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Wage regulation in the private sector: moving further away from a 'solidaristic wage policy'?

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Introduction

This chapter examines developments of the past decade or so with regard to the main features of national wage-setting institutions and wage policy in the private sector in the European Union (EU). In most of Western Europe, in the post-war decades, a so-called 'solidaristic wage policy' was adopted in pursuit of a fair distribution of income between capital and labour as well as within labour groups (Schulten, 2002). This solidaristic wage policy translated into two main aims (*ibid*:174): (a) equal pay for work of equal value, implying that wages should not depend on individual company circumstances alone but should be standardised in multi-employer collective agreements, while pay rises should be in line with growth of the overall economy, enabling benefits to be shared between capital and labour in a manner ensuring that all workers participate in economic progress; and (b) a more egalitarian wage structure, reducing pay differences between higher and lower wage groups and counteracting market forces that result in increased wage differentiation. Since the 1980s, wage policy became increasingly market-driven and competition-oriented, including features such as wage moderation, a distribution of income between capital and labour that favours the former, and increased inequality within the labour force at large (Brandl and Traxler, 2011). This development follows the displacement of Keynesianism with monetarist and neo-liberal thought, in a context of expanded market relations (commodification) and increased global competition (Streeck and Thelen, 2005).
Dramatic changes have taken place too in the Central and Eastern European (CEE) countries (see chapter five in this volume) The post-war decades were defined by state-socialist systems in which wage differentiation was limited but wages were also, to a large extent, low and disconnected from productivity developments (Kornai, 1992). Since the collapse of state socialism, radical changes have taken place in wage policy and wage-setting institutions in these countries (Kohl and Platzer, 2004). Competitiveness became a major goal of wage policy, the market came to occupy a large role in wage-setting, and minimum wages were introduced. Again, the trend seems to be towards wage moderation, a distribution of income in favour of capital and increased wage inequality (Keune, 2008).
Reinforcing these developments is the European Monetary Union (EMU), which fully emerged in 1999 and which strengthened calls for wage moderation and wage flexibility in the member countries of the Euro-zone. One effect of EMU is that individual countries entering the Union lose a number of major instruments for adjusting to economic imbalances and shocks, including the possibility to change interest rates, exchange rates and money supply. Under EMU, monetary policy is the competence of the European Central Bank (ECB), which sets a common policy for all EMU members, with inflation as the one needle on the Frankfurt compass. This increases the importance of wage adjustments in the case of asymmetric shocks; indeed, under EMU wage moderation gains in importance also as a macro adjustment instrument. This is explicit under the present crisis: as governments miss macro-economic adjustment instruments, the pressure on wages is mounting, especially in the public sector of countries most affected by the European sovereign debt crisis.
In this chapter we will discuss how far and with what implications the developments highlighted by Schulten have continued in the past decade or so. We will show that in the past 20 years pay has grown slower than productivity and with increased fragmentation in

pay setting and outcomes. This is due to a series of factors: the pressures emerging from European integration and international competition, including a shift in power in favour of employers; pressures on public expenditure emerging in particular from EMU; social pacts geared to wage moderation; and the decentralisation of collective bargaining and declining trade union power. We will pay due attention to differences between countries and continued divergence over time. In line with the neo-institutionalist literature on institutional change and the make-up of different types of capitalist systems (Crouch 2005; Hall and Soskice 2001; Hancké 2009), we should expect the specific shape to vary across (groups of) European countries, depending on different historical trajectories, institutional heritages, and the power constellations between labour, capital and the state. Hence, while a general trend is expected to be discernible, at the same time major variation between countries is predicted. Our key focus concerns the differences between countries with single-employer bargaining systems (SEBs) and those with multi-employer bargaining systems (MEBs) since it is expected that those wage-setting systems explain wage developments to a large extent.

A major institutional distinction: single- and multi-employer bargaining systems

Wage outcomes are influenced by many factors. Paramount among them are the domestic institutional and legislative framework for wage-bargaining as well as the relative bargaining power of (organized) labour and capital and their respective tactics and strategies. A crucial dimension of wage bargaining is the degree of coordination or interconnectedness between different collective bargaining units. Coordination influences the outcome of the bargaining process in multiple units by setting common standards or strategies, or because certain units (e.g. sectors) imitate the outcomes of other units. Wage-bargaining coordination can take different forms. The most straightforward form is wage bargaining centralization above the level of the company, at the level of the sector or at the national level. The distinction between different levels of wage bargaining is sometimes vague in practice, however; in many countries bargaining occurs at various levels. Other major forms that wage coordination can take are state-imposed indexation, a statutory minimum wage, inter-associational coordination, intra-associational coordination and pattern bargaining.

A main division can be made between countries with SEB and MEB systems. In Western Europe, MEB (or functionally-equivalent variants like pattern bargaining) were historically supported by employers since this practice "effectively took the wage out of competition and guaranteed that key competitors would also be shut down in the event of a strike" (Flanagan, 2008: 410). Trade unions also favoured coordinated wage-setting since it imposes minimum wage standards on employers at the industry level or above and it discourages a downward spiral over working conditions and wages. A high degree of coordination also makes it possible for unions to influence wage formation in small and medium sized enterprises where they often have few members (Andersson and Thörnqvist, 2007).

Of the EU-members, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain and Sweden are generally considered MEB-countries; whereas Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and the UK are classified as SEB-countries (Carley and Marginson, 2011). Still, the two groups are not homogeneous and particularly in the MEB-group one can find considerable diversity. Two main differences exist between the single- and multi-employer bargaining systems. One is that where collective bargaining takes place under MEB, sector-level collective bargaining is predominant and company-level bargaining takes place mainly within the parameters set by sector agreements; while under SEB company-level bargaining predominates, even though in some sectors sector-level bargaining may take place (see also Chapter 2). The other difference is that in countries with MEB the coverage of collective bargaining, i.e. the percentage of employees that are covered by collective agreements, is generally much higher than in countries characterised by SEB. High coverage is associated with a high membership rate of employers' organisations given the need for a mandate to negotiate collective agreements with trade unions for a large part of the economy. The lower bargaining coverage in the SEB-countries implies, among others, that unilateral management decisions are of much stronger influence where wage-setting is concerned. High coverage does not however necessarily require high trade union density. As Table 6.1 shows, the two can be quite disparate and in general coverage is substantially higher than union density. In this respect the French case is quintessential: whereas union density is at the very low level of 8%, bargaining coverage is universal. This is explained by the fact that public authorities can extend collective agreements to employers who are not members of the employers' associations that signed the agreement. The use of statutory extension schemes is very common in MEB-countries except for the Nordic countries where high union density does explain the high bargaining coverage.

[INSERT TABLE 6.1 HERE]

Persistent divergence in collective bargaining structures and coordination

Looking at the dynamics in bargaining structures over time (Figure 6.1), decentralised wage bargaining has a long history in most SEB-countries. Two countries demonstrate less historical continuity, however. The UK shifted away from multi-employer agreements towards decentralization in the 1980s due to state-led labour market reforms and the unions' inability to withstand the state's and employers' drive for decentralization. Ireland moved towards a centralized system of social pacts, including national wage agreements in the mid-1980s, but this system fell apart in 2009 when the government opted for a unilateral market and austerity-led adjustment rather than a negotiated package to confront its severe economic crisis (Regan forthcoming). Turning to the CEE-countries, sectoral and national collective agreements in industry in Romania provide a framework for company negotiations and agreements are automatically extended to cover all employees in the bargaining unit, but the dominant bargaining practice in the private services sector is exclusively SEB-based (Trif 2008). So, as in most CEE-countries, the company-level is the most important for setting the actual terms of employment and working conditions in Romania. Slovakia and Slovenia are the exceptions: they do not belong to the SEB-cluster because their institutional framework for wage-setting shows more similarities with the economies in the centre-West of Europe.[i] Finally, with the exception of Ireland (until 2009) and Romania, SEB-countries are traditionally characterised by a low degree of wage coordination. Apart from their fragmented wage bargaining structure, this could be further explained by the absence or weak development of coordinating mechanisms and the weak coordination capacity of employers' organisations and trade unions, due to their fragmented organisational structure.

