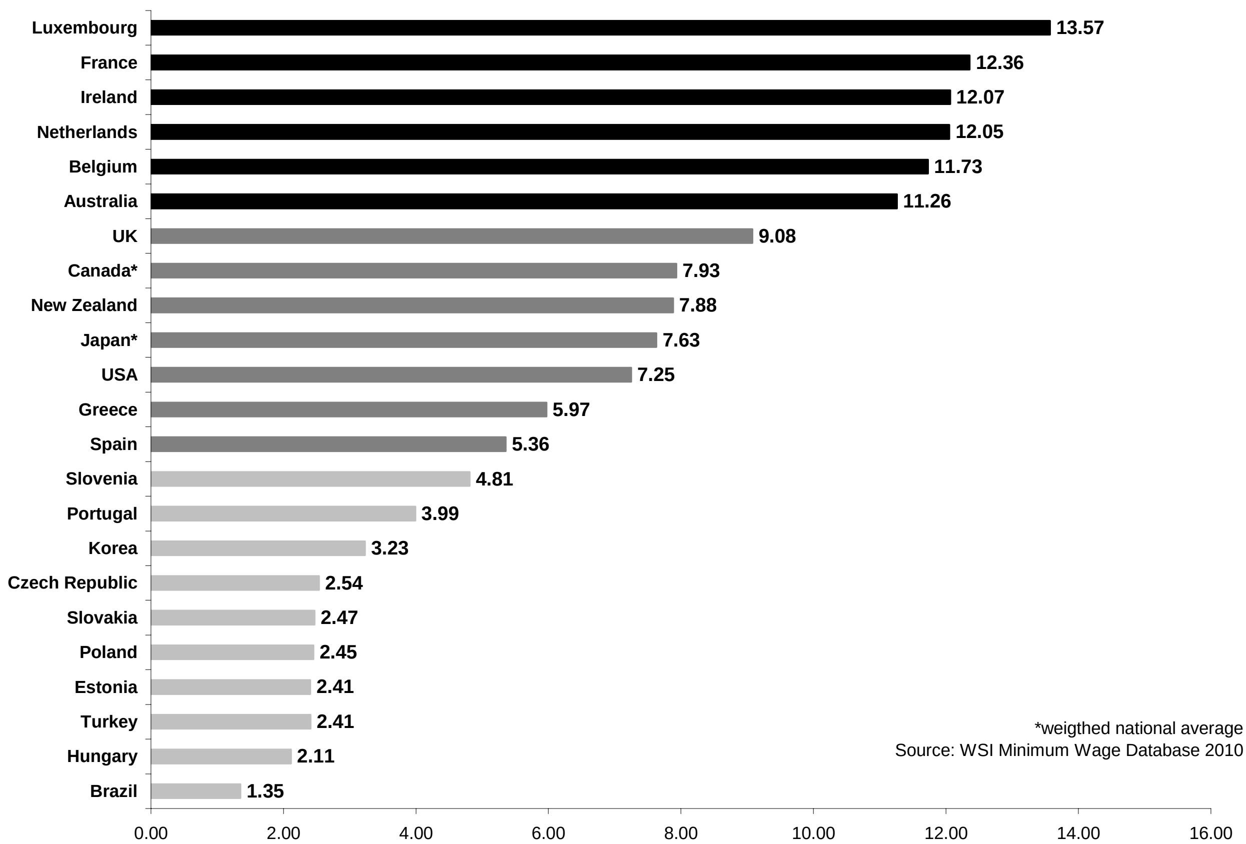
[2] For the ILO database on minimum wages see: http://www.ilo.org/dyn/travail/travmain.home
[3] The WSI Database on Minimum Wages covers minimum wage rates on a hourly and monthly basis. It latest version updated in January 2010 can be downloaded under: http://www.boeckler.de/pdf/ta_mindestlohndatenbank.pdf.

Japan as well as some European countries such as the UK, Greece and Spain. Finally, a *third group* with minimum wages below 5 US$ covers mainly countries from southern and eastern Europe and Korea. The lowest value with an hourly minimum wage of 1.35 US$ exists in Brazil, which has been taken as one example for a developing country. Indeed, most developing countries have minimum wages far below that level (ILO 2008).