[INSERT FIGURE 6.1 HERE]

While the degree of wage coordination in most SEB-countries has been relatively stable, bargaining has become more decentralized in the MEB-countries after the 1970s (Figure 6.2), often accompanied by a decline in union density. The sub-group of continental European countries has moved towards slightly less centralized bargaining structures. Even though the locus of collective bargaining in those countries is based more at lower levels today compared to the late 1970s, bargaining decentralization is not a universal trend. Moreover, if the 1990s form the reference period, changes for most countries since have been rather marginal (see also Sisson, this volume). In Southern Europe, however, the countries point more towards decentralization, i.e. mixed sector and company bargaining. Finally, just like most countries within the continental and Southern economies, several negotiation levels are in place in Northern Europe. In recent years, decentralization is a more marked trend in this part of Europe, with Finland moving its main negotiations from the central to the sector level in 2007 and with the other Nordic countries decentralising more and more elements of wage bargaining to the company level, although still within sectoral frameworks (Keune, 2011).

[INSERT FIGURE 6.2 HERE]

Dependent on the degree of multi-employer bargaining and pay synchronization, decentralization can occur in an organized or unorganized way (Traxler, 1995). In the overall majority of the MEB-countries decentralization happened in an organized way, meaning that unions and employers' organisations continue to set, in higher level agreements, the framework of rules and standards within which lower (company) level agreements are negotiated. For example, at sector level minimum increases of wages can be negotiated, while at company level actual increases are set. In this way, there is more flexibility at the company level to negotiate wages according to local circumstances, but at the same time sectoral unions and employers' organisations maintain a coordinating role. As a consequence, the degree of coordination has been less subject to change in the last decades. Despite the long-run decentralization trend, coordination remains relatively high in continental and Southern Europe. A long-term exception is France with a significantly lower degree of coordination compared to its counterparts. Conversely, as will be explained in the next section, coordination has even been strengthened in Belgium, Italy and Spain in the years 2000s. Equally, looking at Northern Europe, the degree of coordination is comparable with most MEB-economies, despite standing at a lower level today than at the end of the 1970s. For the MEB-countries, one can in fact replicate the conclusion that Schulten (2002:183) made, namely that 'there has (…) been no irreversible erosion of the institutional requirements for a solidaristic wage policy'. Nevertheless, the present crisis is taken as an opportunity by the European Commission and certain governments to put increased pressure on centralised wage-setting institutions and coordination processes, particularly in those countries hardest hit by recession (Aumayr et al., 2011).

Given that relative stability can be attributed to the MEB-countries at the higher end of the coordination scale and given that stability is also the main characteristic for the SEB-countries standing at the lower end, the two groups continue to diverge. There is one important exception within the MEB-cluster, however. In Germany decentralisation increasingly has a 'disorganised' dimension as the coverage of collective agreements declines, extensions are used less and less, and more and more employers leave the employers' organisations (Bispinck et al., 2010:13-22; Keune, 2008:19-20; Streeck, 2009). This decentralization is largely driven by the German employers with support from the major political parties and the government. Collective bargaining coverage has declined from 76 percent in 1998 to 65 percent in 2009 in West Germany and in the same period from 63 percent to 51 percent in East Germany (Bispinck et al., 2010:2). Also, opening clauses are increasingly included in sectoral collective agreements, allowing for more differentiation and decentralization of collective bargaining and in some cases for concession bargaining leading to deteriorating terms and conditions of employment for employees. Over time, the rationale behind opening clauses has shifted from allowing the adjustment and survival of companies experiencing severe but temporary economic difficulties, to sustaining competitiveness in general. In the metal industry, after the conclusion of the Pforzheim agreement in 2004, which established common rules and procedures for derogations, the number of companies effectively using opening clauses increased from 70 in September 2004 to 730 in April 2009 (Bispinck and Schulten, 2011:7).

Coordination through national social pacts

Macro-level social pacts have played an important part in wage-setting and wage coordination. Social pacts can be defined as 'a set of formal or informal agreements between representatives of governments and organised interests who negotiate and implement policy change across a number of inter-connected policy areas' (Natali and Pochet, 2010:17). Such pacts were prominent in a number of western European countries in the heydays of the central income policies of the 1960s and 1970s when Keynesian economic thinking was dominant. Pacts in those days focused on the redistribution of the fruits of economic growth through rising wages and greater wage equality. In later decades pacts have continued to be concluded but their nature has changed. One major objective of the more recent social pacts is to strengthen the competitiveness of the national economy. Often under the auspices of governments, the 'social partners' have been trying to enhance international competitiveness on the supply side (Rhodes, 1998). Apart from in general terms improving competitiveness in the globalising economy, a series of pacts were also concluded in the 1990s to prepare for entry into EMU. These pacts had specific EMU-related objectives, i.e. to stabilise nominal exchange rates and to meet the convergence criteria set out in the Treaty of the EU concluded in Maastricht in 1992, including low inflation rates, falling public debt and low public deficits (Fajertag and Pochet, 1997: 2001). These social pacts provide complex inter-linkages between labour market reform, changing welfare state arrangements and wage restraint. A major element wasthe moderation of wage growth, to reduce labour costs and inflation. This seems to point to the internalisation of competitive pressures by unions and an orientation towards cross-class coalitions in the name of sustaining or improving national competitiveness (Streeck, 1999).

Social pacts have mainly arisen in the MEB-countries because these possess the necessary institutional prerequisites and since this is where unions often have sufficient power to claim a place in reform processes. Pacts have been concluded in about half of the MEBs since 1990. Centred on inflationary targets, the reduction of public deficits and budgetary austerity, social pacts were concluded in Italy, Portugal and Spain in the wake of EMU accession (Pochet et al., 2010). Social pacts failed however in Greece due to the opposition of unions, particularly in the public sector, to neo-liberal reforms, as a result of which the country could only enter the EMU in 2001 (Ioannou, 2010). In Belgium attempts to conclude social pacts related directly to EMU-entry failed as well; the federal government however imposed a statutory wage-setting system in 1996 that formally introduced wage moderation. In the Netherlands, a consensus on wage-moderation within the 'shadow of the state' was already formalised in the 'Wassenaar agreement' in 1982, marking the start of competitive wage bargaining, often formalised in central agreements. This practice has continued in recent years (van der Meer and Visser, 2010). In Germany, wage moderation has not been based on central agreements but on sectoral bargaining processes and exposed-sector pattern bargaining increasingly adopting a competitive supply-side bargaining strategy (Erne 2008:99-103).

In Slovenia social pacts covering a range of policy areas have been signed at regular times since 1993, introducing and continuing a restrictive incomes policy, i.e. trying to achieve a consensus between the social partners on wage restraint (Stanojevic, 2010). The post EMU-entry pact of 2007 reasserts this policy with a strong emphasis on the country's competitiveness. In Slovakia, which entered the EMU in 2009, a social pact was signed in 2008, wherein the government committed itself to reducing the public deficit and the social partners, in turn, agreed on wage moderation. However, the major part of the socio-economic measures for EMU-entry had been previously introduced by the government in a unilateral way so that the social pact was very much an 'afterthought' (Bohle and Greskovits, 2010:348-351). In the Nordic countries the major case of social pacts is Finland, which has had a tradition of central incomes policy since 1968. This came to an end in 2007 when the Confederation of Finnish Industries decided not to participate further in central negotiations in order to increase the scope for flexibility and variable pay systems.