Figure 1: Hourly minimum wages in US Dollar, 1 January 2010

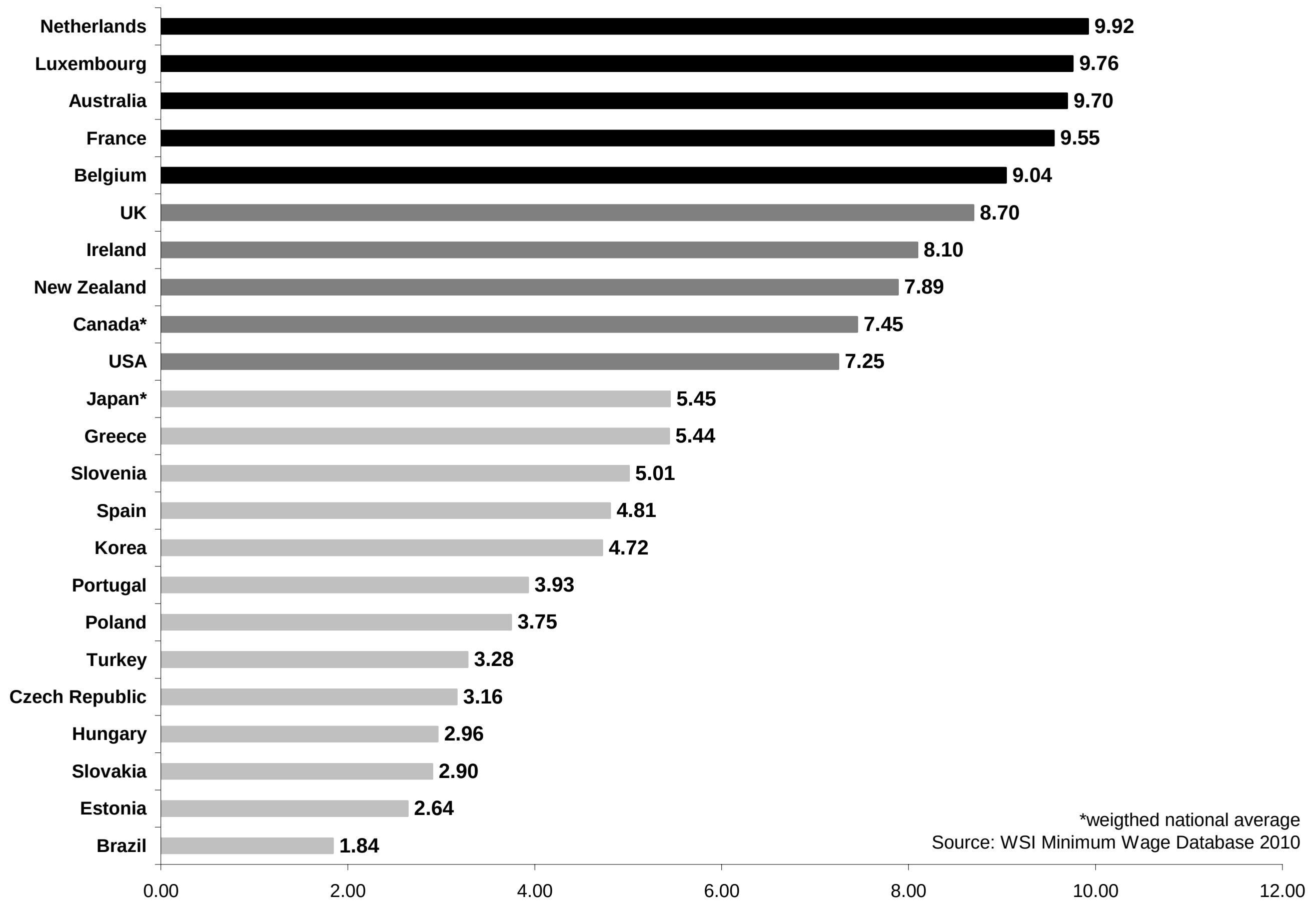


The huge difference in the absolute levels of minimum wages reflects to a large extend the different levels of overall socio-economic development. However, a comparison of minimum wages in a single currency is in some respects inaccurate: *First*, it is influenced by varying exchange rates: In recent years there was, for example, a strong appreciation of the Euro which somewhat overestimates the value of minimum wages of some European countries, when it is calculated in US$. *Secondly*, the absolute level of minimum wages says nothing about its real value for the workers, which depends on the costs of living in the respective countries. *Thirdly*, the absolute level of minimum wages gives no information on the relative status of a minimum wage earner in the overall wage hierarchy.

Minimum wages in Purchasing Power Standards (US$PPS) on 1 January 2010

In order to identify the real value of minimum wages an international comparison has to be recalculated on the basis of purchasing power standards which reflect the different price levels in the various countries. *Figure 2* provides data for the same group of countries based on US$ Purchasing Power Standards (US$PPS): At first glance it became clear that the differences between countries are much less pronounced. Measured in US$PPS the ratio between the lowest and the highest minimum wage falls from 1:10 to around 1:5.

Figure 2: Hourly minimum wages in Purchaising Power Standards (US$PPS), 1 January 2010



Moreover, there are some significant changes in the ranking of countries. Measured in US$PPS it is now the Netherlands which have the highest real minimum wage level, followed by Luxembourg, where the minimum wage level in US$PPS is nearly 30% below the level in US$. Considering the high living costs in Ireland the ranking of the Irish minimum wage falls from the third place (in US$) to the sixth place (in US$PPS) with a decrease of nearly 33%. A high price level also significantly diminishes the real value of the Japanese minimum wage which measured in US$PPS also shrinks by nearly 30% and is now far below the U.S. level.

In contrast to that, the real minimum wage level increases by more than 50% in Poland, about 46% in Korea and about 36% in Turkey and Brazil due to the relatively low living costs in those countries.

Relative minimum wage levels

Apart from the different purchasing power of minimum wages, there are also significant differences in the value of the national minimum wage in relation to the national wage structure. The latter could be determined through the so-called Kaitz Index, that is, the relative minimum wage level measured as the proportion of either the national *median* wage or the national *averag*e (or mean) wage (Kaitz 1970).

Table 1: Minimum wages in % of median and average wages (Kaitz Index), 2008

	Median	**Average**
France	62.7	50.0
New Zealand	59.1	50.5
Greece	53.1	41.3
Ireland	52.8	44.5
Australia	52.2	45.0
Belgium	50.6	43.7
Slovenia	50.0	not available
Portugal	47.1	33.2
Hungary	46.6	34.6
UK	46.1	38.0
Poland	45.5	36.7
Spain	44.7	35.3
Slovakia	43.0	32.8
Netherlands	42.9	37.6
Canada	41.8	36.8
Luxembourg	40.5	33.2
Korea	39.2	32.0
Turkey*	36.1	not available
Czech Republic	35.3	30.0
Japan	34.6	30.4
USA	34.1	25.4

* 2006

Source: OECD

Considering *median* wages the differences in the relative minimum wage levels contains nearly 30 percentage points (*see: Table 1*). The highest level with around 63% could be found in France, followed by a small group of countries with a relative minimum wage level of more than 50% including Australia and New Zealand as well as Belgium, Ireland, Greece and Slovenia. In most countries the relative minimum wage levels vary between 40% and 50% of the median wages. At the bottom there is group of countries with very low relative minimum wage levels of below 40%. With about 34% the minimum wage in Japan and the U.S. have the lowest relative value.

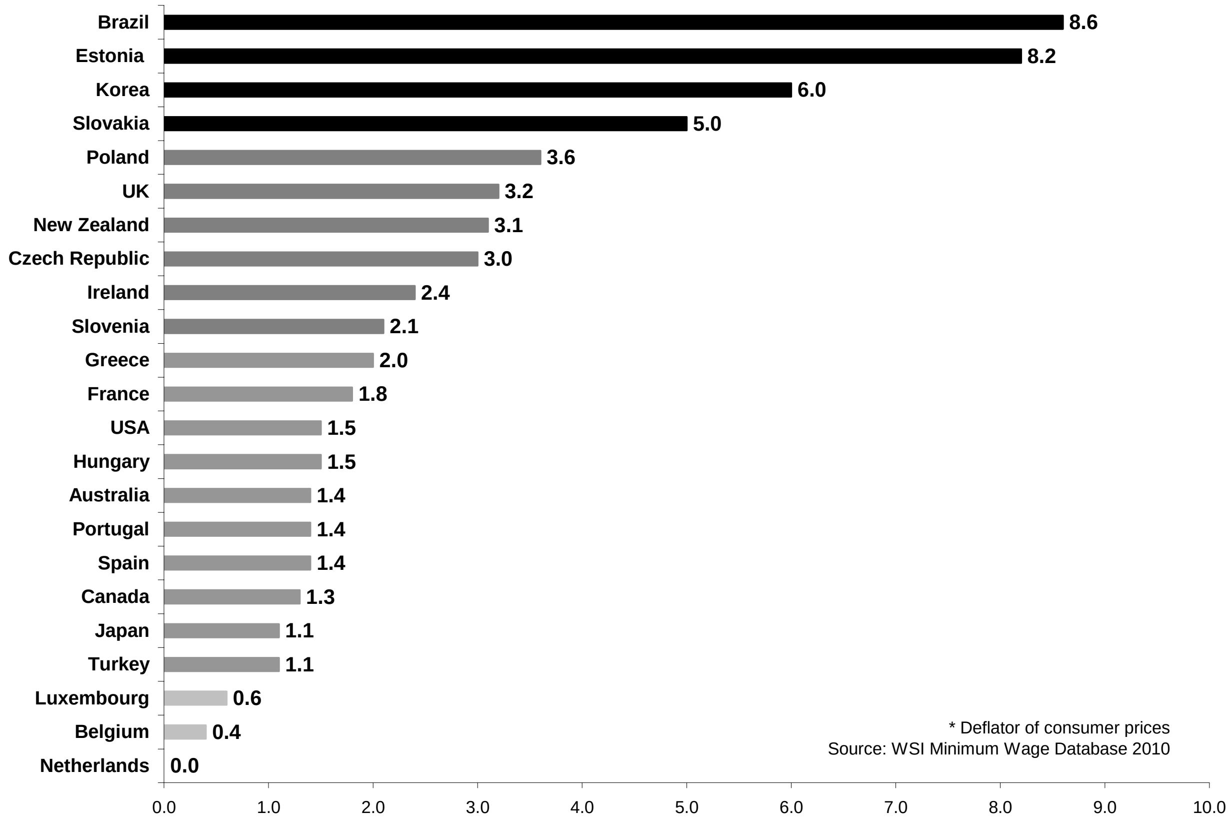
Considering the *average* wages, there are only two countries (France and New Zealand) which have a relative minimum wage level of around 50% followed by a few countries with more than 40%. In the majority of the countries the relative value of the minimum wages varies between 30% and 40% of average wages, while the U.S. is at the bottom of the table with only 25%.