Some other countries continued to conclude social pacts after EMU-entry, which might be explained by the continuing 'need to coordinate bargaining in the context of strong intermediate bargaining units and an asymmetrical interdependence of the exposed and the sheltered sector without clear leadership of the exposed sector in bargaining matters' (Traxler, 2010:75). In other words, although the exposed sector might embark on effective wage moderation (mainly due to international competitiveness pressures) and thus exclude state 'intervention', it has been argued that social pacts might still be needed to dampen wage expectations in the sheltered sector (largely consisting of the public sector). The concern here is that since wage increases in these sectors might externalise the cost of those increases to the exposed sector which would impair international competitiveness (Keune and Pochet, 2010; Traxler and Brandl, 2010). So far, the current economic crisis does not seem to have resulted in new social pacts, in spite of the very high 'problem load' faced by many countries. Instead governments most often pursue unilateral strategies around austerity packages.

As to wage moderation outcomes, which is the core element of most social pacts, by comparing the average productivity growth and wage growth (expressed as compensation, i.e. wages plus employers' social contributions), Figure 6.3 shows that only in Belgium, Denmark, France and Italy has real compensation per employee been higher than the growth rate of labour productivity during the period 1999-2007 (i.e. before the start of the crisis). All other MEB countries, though obviously with cross-country differences, experienced wage moderation after EMU-entry. Though wage moderation has often been recommended by the OECD and the European Commission as a way out of high and persistent unemployment, this has not necessarily resulted in a substantial improvement of employment performance (Stockhammer 2007). Furthermore, wage moderation was not evenly spread across all economic sectors and occupations, which has significantly contributed to a growing income inequality and rising poverty rate across OECD member states since the mid-1980s (OECD 2011). Where wage development after 2007 is concerned, the data suggest that wages have outgrown productivity in recent years, but this largely reflects the impact of recession on lower-income jobs.

[INSERT FIGURE 6.3 HERE]

In the SEB-countries social pacts have hardly been concluded, mainly because the unions and employers have only limited macro-coordination capacity and because wage moderation is often achieved through market forces. The major exception, as mentioned earlier, is Ireland which concluded its first tripartite pact in 1987 (Regan forthcoming). Further, but less prominent, exceptions include Bulgaria where one pact was signed in 2006, and Romania where two pacts were signed in the early 2000s, but without the participation of the major unions. In addition, in Poland social pacts were *nearly* successfully concluded on several occasions in the 2000s. These exceptions show that, although in SEB countries pacts are clearly less likely to be concluded than in MEB countries, they are indeed possible.

Returning to economic outcomes, Figure 6.4 demonstrates that the gap between labour productivity and real compensation for almost all SEB countries is negative, i.e. allowing for real wage growth, in the period 2000-2007. There is, however, large country-to-country variation. To a certain extent, in most CEE countries there was a catching up of wages that had declined dramatically in the 1990s. Furthermore, although real wage growth was in general in most CEE economies in line with productivity improvements, real wage increases resulting from union wage-bargaining were significantly below productivity trends, pointing to the low and decreasing coverage of collective wage agreements (Erne, 2008:98-99). Moreover, the increase in real wages was not enough to stem the decline in the wage share. Indeed, in both SEB and MEB countries it is possible to observe a clear decline in the wage share, i.e. the share of wages and employers' social contributions in GDP, with the decline since 1975 more pronounced in the SEB countries (Figure 6.5). Hence, in the longer run it seems that wage moderation has been somewhat stronger in those countries where it results predominantly from market pressure than in those where it is an outcome of a bargaining process.

[INSERT FIGURES 6.4 AND 6.5 HERE]

VPS: promoting wage flexibility

Whereas at the macro-level social pacts have often been an instrument aimed at improving national competitiveness through wage moderation, at the micro-level variable pay systems (VPS) have often been used in an attempt to strengthen company competitiveness. The three major types of VPS are individual and team-based performance-related pay (PRP), profit sharing (PS) and employee share ownership (ESO). Under variable pay systems, on top of a basic wage, workers receive performance-related variable pay elements that are dependent on the performance of the company as a whole, of the team to which a worker belongs or of the individual worker. VPS have a variety of aims. Among them are improving firm performance and workers' productivity, skills, motivation and involvement; flexibilisation in wage-setting through the adjustment of wage costs to firm performance; and/or the redistribution of wealth and the strengthening of economic democracy (in case of profit sharing and employee share ownership). However, it often remains unclear whether these additional aims are actually reached. The debates on variable pay are, to a significant extent, inconclusive: whereas many studies point to a positive relationship between VPS and productivity or firm performance, several others shed serious doubt on these results (see e.g. Robinson and Wilson, 2006; Cox, 2005; Lazear, 2000).

For the present chapter, the particular significance of VPS is that they have an effect both on the distribution of income between capital and labour, and on wage differentiation among wage-earners within the same company. In this section we will present comparative data on the use of the various types of VPS across the EU as well as differences between countries, sectors and enterprises of different sizes, and point to some elements explaining cross-country differences. Because of the lack of longitudinal data, a picture of the situation in 2009 will be presented. There seems, however, to be agreement in the literature that the use of VPS has been increasing in recent years (e.g. Welz and Fernándes-Macías, 2008; van het Kaar and Grünell, 2001). At the same time, there are very large differences between countries in the incidence of the different types of VPS, and the extent to which the use of VPS has been growing is dependent on country-specific factors as opposed to a general, cross EU-trend.

Of the three types of VPS distinguished here, performance-related pay, based on individual or team performance, is by far the most frequently used across Europe (Figure 6.6): 37.2 percent of companies with 10 or more employees, employing 47.5 percent of employees in this group of companies, have some form of performance-related pay. There is a much lower incidence of both employee financial participation through profit-sharing schemes and employee-share-ownership schemes. What is more, over half of the enterprises with 10 or more employees have no VPS whatsoever.

[INSERT FIGURE 6.6 HERE]

The incidence of VPS is closely related to three key factors: country, sector and company size. The largest differences are observed between countries, as shown in 6. 2. For example, while in the Czech Republic no less than 71 percent of companies used PRP schemes, in Hungary only 19.8 percent of companies have such schemes. Profit-sharing is meanwhile used in 35 percent of French companies but in no more than 2.9 percent of Italian companies. In addition, employee share ownership exists in 12.9 percent of Danish companies but in only 0.9 percent of Lithuanian ones. Meanwhile, no clear pattern related to the MEB-SEB distinction can be discerned. The major difference between the two groups is a somewhat higher average for all three VPS types in the MEBs, but the differences are important only in the case of profit-sharing. Also, the higher averages in MEBs are accompanied by higher standard deviations, indicating stronger internal differences.

The main explanatory factor of country differences relates to different national VPS-specific institutional contexts, i.e. different rules and regulations that govern the use of VPS in different countries. For example, the high level of PRP in the Czech Republic is linked to the fact that the Czech Labour Code – unique in this respect in the EU – strongly encourages performance pay. Similarly, the high level of profit-sharing in French companies results from the fact that the country has a mandatory profit-sharing scheme for companies with a workforce of over 50. In Denmark, multiple options and tax benefits exist in relation to employee share ownership and ESO schemes are increasingly a matter for collective bargaining. Indeed, through such statutory or collectively agreed regulations and promotional measures, the state and the social partners play a decisive role in promoting the use of VPS.

[INSERT TABLE 6.2 HERE]

Clear differences in the use of variable pay schemes also exist between sectors (Figure 6.7). The three types of VPS are most prevalent in financial intermediation, followed by real estate and business services, and then by trade and repair. In health and social work, public administration and defence, and education, on the contrary, VPS is used to only a limited extent. The sectors with a high incidence of VPS often have a long tradition of individual and collective financial incentives. Another relevant factor is that financial intermediation and business services have faced a tight labour market for highly educated labour in many countries in recent years, leading to the use of bonuses to attract employees and reward improvements in education and training (cf. van het Kaar and Grünell, 2001).

[INSERT FIGURE 6.7 HERE]

Where size is concerned, the use of all three types of VPS increases steadily with the increase in the size of establishments (Figure 6.8). When companies with 10-19 employees are compared with those having 500 or more employees, PRP schemes are found to occur twice as often in the latter, PS schemes 2.3 times as often and ESO schemes 3.6 times as often. Of companies with 250 or more employees, over 60 percent make use of PRP schemes, while some 27 percent use PS schemes and some 13 percent have ESO schemes, all these percentages being way above the average. This is hardly surprising, in that the design and implementation of VPS schemes often requires substantial management involvement, administrative capacity and expertise in HRM techniques (Cox, 2005).

[INSERT FIGURE 6.8 HERE]

From this overview we can conclude that major differences exist between countries, sectors and company size in the use of VPS, with country-level institutional factors being of major importance. Performance-related pay is, meanwhile, by far the most important type of VPS, while employee share ownership is of minor significance. This suggests that VPS are employed much more often with the aim of increasing individual or group performance, competitiveness and wage flexibility, than for the purpose of redistributing wealth or strengthening economic democracy. Hence, the use of VPS seems to fit the trend from solidaristic to competitive wage policy; at the same time, country-to-country variation is so great that it is hardly possible to speak of a general tendency.

Limiting wage flexibility via minimum wages

A major factor in determining wage levels, wage flexibility and wage inequality is the minimum wage. A minimum wage places limits on wage flexibility by setting a wage floor in the labour market. Depending on the level at which the minimum wage is set, it can play an important role in containing wage inequality and low pay. The almost generalised decline of trade union density across Europe, combined in some countries with a falling coverage and/or decentralization of collective wage bargaining, , make the minimum wage all the more relevant in this respect. Other factors leading to increasing concerns about wage inequality and low pay are the rise of non-standard flexible employment contracts and the growing use of opening clauses in collective agreements in certain countries, in particular Germany. Worries around low pay are further strengthened by the increased mobility of labour within the EU (Vaughan-Whitehead, 2008).

Minimum wages can be set by law or by collective agreement. In Europe statutory minimum wages are the most common way of determining a minimum level below which wages cannot be set. Twenty out of the 27 EU member states have a statutory minimum wage and 6. 3 shows the levels of hourly minimum wages for these countries during the period 2002-2009. The most striking feature, initially, is the enormous difference in the level of the minimum wage, with the highest being more than ten times the lowest. When expressed in terms of purchasing power parity, the range between highest and lowest minimum wage levels shrinks but, even so, the highest monthly minimum wage is still almost six times greater than the lowest (Keune, 2011).

[INSERT TABLE 6.3 HERE]

When observing the growth in the minimum wage over time, a difference emerges between the old and the new EU member states: in both nominal and real terms, minimum wage growth is higher in the new members than in the old. Over time, then, the gap between the old and new member states has been narrowing slowly, in line with the catching up of general wages (Keune, 2008). Following the onset of the crisis, this trend would seem, however, to have come to a standstill, and even been reversed. In 2009 the hourly minimum wage saw its real value decline in nine countries, in some cases quite substantially (e.g. by 5.6 percent in Romania and 4.2 percent in Lithuania). Of these nine countries, eight are from the CEE new member states (i.e. this whole group except for Slovenia and Slovakia), while the ninth is the United Kingdom.

Figure 6.9 shows the relationship between the minimum wage and the average wage. In 2008, only in Luxembourg and Malta did the minimum wage represent over 50 percent of the average wage, while in 10 countries it amounted to less than 40 percent of the average wage. This shows that in many countries the statutory minimum wage can play no more than a limited role in preventing low pay. What is more, between 2002 and 2008, in 11 countries the minimum wage lost ground to the average wage, most strongly in Ireland (minus 8 percentage points), Hungary (minus 5.4 percentage points) and the Netherlands (minus 5.1 percentage points). In most instances, the minimum wage seems unable to keep up with average wage developments in the labour market.

[INSERT FIGURE 6.9 HERE]

In Germany, Italy, Denmark, Austria, Sweden, Finland and Cyprus there exists no general statutory minimum wage. In these countries the setting of minimum wages is traditionally left to a large extent to unions and employers which define minimum wages in collective agreements, mainly at the sectoral level (with the exception of Cyprus). In Cyprus, a statutory minimum wage exists but is applicable only to a limited number of occupations (sales staff, clerical workers, auxiliary healthcare staff and auxiliary staff in nursery schools, crèches and schools). In Germany the minister of labour, under the *Arbeitnehmer-Entsendegesetz* (Posted Workers Law), can make a collectively-agreed minimum wage binding on all employment in a sector, irrespective of whether or not the employer is directly bound by a sectoral collective agreement. Such minimum wages now exist for a limited number of sectors. One consequence of collectively agreed rather than statutory minimum wages is that minimum wages are not uniform but differ by sector and possibly also by type of job or region. What is more, in sectors where unions are weak, the agreed minimum wages may be low if compared to countries with a similar level of income. There is also a danger that certain sectors of the labour market, not covered by collective agreements, will lack any minimum standard. There is, as a result, in Germany in particular a vivid debate about whether or not a statutory minimum wage is desirable.

Conclusions

The major question discussed in this chapter has been whether we are witnessing a continued move away from a solidaristic towards a more competition-oriented wage policy. Various kinds of information have been provided in our effort to answer this question. First is the issue of wage-bargaining institutions, divided into multi-employer and single-employer bargaining systems. Although some decentralisation has taken place in the MEB cluster, it has been organised in such a way that, broadly speaking, the systems have preserved high levels of bargaining coverage and a high coordination capacity. Moreover, governments have in a number of countries strengthened coordination through national social pacts. Coverage, coordination and social pacts have been much less important in the SEB countries. Within the MEB group an exception is Germany where decentralisation has become more disorganised in recent years. In the SEB group, the main exception was, for more than twenty years, Ireland with its tradition of concluding social pacts. However, since the breakdown of the centralised social partnership agreements in 2009, it remains to be seen whether the centralised agreements will be resurrected or whether local wage bargaining will prevail.

Hence, in the MEBs the institutional architecture for a solidaristic wage policy remains in place, whereas in the SEB it never – with a few exceptions – existed in the first place. At the same time. across Europe, the wage share has decreased, marking a gap between productivity improvements and wage growth and a shift in income from labour to capital, especially in the SEBs but also in the MEBs. This common trend has occurred, however, as a result of different mechanisms. Within the multi-employer bargaining systems it can be attributed, to a large extent, to wage moderation based on collective agreements and social pacts, whereas in the SEB systems wage moderation stems rather from market mechanisms and the unilateral imposition of wage levels. The organised nature of the MEB countries has then, in the longer term, a dampening effect on the shift of income from labour to capital, which is indeed stronger in SEB countries. The fact that MEB systems set more common standards can also be expected to limit the growth of wage inequality as compared to the SEB systems.