All in all, the relative values of minimum wages show very clearly that in most countries minimum wages are fixed at a rather low level. In all countries it is below the low-pay threshold used by the OECD and other international organisations, that is, two third of the median wage. Using the common thresholds on poverty which are 60% of the median income or 50% of the average income, it has to be stated that in most countries minimum wages determine “poverty wages”. Moreover, in some countries the minimum wages are set below even the official subsistence level.

Developments of minimum wages since 2000

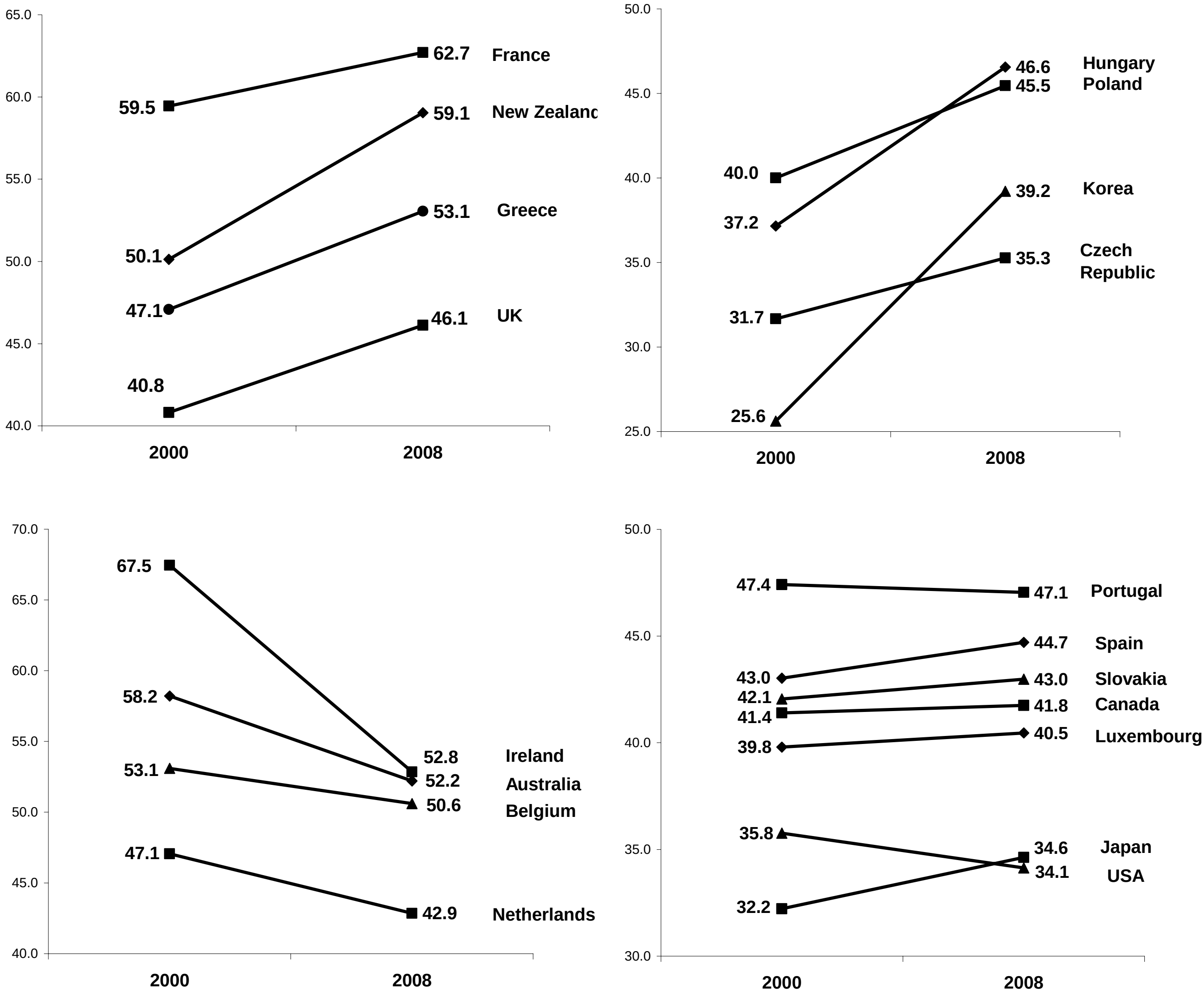
According to the ILO Global Wage Report the last decade from 2000 on marked a kind of “revival of minimum wages” as the great majority of countries saw a significant increase of minimum wages in real terms (ILO 2008: 35). This could also be confirmed for the countries considered here (*see: Figure 3*). The only exception is the Netherlands where the real value of the minimum wage stagnated. In the period between 2001 and 2009 the most dynamic development of minimum wages was in Brazil, where the real minimum wage levels increased on average by 8.6% per year, followed by Estonia with 8.2%, Korea with 6% and Slovakia with 5%. Relatively high increases of real minimum wage levels with average annual growth rates of more than 3% could also be observed in Poland, the UK, New Zealand and the Czech Republic. Besides that, most countries showed an average annual growth rate of between 1% and 2% while in Luxembourg and Belgium it was below 1%.

*Figure 3: Real value of minimum wages 2001-2009, average increase per year in %**



Comparing the increase of minimum wages with the overall wage developments the picture is rather mixed (*see: Figure 4*). Among the countries considered here, between 2000 and 2008 there are 8 countries where minimum wages grew much faster than median wages. The highest increase of the Kaitz-Index with more than 13 percentage points was in Korea, followed by New Zealand and Hungary with around 9 percentage points. With Australia, Belgium, the Netherlands and Ireland, there are 4 countries where minimum wage growth lacked significantly behind average wage increases, so that the Kaitz-Index showed a continuous decrease. The sharpest decline was in Ireland where the Kaitz-Index felt by more than 16 percentage points. In all other countries the Kaitz-Index was almost stable with small upward and downwards variations.