Two additional factors affecting wage-setting have also been discussed in this chapter. The first is the increased use of variable pay systems and, in particular, performance-related pay, albeit with major cross-country differences. Most types of VPS are oriented towards wage differentiation than towards the redistribution of wealth and hence correspond to a move away from a solidaristic wage policy. The second is the minimum wage, whether set by law or by collective agreement. Minimum wages, by establishing a floor for wage distribution, have a limiting effect on wage inequality though their impact is often weak.

To counter nationalist-inspired competition among states and to re-orient wage policy towards more solidaristic objectives, workers and trade unions are trying to engage in trans-national wage coordination to reduce wage competition and establish a more productivity-oriented wage policy (Glassner and Pochet, 2011). Thus, despite the possibly contradictory interests of unions from high- and low-wage countries, the cultural and institutional variations between countries and the – supposedly – low interest shown by the rank-and-file membership, trans-national cooperation and solidarity are on the union agenda (Gajewska, 2009). Yet, given trade union weakness and the current neo-liberal orientation of the majority of governments, together with developments at the European level ('Euro-Plus Pact') as well as in Germany, the largest economy in Europe, where disorganised decentralisation is the trend, a more solidaristic wage policy seems, for the time being, unlikely.

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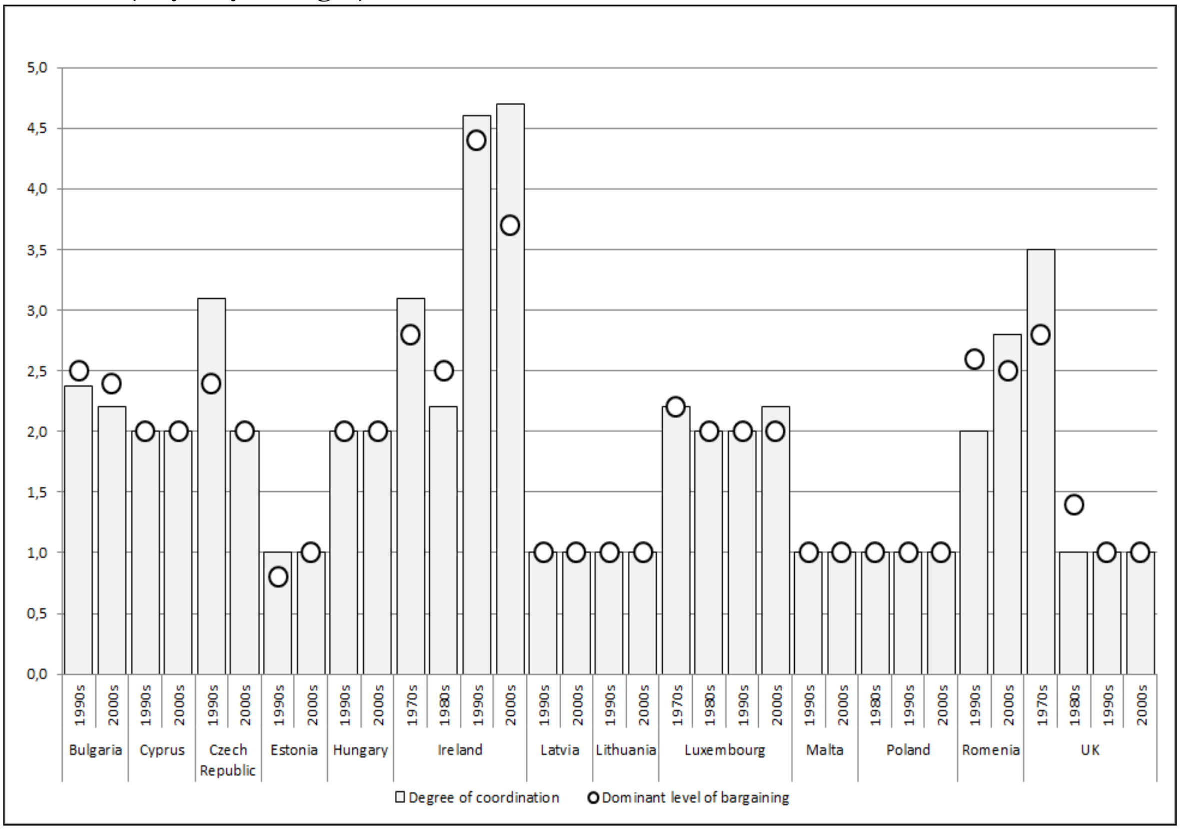
Table 1: Collective bargaining coverage and union density in SEB- and MEB-countries, 2010 (or last year available)

SEB	Coverage	Union density	MEB	Coverage	Union density
Bulgaria	30.0%	19.8%	Austria	99.0%	28.1%
Cyprus	52.0%	54.3%	Belgium	96.0%	52.0%
Czech	42.5%	17.3%	Denmark	80.0%	68.8%
Estonia	19.0%	6.7%	Finland	90.0%	70.0%
Hungary	33.5%	16.8%	France	90.0%	7.6%
Ireland	44.0%	33.7%	Germany	62.0%	18.6%
Latvia	25.0%	14.8%	Greece	65.0%	24.0%
Lithuania	15.0%	9.5%	Italy	80.0%	35.1%
Luxembourg	58.0%	37.3%	Netherlands	82.3%	19.0%
Malta	55.0%	51.0%	Portugal	45.0%	19.3%
Poland	38.0%	15.0%	Slovakia	40.0%	17.2%
Romania	70.0%	32.8%	Slovenia	92.0%	29.7%
UK	32.7%	27.5%	Spain	84.5%	15.9%
			Sweden	91.0%	68.9%
Average	39.6%	25.9%	Average	78.3%	33.9%
Deviation	16.1%	15.1%	Deviation	18.5%	21.8%

Source: Visser (2011).

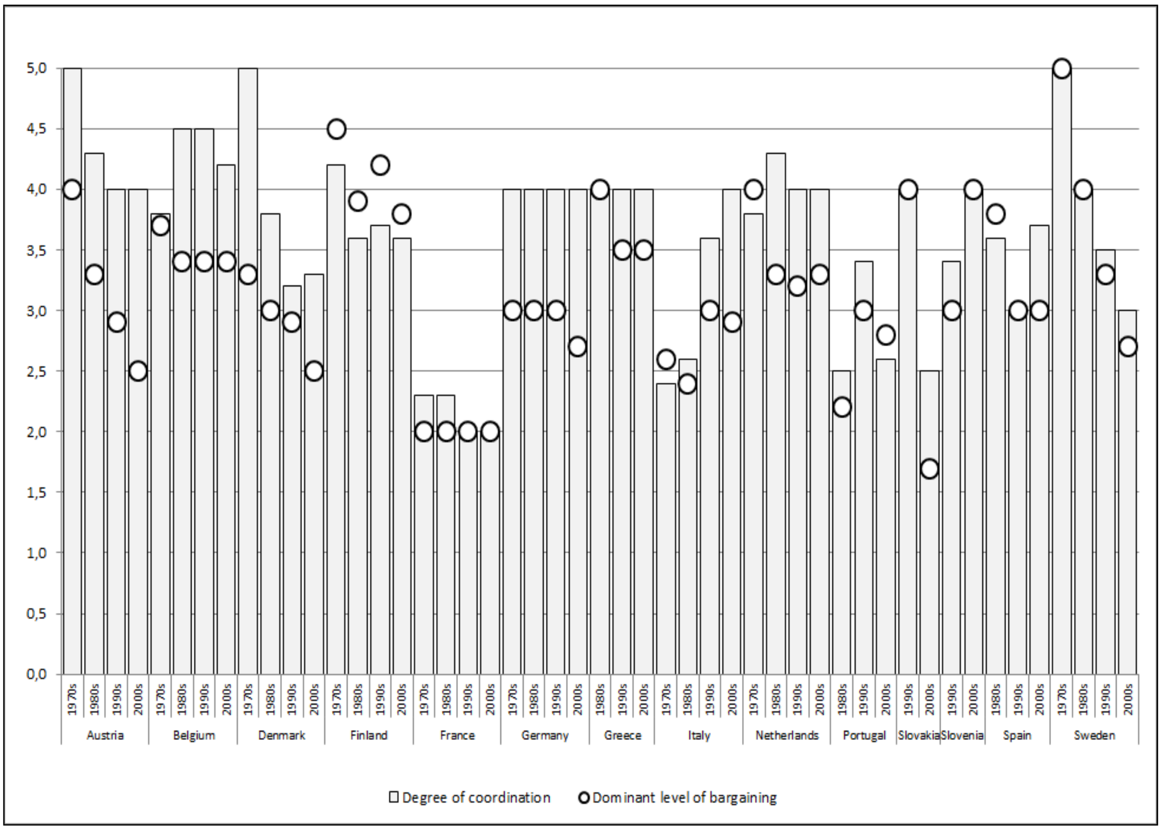
Figure 1: Dominant level of bargaining and collective bargaining coordination in SEB-countries, 1970-2009 (10-yearly averages)



Source: Visser (2011).

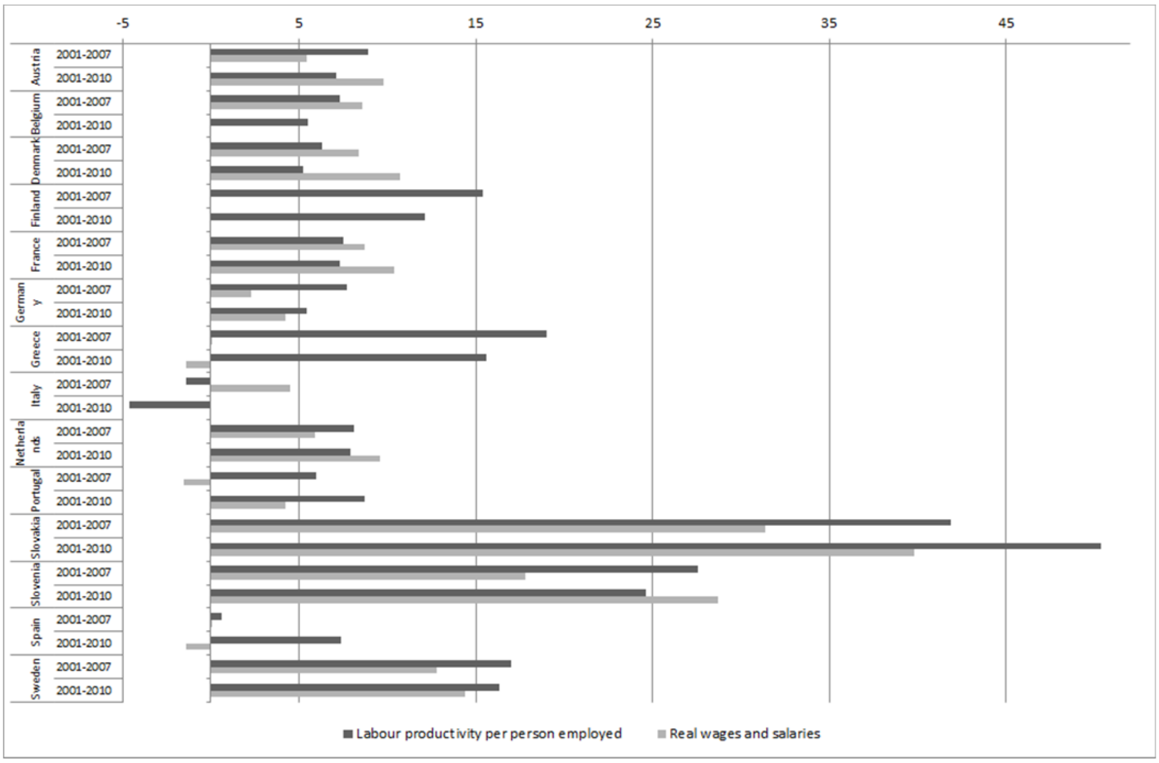
Note: Level: 1= local or company bargaining; 2=sectoral or industry level, with additional local or company bargaining; 3=sectoral or industry level; 4=national or central level, with additional sectoral / local or company bargaining; 5= national or central level; Coordination: 1=fragmented bargaining, mostly at company level ; 2=mixed industry- and firm level bargaining, with weak enforceability of industry agreements; 3=industry bargaining with no or irregular pattern setting, limited involvement of central organizations and limited freedoms for company bargaining.; 4=mixed industry and economy-wide bargaining; 5=economy-wide bargaining.

Figure 2: Dominant level of bargaining and collective bargaining coordination in MEB-countries, 1970-2009 (10-yearly averages)



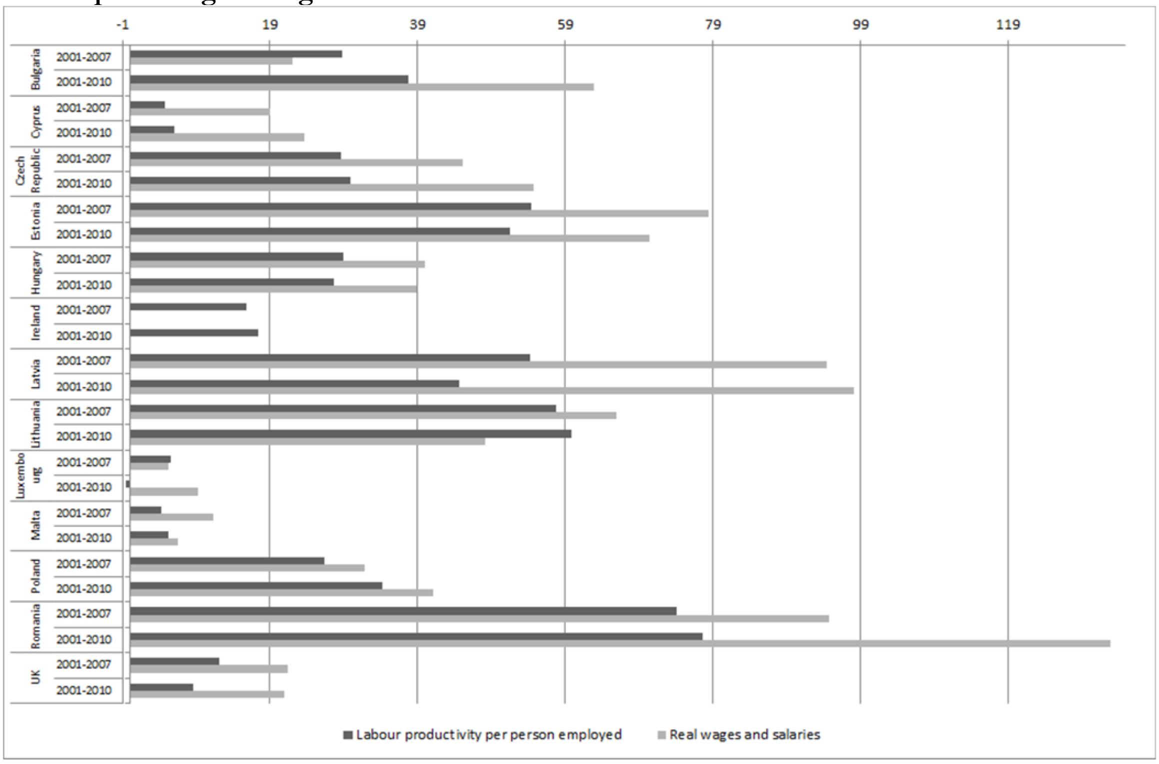
Source: Visser (2011).
Note: see Figure 1.