Figure 4: Minimum wages in % of median wages (Kaitz-Index), 2000 and 2008



Source: OECD

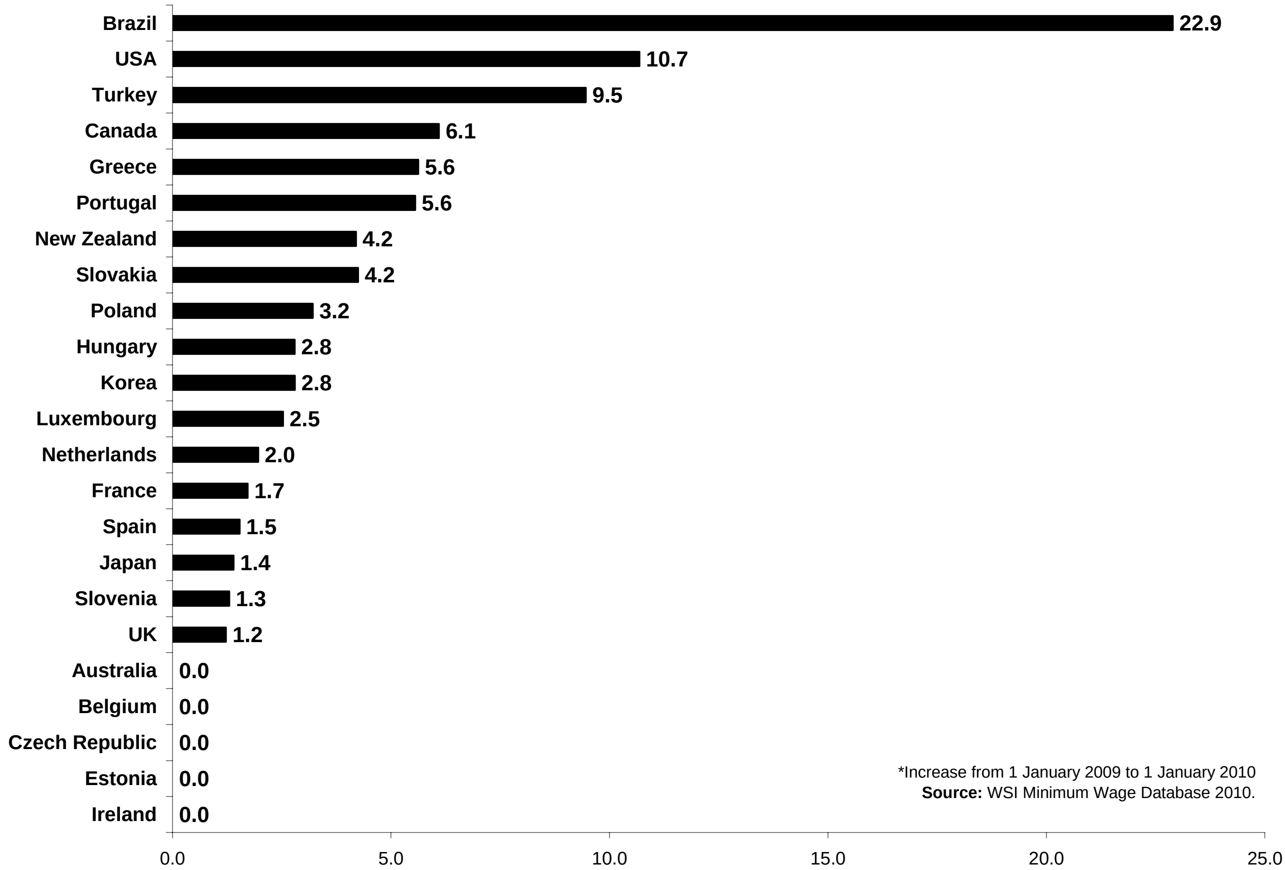
3. Minimum wage policies under the conditions of the global economic crisis

Overview on minimum wage developments in the year 2009

Although in 2009 the development of minimum wages was almost everywhere overshadowed by the global economic crisis, the countries considered here have followed rather different minimum wage policies *(see: Figure 5*). While there was no country which cut its minimum wages in nominal terms, there were five countries (Australia, Belgium, Czech

Republic, Estonia and Ireland) which have frozen their minimum wage levels.[4] Six countries introduced a rather moderate increase of up to 2%; further six countries increased their minimum wage levels between 2% and 5%. Finally, a group of further six countries had relatively high growth rates of nominal minimum wages between 5.6% in Greece and Portugal and 10.7% in the U.S. The outlier on the top was Brazil which provided an extraordinarily high minimum wage increase of nearly 23%.

*Firgure 5: Increase of nominal minimum wages in 2009, in %**

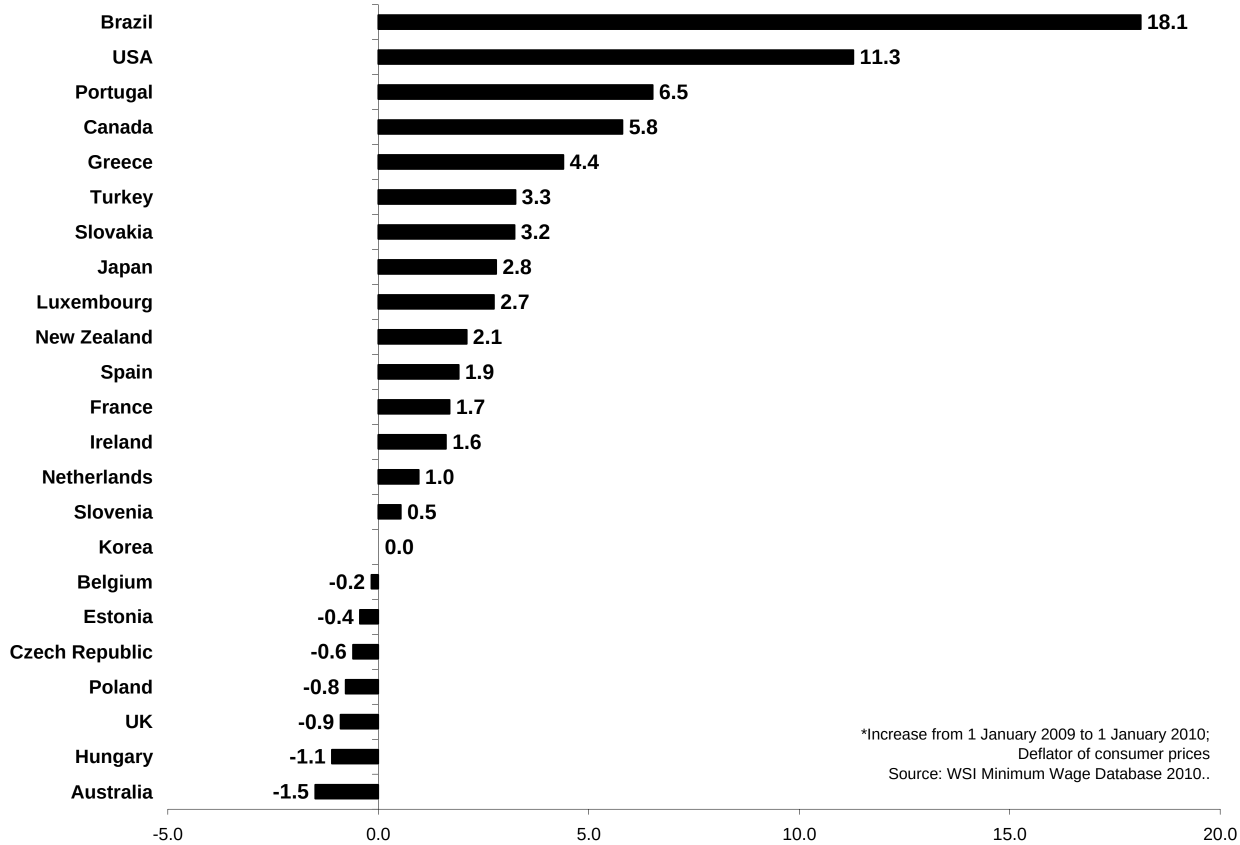


Despite the global economic crisis a large majority of countries considered here saw an increase of minimum wages in real terms (*see: Figure 6*). The latter was often supported by rather low or even negative increases of consumer prices. In most countries the growth of real minimum wage levels was rather moderate varying between 0.5% in Slovenia and 3.3% in Turkey. There were also a few countries with much higher growth rates including Greece (4.4%), Canada (5.8%) and Portugal (6.5%). The highest growth rates of minimum wages in real terms were achieved in the U.S. with 11.3% and in Brazil with even 18.1%. In contrast to that, there were 7 out of 23 countries where minimum wage earners were confronted with a

[4] In addition to that, a freeze of the nominal minimum wage levels was also introduced in a couple of further eastern European countries such as Bulgaria, Latvia, Lithuania and Romania (Schulten 2010).

declining real value of minimum wages which varied between minus 0.2% in Belgium and minus 1.5% in Australia.

*Firgure 6: Increase of real minimum wages in 2009, in %**



Europe

Within Europe minimum wages are a well established instrument to regulate the labour market (Schulten et.al. 2006; Vaughan-Whitehead 2008). 20 out of 27 member states of the European Union (EU) as well as most non-EU members have statutory minimum wages which set an universal nation-wide wage floor. However, there are also around 10 countries in Europe which have no statutory minimum wages, but determine their minimum wages exclusively by collective agreements. In these countries the scope of minimum wage protection depends directly on the collective bargaining coverage. In recent year most European countries have been faced by rather controversial discussions and disputes on how to define an adequate minimum wage policy under the conditions of the global economic crisis.

The Benelux countries and France

The Benelux countries and France (together with Malta) belong to those few countries which have an automatic indexation of minimum wages. This means that the level of minimum wages is automatically adjusted to developments in consumer prices (in Belgium and Luxembourg), the average development of negotiated wages (in the Netherlands) or inflation plus 50% of the average wage increases (in France). On top of that all countries have the possibility to determine additional ‘political’ adjustments of minimum wage levels in order to influence the status of minimum wage earners within the national wage structure. In France, for example, this additional adjustment is known under the name “coup de pouce”.

In 2009, however, all countries have limited the adjustment of minimum wages to the legally required minimum. Because of the very low growth of consumer prices, *Belgium* had its last automatic adjustment of minimum wages in October 2008, so that minimum wage levels were frozen in 2009. *Luxembourg* increased its minimum wage lastly by 2.5% in March 2009 due to the automatic price indexation. In the Netherlands, which traditionally adjusts minimum wages twice a year, the two increases on 1 July 2009 and 1 January 2010 sum up to an overall increase of 1.9% which is in line with the legal minimum requirements.

While the adjustment of minimum wages in the Benelux countries was executed without any broader political debate, in *France* the development of the French minimum wage SMIC („Salaire minimum interprofessionel de croissance“) was an object of political controversy. In 2008 the French government had announced its intention to reform the system of minimum wage fixing. There was a growing criticism coming in particular from employers’ associations, but also, for example, from the OECD (2009), which criticised the level of the SMIC of being too high and of having potentially negative effects on employment. The French government launched two reports which confirmed that view and proposed - among others – to abolish the automatic adjustment of the SMIC to price and wage developments (Cahuc u.a. 2008; COE 2008).

The claim that the French minimum wage level is excessive and entails adverse economic and employment policy effects has always been hotly disputed among French economists (Askenazy 2008). After strong resistance from opposition parties, trade unions and other social organisations the government finally decided to maintain the existing indexation mechanism unchanged and to introduce only some procedural changes. Among them there was the establishment of a commission of experts (Groupe d’Experts sur le SMIC) composed of five economists which should regularly advise the government on minimum wage adjustments. In 2009 the Groupe d’Experts sur le SMIC (2009a, 2009b) produced for the first time two reports in which they argue that the economic crisis allows only for very moderate wage increases, in order to produce no further job losses. Thus, the commission called for a strict limitation of minimum wage adjustments in line with the legal minimum requirements.

The nominal increase of 1.7% in 2009 marked the lowest growth rate of the SMIC in more than ten years. In real terms, however, the minimum wage increase was somewhat higher than in the previous years because of the stagnating price developments. Nevertheless, the political parties in opposition as well as the trade unions have sharply criticised the French government and have called for a much higher minimum wage levels (Le Monde, 15 December 2009). The largest French trade union confederation CGT, for example, is arguing for a structural increase of the minimum wages towards 1,600 Euro (*2,232 US$*) per month (Dumas 2009), which corresponds to an hourly minimum wage of 10.50 Euro (*14.65 US$*) on the basis of the 35-hours week.

UK and Ireland

Ireland and the UK introduced a national minimum wage at the turn of the new millennium. However, the development of minimum wages in these countries was different. The UK started with a relatively low minimum wage rate which in the following years grew often much faster than average wages. In contrast to that, the Irish minimum wage was right from the beginning at a relatively high level, but increases were slower than average wages and since July 2007 it has been frozen at its current level of 8.65 Euro (*12.07 US$*) per hour.

In the *UK* the national minimum wage became regularly adjusted once a year on 1 October. So far, the British government has always followed the recommendations made by the Low Pay Commission, which consists of three members each with an employer, trade union and academic background. The Low Pay Commission regularly organises comprehensive hearings and launching studies on the social and economic impact of minimum wage developments, which results are summarized in an annual report and create the basis for the commission’s recommendations for the annual adjustment of the minimum wage (Low Pay Commission 2009).

Against the background of the economic crisis, in 2009 the Low Pay Commission advocated a very moderate increase of 1.2% to an hourly rate of 5.80 Pound (*9.08 US$*). This was the lowest growth since the introduction of the national minimum wage in 1999 and the first time that the increase was below inflation, so that the minimum wage decreased in real terms. Many employers including the Confederation of British Industry (CBI) had even argue for a freeze of the nominal minimum wage level (ibid.: 227ff.) and are now seeking a freeze for 2010. In contrast to that, the trade unions had asked for a much higher raise of the minimum wage in order to strengthen private demand (ibid.: 230ff.). The Trades Union Congress (TUC) demanded an increase of 6.5% to 6.10 Pounds (*9.55 US$*) per hour in 2009 and a further increase of 6.5% to 6.50 Pound (*10.18 US*$) in 2010. Some TUC affiliates have even called for a much higher augmentation of the minimum wage, in order to bring it to the level of a “living wage”. For example, the Public and Commercial Services Union, had argued for a minimum wage which meets the low wage threshold of two third of the median wage which according to the union currently lies at 8.25 Pound (*12.93 US$*) per hour.

In contrast to the UK, *Ireland* has not increased its minimum wage for the second year running. Since the global economic crisis had hit Ireland more than any other Western European country, there has been an intense debate on whether or not the nominal value of the Irish minimum wage should be cut. Corresponding demands had come not only from employers' associations but were also supported by single members of the Irish government (Irish Times, 11 February 2009). Under the headline „Cutting minimum wage is on the table" the Irish Independent (21 July 2009) reported on a calculation made by some influential Irish economists which pointed out that Irish wages (including the minimum wage) would have to be cut by 10% to 15% in order to compensate the loss of competitiveness of the Irish industry.

The Irish trade unions, which at the end of 2008 were still asking for a substantial increase of the minimum wage (Irish Times, 16 December 2008), focused their arguments over the year 2009 more and more on the prevention of a nominal minimum wage cut. Following the chief economic adviser of the Irish Congress of Trade Unions (ICTU), Paul Sweeney, a cut of the minimum wage would even deepen the economic crisis, since it would further decrease domestic demand and would promote deflation (Sweeney 2009). Indeed, there was no other European country than Ireland which saw such a strong decrease of consumer prices (minus 1.7%) showing clear deflationary tendencies.

Spain and Portugal

In both countries of the Iberian Peninsula the current governments have declared that they are in favour of a significant medium-run increase of the minimum wage level. In *Spain* the government and the trade unions agreed in principle that in the coming years the Spanish minimum wage should be at 60% of the average wage. When the current government started its second term in 2008 it presented a concrete plan according to which the minimum wage should grow from 600 Euro (*837 US$*) per month (3.64 Euro [*5.08 US$*] per hour) to 800 Euro (*1,116 US$*) per month (4.85 Euro [*6.77 US$*] per hour) in 2012. After the government had raised the minimum wage in previous years by 4% to 5.5%, the 1.5% increase on 1 January 2010 was rather moderate. The government justified this low increase with the difficult economic framework conditions and the rapid increase of unemployment. The Spanish trade unions, however, sharply criticised the government's minimum wage policy and stated that the crisis should not be used as an excuse to abandon the goal of a more structural augmentation of the minimum wage. In order to stick to a minimum wage level of 800 Euros per month in 2012, for the current wage round the unions demanded an increase of 8% up to 674 Euro (*940 US$*) per month or 4.08 Euro (*5.70 US$*) per hour (El Pais, 22 December 2009).

In *Portugal* a tripartite agreement between government, employers' associations and trade unions of December 2006 determined that between 2007 and 2011 the minimum wages should increase on average by 5.3% per year to reach the level of 500 Euro (*697 US$*) per month or 3.01 Euro (*4.20 US$*) per hour at the end of this period (da Paz u.a. 2006). Unlike Spain the Portuguese government had stuck to the long-term agreement and raised the minimum wage by 5.6% on 1 January 2010 against the resistance of the Portuguese employers' associations and strong criticism coming from the IMF (2010: 21). Since Portugal had a strong decrease of consumer prices of minus 0.9% in 2009, in real terms the Portuguese minimum wage grew even by 6.5%, which was higher than in any other European country.

Central and Eastern European countries

Against the background of relatively weak collective bargaining systems and a rather low bargaining coverage in most Central and Eastern European (CEE) countries the national minimum wage is of great importance for the overall wage developments (Kohl 2009). During the last decade most of these countries saw a rapid increase of minimum wage levels both in nominal and in real terms. In the wake of the crisis, however, many CEE countries have frozen their minimum wages, so that minimum wage earners have suffered a significant decline in purchasing power (Schulten 2010).

In the *Baltic States*, which were faced by a particularly strong economic downturn, there was an open debate on whether or not nominal minimum wages should be cut. In *Latvia* the government had brought even forward a draft bill which foresaw a 22% cut of the national minimum wage which afterwards would have been significantly below the official subsistence level. After this bill was criticised not only by the Latvian trade unions, but also by parts of the Latvian employers, the government finally gave up its plans (SOLIDAR 2009: 21). In the end none of the Baltic States had decided on a cut of minimum wages but restrict itself to a freeze of current levels.

In many CEE countries the national minimum wage is usually determined through a tripartite agreement between government, employers and trade unions. In *Poland* the Trilateral Commission agreed already in July 2009 to a 3.2% increase of the minimum wage which was set into force on 1 January 2010. In *Hungary* the National Council for the Reconciliation of Interests (OET) concluded a 2.8% raise of the minimum wage, although the trade unions were originally demanding an increase of 9%, since the current minimum wage rate is below the official subsistence level. In autumn 2009 a tripartite agreement was also reached in *Romania* which foresaw a raise of the minimum wage of 17.5%. The agreement followed a policy which were laid down in an earlier agreement of July 2008, which called for a structural increase of the Romanian minimum wage in order to reach the level of 50% of the average wage until 2014 (Constantin 2008). However, parts of the Romanian employers were not supporting the agreement and demanded a freeze of the minimum wage level. After a new government was elected in December 2009, it decided to postpone the augmentation, so that de facto the minimum wage level was frozen. In *Bulgaria* the government and employers representatives of the National Tripartite Council agreed on a minimum wage freeze against the vote of the trade unions (Tomev 2010). Finally, in the *Czech Republic* the government decided unilaterally to freeze the minimum wage for the third year running.

There were two CEE countries where minimum wage policies followed a somewhat different trend in 2009. A rather controversial dispute took place in *Slovakia* where the employers had argued for a freeze while trade unions had claimed for an 8% increase of minimum wages (Barošová 2009). Originally, the government supported the position of the trade unions, but later on decided for a somewhat lower increase of 4.2%. Therewith, Slovakia became the only CEE country with a significant growth of minimum wages in real terms.

In *Slovenia* the government raised the minimum wage by 1.3% in August 2009. However, the Slovenian trade unions took the view that the current rate was below the subsistence level and therefore called for a much higher increase. The concrete union demand was a *net* minimum wage of 600 Euro (*837 US$*) per months, which would have correspond to a *gross* minimum wage of 830 Euro (*1,158 US$*) per month or 4.80 Euro (*6.70 US$*) per hour and would have been 44% above the current rate. In November 2009 the union organised a demonstration where about 30,000 participants showed their sympathy with the union demands. Finally, in January 2010, the Slovenian government presented a draft new Minimum Wage Act according to which gross minimum wages would be raised by 23% up to 734 Euro (*1,024 US$*) per month or 4.24 Euro (*5.91 US$*) per hour.

European countries with no statutory minimum wage

In 7 EU member states (among them the Scandinavian countries Denmark, Finland and Sweden as well as Austria, Cyprus, Germany and Italy) as well as in Iceland, Norway and Switzerland there is no nation-wide statutory minimum wage. Traditionally, many of these countries have rather encompassing collective bargaining systems with a high bargaining coverage, so that there was no need for state interference. More recently, however, in some of these countries a debate has started on whether or not a statutory minimum wage should be introduced.

The latter holds true in particular for *Germany*, where a relatively sharp decline in the bargaining coverage and an outstanding increase of the low wage sector led to a situation where most of the trade unions, all major opposition parties and even parts of the employers are now demanding the introduction of a statutory minimum wage at national level (Bosch and Weinkopf 2009). Since 2006 the German Trade Union Confederation (DGB) has officially called for an hourly minimum wage of 7.50 Euro (*10.46 US$*) and will probably advance its demand soon up to 8.50 Euro (*11.86 US$*). However, the current German government with support of most employers' associations is against the introduction of a national minimum wage, because it fears negative effects on employment. In *Switzerland* the trade unions have originally organised a minimum wage campaign in order increase collectively agreed minimum wages to a certain level. Since some sectors are not adequately covered by collective agreements the Swiss Trade Union Confederation (SGB) has now taken the decision to launch a referendum on the introduction of a statutory minimum wage in 2010 (Neue Züricher Zeitung, 9 November 2009).

Even in the *Scandinavian countries*, which have a very strong tradition of autonomous regulation of working conditions without state interference, a debate on minimum wage has started. The background for this has been, in particular, the experiences with growing labour migration after the EU enlargement. It became clear that there is a real danger of social dumping, because some elements of the traditional Scandinavian bargaining model seem to create tensions with EU law, as it was stated by the European Court of Justice in its famous rulings on Viking and Laval (Eklund 2008). While the Danish and the Swedish trade unions are still strictly against the introduction of a statutory minimum wage, the Finish Trade Union Confederation (SAK) has recently called for a national minimum wage of 1,500 Euro (*2092 US$)* per month which corresponds to 9.20 Euro (*12.83 US$*) per hour (Jokivuori 2009). According to the union they prefer to reach such a minimum wage level through collective agreements but are also open for statutory measures. A similar way was followed in *Austria* when in 2007 the peak organisations of trade unions and employers made a framework agreement according to which the lowest negotiated wage grades should not be below 1,000 Euro (*1,395 US$*) per month which would correspond to 5,92 Euro (*8.26 US$*) per hour (Adam 2007).

USA, Canada and Brazil

The *United States* has followed for a long time a rather unstable minimum wage policy including long periods of stagnating minimum wage levels and short periods of relatively high minimum wage augmentations (Shierholz 2009). After the US minimum wage has not been increased for more than ten years, in 2007 the Bush-Administration determined a 40% raise of the minimum wage which should come into force in three steps between 2007 and 2009. In summer 2009, some US economists, such as the well-known minimum wage opponent, *David Neumark*, argued, that because of the economic crises the last step of the minimum wage increase should be delayed (Neumark 2009). Other economists, however, have emphasised the minimum wage hike as an important instrument to counter the economic crisis due to a strong increase of private consumption (Filion 2009). Considering the rather low level of the US minimum wage in relation to average wages, the US. President, *Barack Obama,* had promised in his election programme more significant increases of the national minimum wage in future and the introduction of an automatic indexation to price developments (Obama and Biden 2008: 29).

In *Canada* minimum wages are not determined at national level but at the level of the 13 provinces and territories. On 1 January 2010 the hourly minimum wage levels varied between 8.00 Canadian Dollars (*7.04 US$*) in the provinces of British Columbia and New Brunswick and 10.00 Canadian Dollars (*8.80 US$*) in Nunavut. In 2009 three provinces have frozen their minimum wage levels, while in all others there was a significant increase varying between 3.2% in New Brunswick and 11.8% Newfoundland. The weight national average minimum raised by 6.1% in nominal terms and 5.8% in real terms which is one of the highest increases of all countries considered here.

In *Brazil* the national statutory minimum wage plays a crucial role for large parts of the working population. This holds true not only for the relatively high number of official minimum wage earners, but also for many workers in the informal economy, where the minimum wage is a central point of reference (Lemos 2004). In addition, it also influences the income of millions of pensioners whose pensions are linked to the minimum wage developments. After its inauguration in 2003 the socialist government under President *Lula da Silva* minimum wage policy has gained a rather prominent role, as minimum wages were increased by more than 50% in real terms.

Under the conditions of the economic crisis the Brazilian government continued to follow an expansive minimum wage policy (DIEESE 2009). On 1 February 2009, it firstly increased the minimum wage by 12% followed by a further increase of about 10% on 1 January 2010. For the whole year 2009 this amounts to an increase of nearly 23% which was deflated by the consumer price developments corresponds to an increase of 18% in real terms. To tackle the economic crisis the Brazilian government has successfully used the minimum wage policy as an instrument to strengthen domestic demand.

Australia and New Zealand

Australia and New Zealand are the two countries with the longest tradition of minimum wage policy which goes back to last decade of the 19th century. In recent years minimum wages in *Australia* were determined by the so-called Australian Fair Pay Commission which was composed by five academic experts.[5] In contrast to similar commissions in other countries the Australian Fair Pay Commission had not just the power to recommend a certain minimum wage rate, but could bindingly determine it. For the year 2009, the Australian Fair Pay Commission (2009) decided to freeze the minimum wage level which it saw as an adequate reaction to the economic crisis and the protection of jobs. This decision, which led to a 1.5% decrease of the minimum wage in real terms, was heavily criticised by the Australian Council of Trade Unions (ACTU), which demanded an increase of 4% in order to "provide added stimulus to domestic demand by providing wage increases to employees with a large marginal propensity to consume" (ACTU 2009: 9).

New Zealand belongs to the group of countries, where during the last decade the minimum wage grew faster than average wages, so that the relative value of the minimum wage increased steadily. In 2009, the minimum wage was raised by 4.2% in nominal and 2.1% in real terms. For 2010 the New Zealand government has already decided on a further nominal increase of 2% which will come into force from April 2010. While the employers have supported the moderate increase, the New Zealand Council of Trade Unions (NZCTU) strongly criticised that decision for being too low. The unions have the principle viewpoint that the minimum wage should be two thirds of the average wage. As an interim step they demand a minimum wage level of 15 New Zealand Dollars (*9.46 US$*) per hour, which compared to the current level of 12.50 New Zealand Dollars (*7.88 US$*) would mean an increase of 20% (NZCTU 2010).

Japan, Korea and China

In *Japan* there is no single minimum wage rate at national level, but minimum wages are determined at regional level with some loose form of nation-wide coordination (Nakakubo 2009). There are 47 prefectures which have their own hourly minimum wages varying between 629 Yen (*6.73 US$*) in Saga or Okinawa and 791 Yen (*8.46 US$*) in Tokyo. In 2009 the weighted average minimum wage in Japan grew only by 1.4%. Because of the relatively strong deflation this corresponds to a 2.8% increase in real terms.

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[5] From 2010 on the decision on the minimum wage has been delegated to a new body, the Minimum Wage Panel of Fair Work Australia. This new body is composed by political representatives of the federal and regional parliaments of Australia. The old system with the Australian Fair Pay Commission was strongly criticised for leaving a political decision to a group of academic experts.

As Japan has one of the lowest relative minimum wage levels in the OECD, there have always been demands for a more structural augmentation of the Japanese minimum wage. The Democratic Party of Japan, which came to power for the first time in autumn 2009, has called in its election manifesto for a national minimum wage of 800 Yen (*8.56 US$*) per hour applicable to all workers and has demanded a further increase of average minimum wage levels up to 1,000 Yen (*10.70 US$*) in the period of three years (Democratic Party of Japan 2009). The latter would correspond to an increase of about 40% of the current level. A higher minimum wage is seen as one element of an economic strategy which aims to overcome Japan's one-sided export-led growth model and to develop an economic structure which is more led by domestic demand.

In contrast to Japan, the *Republic of Korea* has a national minimum wage which is set by the government on the basis of a recommendation made by the Korean Minimum Wage Council. The latter is composed of representatives from trade unions, employers' associations and 'public interests'. In 2009 the minimum wage was raised by 2.8% which was the lowest increase since the Asian financial crisis in 1998. In the run-up to the Minimum Wage Councils' decision the involved parties have shown great differences (Korean Times, 30 June 2009). The employers originally called for a 5.8% cut-down of the nominal minimum wage level in order to help companies reducing their labour costs. In sharp contrast to that the unions originally demanded a 28.7% minimum wage hike following their principle viewpoint, that minimum wages should reach at least half of the average wage.

China has also no single national minimum wage rate but a complex system of minimum wage fixing, where the concrete rates are determined at the level of provinces, municipalities and autonomous regions (Du and Pan 2009). Currently, the highest hourly minimum wage with 9.60 Renminbi (*1.40 US$*) exists in Beijing, while in most provinces it is between 6.50 Renminbi (*0.95 US$*) and 7.50 Renminbi (*1.10 US$*). During the last decade China saw a quite substantial raise of its minimum wages. Since the average wages grew even faster, the relative value of Chinese minimum wages has shown a continuous decline and currently stands at around 30% of the average wage (ibid: 85). Although minimum wages are determined at regional and local level, in November 2008 China's Ministry of Labour issued a directive telling local governments to freeze minimum wages because of the economic downturn. With China's economic recovery on track, however, many local governments have announced two-digit increases of minimum wages for 2010. The latter are seen as a contribution to boost domestic demand and to transform China's economy from an export-led to a more domestic demand-driven development model (China Daily, 26 January 2010).

4. Conclusion: Towards more substantial increases of minimum wages?

In recent years the countries analysed here have followed rather different strategies regarding the development of minimum wages. Even under the conditions of the global economic crisis there are clear political alternatives between a more restrictive and a more expansive minimum wage policy: On the one hand many countries have frozen their minimum wage levels or provided only very small increases. Usually, such a more restrictive strategy is justified by arguments which see the limitation of labour costs as crucial to tackle the economic crisis and to safeguard job. Such a view is backed by neoclassical economic thinking and is actively supported by international organisations such as IMF or the OECD which often put pressure on governments to limit minimum wage developments (OECD 2009; SOLIDAR 2009). Unsurprisingly, the most important advocates for a restrictive minimum wage policy are usually the employers' associations which in many countries have even called for a cut of nominal minimum wage levels.

However, there are strong doubts that a restrictive minimum wage policy is really a good instrument against the economic crisis. The US economist and Nobel price winner, Paul Krugman, for example, has called demands for cuts in minimum wages a „totally counterproductive idea“, which would make things even worse (Krugman 2009b). Following a more Keynesian view minimum wages are not only labour costs but an important source of private demand and a potential anchor against deflation (Herr et. al. 2009). On this basis the ILO "Global Jobs Pact" has emphasised the role of minimum wages to prevent a deflationary wage-price spiral (ILO 2009). Actually, there are also some countries which have followed a more expansive minimum wage strategy, as, for example, the U.S., Portugal, Canada or most recently Slovenia. Moreover, the particularly high minimum wage hike in Brazil was highlighted by the ILO as a positive example for an effective anti-crisis policy (International Institute for Labour Studies/ILO 2009b).

Apart from the current economic crisis the discussions on an adequate minimum wage policy are also strongly influenced by the fact, that in many countries minimum wages are still set at a very low level which in some cases is even under the official rate of subsistence. While most countries recognised a right for an 'equitable' or 'decent' wage as laid down in various international, regional or national conventions (Ofek-Ghendler 2009), minimum wages are often insufficient to provide a decent standard of living. Against that background many national trade union organisations but also some governments seek a much more substantial increase of national minimum wages levels, in order transform them into real 'living wages'. There are even some initiatives for an internationally co-ordinated minimum wage policy, as the Asian Floor Wage Initiative (Asia Floor Wage Alliance 2009) or the proposals made for a

European Minimum Wage Policy (Schulten 2008). For example, the European Parliament (2008) adopted a resolution in which it demands the EU Council "to agree an EU target for minimum wages to provide for remuneration of at least 60% of the relevant average wage."

A more substantial increase of minimum wage levels would not only improve the living conditions of millions of workers, but could also make an important contribution to overcome the more structural causes of the current global economic crisis. First, it would lead to a more compressed wage structure and would push the overall wage developments. Therewith, it would secondly help to reverse the trend towards growing inequality of incomes. As a result of this, it would thirdly make it easier for countries to overcome their non-sustainable growth models based on household browning or export surpluses and to bring down global imbalances. Finally, a more substantial increase of minimum wage levels might help to open the path for new growth potentials on the basis of a more sustainable wage-led economic development model.

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