Figure 3: Labour productivity per person employed and real wages and salaries, compounded annual percentage changes for 2001-2007 and 2001-2010 in MEB-countries



Source: EC (2011).

Figure 4: Labour productivity per person employed and real wages and salaries, compounded annual percentage changes for 2001-2007 and 2001-2010 in SEB countries



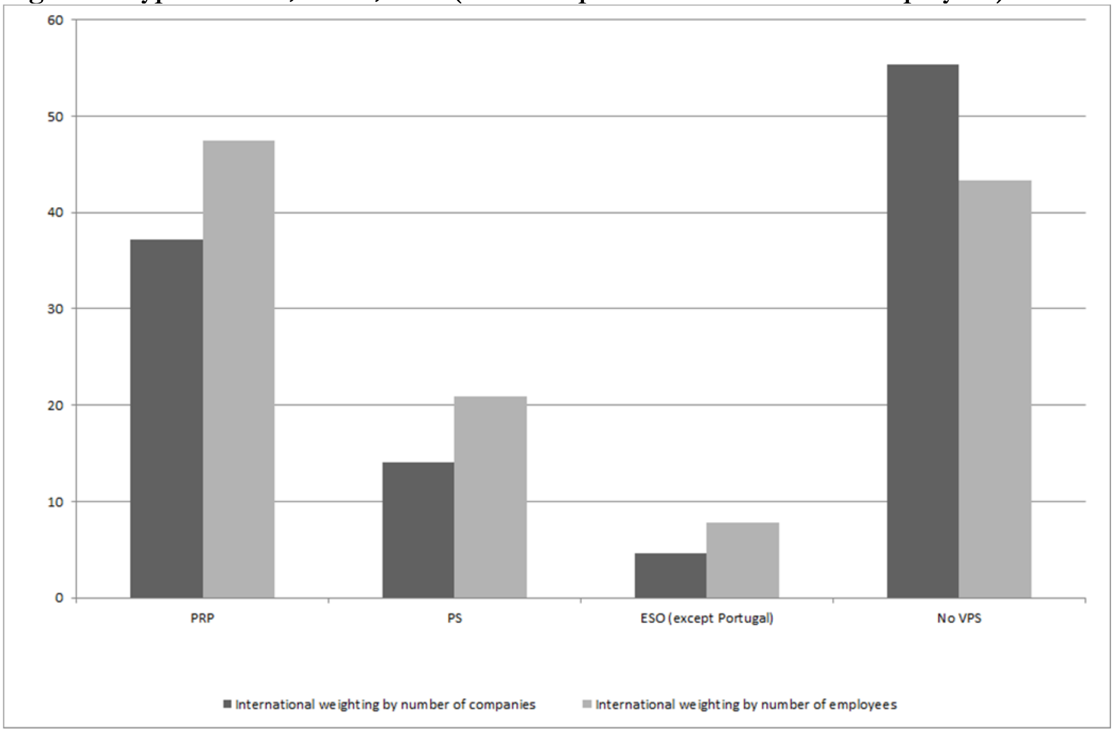
Source: EC (2011).

Figure 5: Wage share in MEB and SEB countries and the euro-zone (12 countries), 1975-2010

Source: AMECO.[ii]

Note: Euro-zone: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. Data for West Germany only until 1990. No data for 1975-1989: Malta and Romania; 1975-1991: Hungary, Latvia and Poland; 1975-1992: Estonia and Lithuania; 1975-1994: Bulgaria, Cyprus and the Czech Republic.

Figure 6: Types of VPS, EU27, 2009 (% of companies with 10 or more employees)



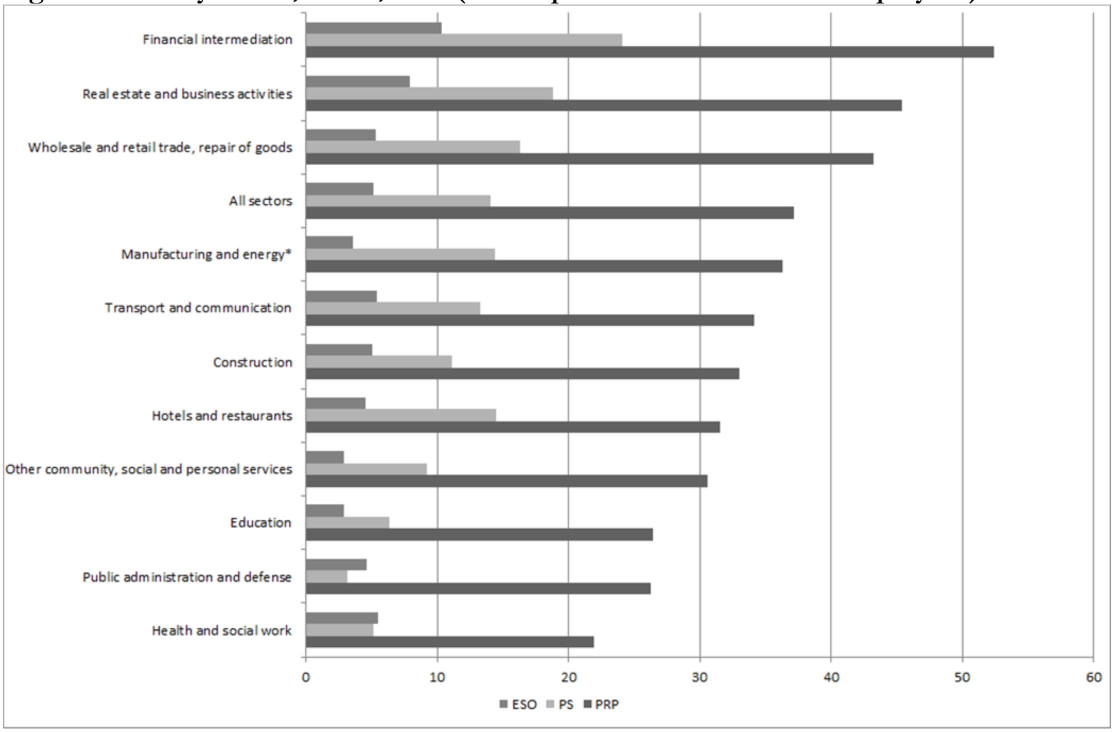
Source: European Company Survey (2009).

Table 2: Types of VPS per country (divided by SEB-MEB) in 2009 (% of companies with 10 or more employees)

Single-employer bargaining system				Multi-employer bargaining system			
	PRP	PS	ESO		PRP	PS	ESO
Hungary	19.8%	13.0%	3.4%	Italy	26.8%	2.9%	3.9%
Latvia	27.0%	10.4%	3.7%	France	28.3%	35.0%	4.7%
Ireland	28.2%	11.3%	6.4%	Belgium	30.2%	14.3%	11.4%
Cyprus	34.4%	5.7%	3.6%	Austria	31.3%	8.0%	2.1%
Malta	34.9%	4.3%	2.9%	Sweden	31.8%	23.5%	11.1%
Estonia	36.2%	17.7%	2.7%	Greece	34.3%	4.2%	1.6%
Bulgaria	37.1%	9.5%	7.3%	Netherlands	34.3%	26.8%	5.5%
UK	37.3%	8.2%	5.9%	Spain	40.3%	16.8%	3.4%
Luxembourg	37.6%	9.5%	3.6%	Germany	41.8%	14.1%	2.9%
Romania	40.5%	7.4%	10.8%	Denmark	43.3%	14.1%	12.9%
Lithuania	44.3%	7.1%	0.9%	Slovak Republic	56.3%	16.9%	2.5%
Poland	44.9%	7.2%	4.2%	Finland	63.6%	23.0%	5.0%
Czech Republic	71.0%	16.0%	1.0%	Slovenia	69.4%	13.3%	7.0%
Average	37.9%	9.8%	4.3%	Average	40.9%	16.4%	5.7%
Deviation	12.1%	3.9%	2.7%	Deviation	13.9%	9.0%	3.8%

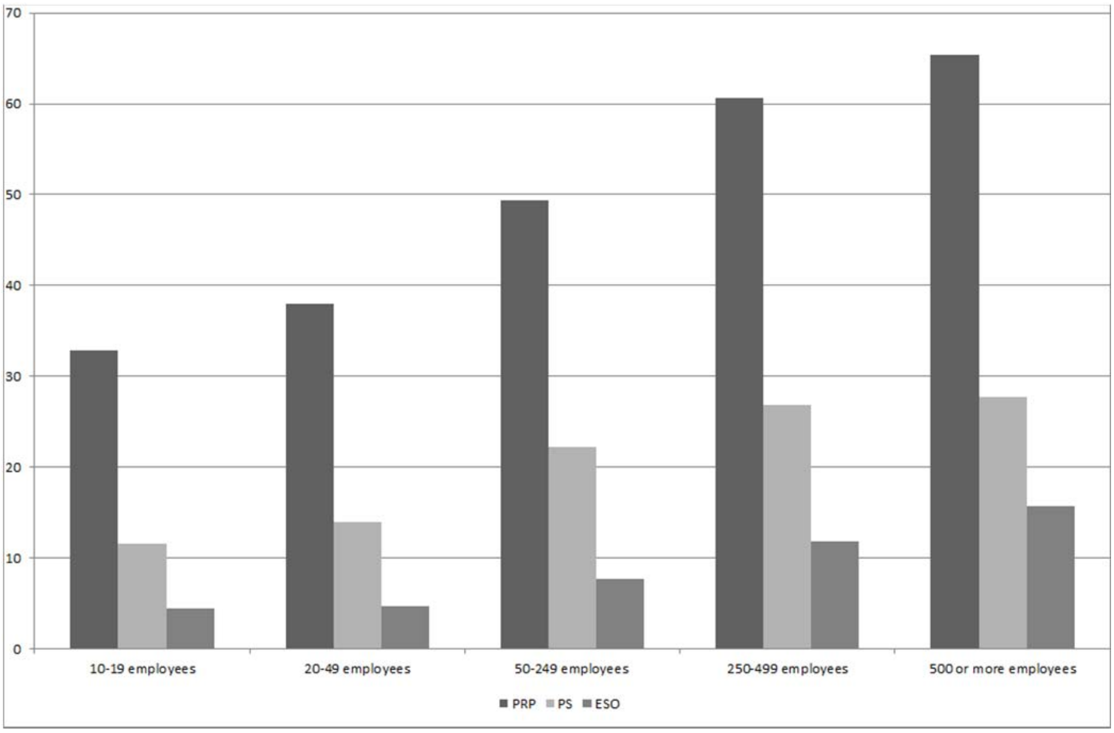
Source: European Company Survey 2009.
Note: Sorted by PRP.

Figure 7: VPS by sector, EU27, 2009 (% companies with 10 or more employees)



Source: European Company Survey (2009)

Figure 8: VPS by company size, EU27, 2009 (% companies with 10 or more employees)



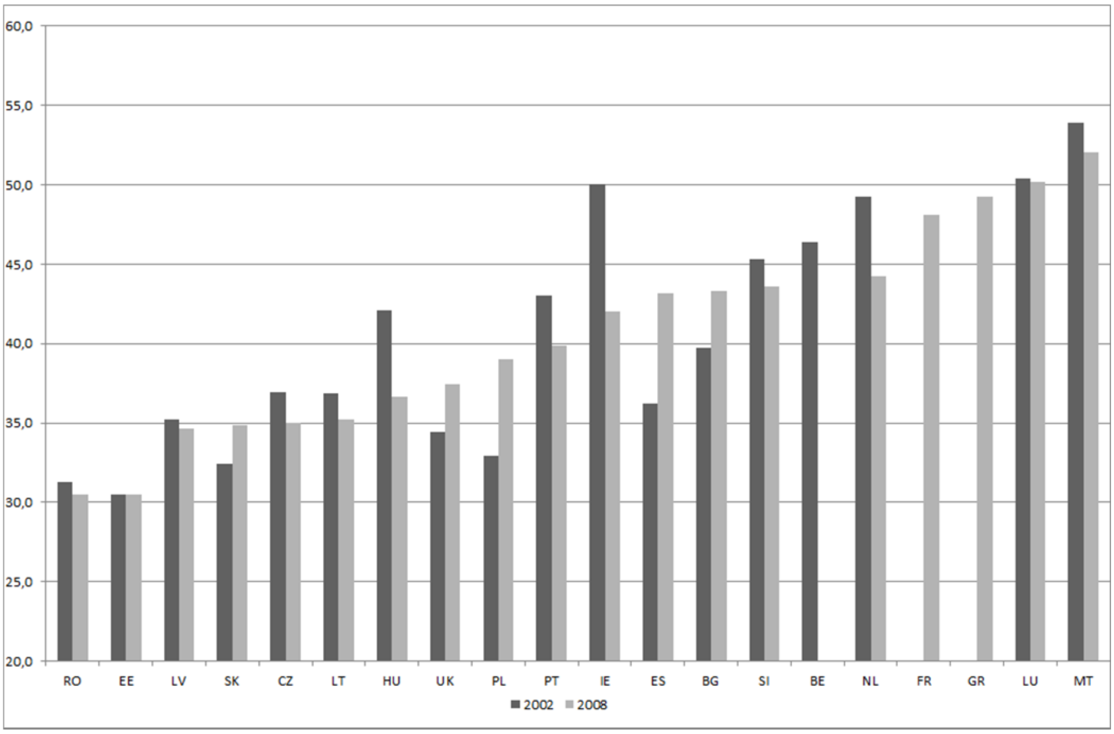
Source: European Company Survey (2009)

Table 3: The statutory minimum wage in 20 EU countries, per hour, 2002 and 2009 (Euro)

	2002	2009	Growth	Real growth
Bulgaria	0.3	0.71	1.37	0.52
Romania	0.19	0.83	3.37	1.12
Lithuania	0.71	1.4	0.97	0.47
Hungary	1.03	1.47	0.43	-0.03
Latvia	0.49	1.47	2	0.86
Poland	1.02	1.7	0.67	0.43
Slovakia	0.88	1.7	0.93	0.47
Estonia	0.7	1.73	1.47	0.80
Czech Republic	1.28	1.82	0.42	0.19
Portugal	2.1	2.71	0.29	0.14
Slovenia	2.28	3.41	0.5	0.11
Malta	3	3.67	0.22	0.05
Spain	2.68	3.78	0.41	0.14
Greece	2.83	4.05	0.43	0.18
UK	4.6	6.43	0.40	0.20
Belgium	7.05	8.41	0.19	0.02
Netherlands	7.4	8.47	0.14	0.00
Ireland	5.97	8.65	0.45	0.19
France	6.67	8.71	0.31	0.15
Luxembourg	7.46	9.49	0.27	0.06

Source: Eurostat.
Note: sorted by level of minimum wage in 2009.

Figure 9: Monthly minimum wage as % average monthly earnings industry and services, 2002-2008



Source: Eurostat

[i] Luxembourg does not belong to the MEB countries, given that the focus of wage bargaining is on the company level.

[ii] AMECO is the annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN).