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### Wage flexibilisation and the minimum wage

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# Industrial Relations in Europe 2010

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## CHAPTER 4: Wage flexibilisation and the minimum wage

*Setting wages is one of the key functions of industrial relations systems. In the context of the economic crisis and the debate about wage flexibility, the decentralisation of collective wage bargaining has continued to advance in most EU countries. At the same time, variable pay systems are providing an additional element of wage differentiation. In this environment, minimum wages could have an important role in providing a wage floor, yet the evidence shows that statutory minimum wages have had little effect on the incidence of low pay and growing wage inequality.*

*This chapter is based on a draft by Maarten Keune of the Amsterdam Institute for Advanced Labour Studies (AIAS, University of Amsterdam).*

### 4.1. Introduction

The context in which wages in Europe are negotiated has undergone important changes in the last decade. The ongoing globalisation of the economy, the deepening of the internal market and its expansion to the 12 new Member States that joined the EU between 2004 and 2007 have intensified competition in product and service markets and increased cross-border mobility. As a result, countries and workers are increasingly in competition with each other for jobs and investment, creating pressure on labour costs and modifying the power relations between employers and workers (Keune, 2008).

The European monetary union (EMU) was also deepened and expanded during the 2000s. By creating a common currency and common monetary policy EMU has created monetary stability in the euro area, evidenced during the present economic and financial crisis. However, it has also limited the range of adjustment mechanisms available to countries to adjust to asymmetric shocks, and placed increasing reliance on wage adjustments (Dyson, 2006). In addition, through its requirements as regards public expenditure and public debt criteria it creates pressure on wage levels, in particular in the public sector.

Concerning wage setting and its objectives, since the 1970s, solidaristic and productivity-oriented wage bargaining has gradually been replaced by competition-oriented wage bargaining (Schulzen, 2002; Marginson and Sisson, 2004). This has involved a shift of emphasis in wage bargaining from the pursuit of more egalitarian wage structures and the decoupling of wages from the specific circumstances of the individual company in favour of industrial and/or occupational solidarity, towards a stronger role for the market and for the competitive requirements of individual companies. It has also resulted in a widespread practice of wage moderation in which real wage growth is kept below productivity growth. Wage moderation has been a consistent feature of wage setting in the past two decades and, since its inception, in the euro area in particular (Keune, 2008; Ebbinghaus, 2004). One manifestation has been the continuous decline of the labour's share of total income in the EU. In the EU-15, the labour income share of GDP fell from 69.9 % in 1975 to 57.8 % in 2006; amongst the 12 new Member States, the labour income share has been on a downward trend since the mid-1990s, with the exceptions of the Czech Republic, Cyprus, Malta and Romania (European Commission, 2007). The decline of the labour income share

has been accompanied by growing wage inequality and the wages of the low skilled have been particularly affected (ibid.).

In this context, there has been ongoing debate in Europe over whether more wage flexibility is needed and/or desirable. Wage flexibility concerns the extent to which wages respond to market forces, that is the extent to which they can vary in response to changes in labour demand and supply, or according to individual, collective or firm performance, or following changes (shocks) in the macroeconomic environment. The degree of wage flexibility depends to a large extent on the prevailing wage-setting institutions, including the level and coverage of collective bargaining, the power relations between trade unions and employers, the presence and prominence of performance-related pay systems, the minimum wage, etc. These institutions may set limits to the influence of market forces, for example by compressing wage structures, constraining wage differentiation according to skills or to region, preventing downward wage adjustments, or reducing the responsiveness of wages to price and productivity developments.

It is often argued that wage-setting institutions in many European countries are too rigid, and that this results in insufficient wage differentiation, lower cost competitiveness for firms involved in global competition, lower workforce motivation and productivity, an in the end to higher unemployment (in particular for the low skilled by pricing them out of the labour market) and/or lower economic growth (e.g. OECD 2006; Arpaia and Pichelman 2007). Others, however, call for caution, pointing to the potential detrimental effects of

increased wage inequality on the quality of work and fairness, on collective wage-setting structures, on equality and social cohesion or on principles such as equal pay for equal work (e.g. Vaughan-Whitehead 2010; ILO 2008).

The ambition of the present chapter is not to settle the wage flexibility debate. Rather, the intention is to review developments concerning three important institutional aspects of wage setting that are closely related to the debate on wage flexibility: (i) the extent to which collective wage bargaining has been decentralised; (ii) the extent to which variable pay systems are used; and (iii) the role of the minimum wage.

The decentralisation of wage bargaining, from (inter-) sectoral, or multi-employer, level to company, or single-employer, level has for many years been proposed as one of the measures to increase the responsiveness of wages to local conditions, to strengthen the international competitiveness of firms and to improve macroeconomic performance (OECD 1994, 2006). The rationale for multi-employer bargaining has been questioned following the increase of international competition in particular, which, it is argued, makes it less feasible to take wages out of competition within the relevant product market (Arrow-smith and Marginson, 2008). At the same time, the evidence concerning the impact of collective bargaining structures on macroeconomic performance in general and on aggregate employment and unemployment in particular remains fragile and inconclusive (OECD, 2006; European Commission, 2006; Aidt and Tzannatos, 2005). Also, trade unions and in many cases employers' organisations and governments as well, are reluctant to

make radical changes to bargaining structures. They fear that the effect would be increased wage differentiation or that company bargaining would place too big a burden on small- and medium-sized companies. The chapter finds that in most countries where higher-level (sector and/or inter-sector) wage bargaining dominates there has been little change in bargaining arrangements for wages during the 2000s. Exceptions are Sweden, Finland, Denmark and Germany where decentralisation of wage bargaining arrangements has been a prominent feature. There has, however, been a more generalised decentralisation across the EU concerning negotiations over additional pay elements, including the (increasing) use of variable pay systems.

Variable pay systems (VPS) increase wage flexibility by linking wages more closely to individual, group or company performance. VPS are frequently expected to increase motivation, productivity and innovation, while for some they are an instrument to improve the redistribution of wealth and the strengthening of economic democracy. Although the evidence on these issues is mixed, this has not detracted from the interest in VPS. There are major differences in the incidence of VPS between countries and also between sectors and companies of different sizes. Whilst employers have tended to embrace VPS, the views of employee representatives and of trade unions towards them are mixed with differences apparent between and within countries. The use of VPS seems to be increasing over time, representing a specific form of flexibilisation of wage setting.

The minimum wage is a key factor that constrains wage flexibility by setting a wage floor in the

labour market. Depending on its level, the minimum wage can limit wage inequality as well as the incidence of low pay. This is especially relevant since trade union density and the level and coverage of collective agreements, factors that are negatively correlated with wage inequality (e.g. European Commission 2008, Chapter 3), are under pressure. The chapter establishes that low pay affects one out of every six workers in the EU and its incidence is higher in the countries where company bargaining dominates and coverage of collective agreements is low. Yet a statutory minimum wage is no guarantee against low pay: a further finding is that the countries with the highest level of low pay all have a statutory minimum wage. There are some possible connections and interactions between these three institutional aspects of wage setting. VPS almost always operate at company, or establishment, level and have hence added to the pressure to open up scope for company bargaining within sector agreements. The weakened capacity of sector-level collective bargaining arrangements in some countries, notably Germany, to provide comprehensive workforce coverage, together with the growing use of opening clauses in collective agreements in several countries, have heightened attention on the need for other e.g. statutory means to provide a minimum wage floor. This attention is further strengthened by the low and declining coverage of collective bargaining in countries with single-employer arrangements, a group that has been significantly augmented as a result of the 2004 and 2007 enlargements. The chapter concludes, however, that the capacity of statutory minimum wages to counter the effects of growing wage inequality and the problem of low pay is limited.

## 4.2. The level of collective wage bargaining: a trend towards decentralisation?

### 4.2.1. The importance of different bargaining levels

The main distinction that is generally made when considering the levels at which collective bargaining takes place is between single-employer bargaining at the company or local (establishment) level and higher-level, multi-employer bargaining, often at the level of a sector or branch. The two levels can also combine, when the multi-employer agreement sets out a framework that is further developed at company level, or when at company level derogations from higher-level standards are possible, for example in times of economic difficulties. Recent cross-country data charting the relative importance of the various bargaining levels come from the 2009 European Company Survey (ECS), a representative survey of establishments with 10 or more employees in 30 European countries (see Box 4.1) <sup>(1)</sup>. According to the ECS, of all employees in Europe covered by any type of agreement, 61 % fall under a higher (sector and/or inter-sector) level agreement (Chart 4.1). This includes 7 % where there is a company-level agreement as well as the higher one (so-called ‘two-tier bargaining’), and 5 % where the higher-level agreement contains scope for derogations at company level. For 38 % of employees, the company is the sole level of bargaining.

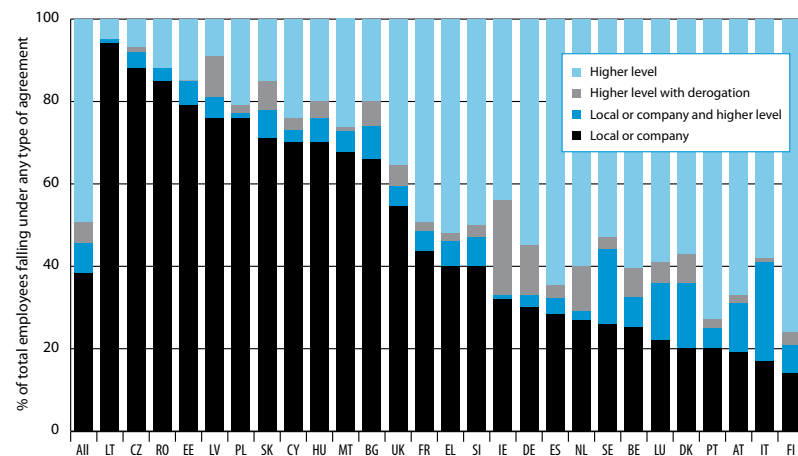
#### Box 4.1: The European Company Survey

The European Company Survey (ECS) is a large-scale establishment survey carried out by the European Foundation for the Improvement of Living and Working Conditions. The first ECS was carried out in 2004–05 and the second in 2009. The ECS 2009 covers 30 countries: the EU-27 plus Croatia, the former Yugoslav Republic of Macedonia and Turkey. The ECS is based on interviews with management and employee representatives in companies with 10 or more employees. In total, interviews were carried out in 27 160 establishments. The number of interviews per country ranges from almost 350 in Malta, the smallest EU economy, to around 1 500 in the EU’s larger economies. In all establishments, a management interview was carried out. In addition, an interview was sought with the chairperson of the employee representative body — if one existed. This resulted in 6 569 interviews, which represents about 50 % of all companies in the sample that had employee representatives. The survey data are representative of establishments with 10 or more employees from all sectors of activity, except for agriculture, fishing, activities of households and extraterritorial organisations. The survey covers organisations from both the private and public sectors.

The ECS 2009 covers different forms of working time flexibility (flexitime and working time account systems, part-time work, overtime work and work at unusual hours), the application of non-permanent employment contracts (external flexibility), aspects of wage flexibility as well as modes of enhancing the employability of staff for different tasks (functional flexibility). Moreover, the survey investigates the general structures and practices of collective bargaining and company-level employee representation in Europe, shedding light on the different channels of representation, on available resources and on the impact of social dialogue on company decisions in different areas. The findings provide a unique insight into company strategies as well as into workplace social dialogue structures and practices. The ECS is also a unique source of European-wide comparative company-level data on the use of variable pay systems (VPS).

Source: European Foundation for the Improvement of Living and Working Conditions (2010).

Chart 4.1: Employees falling under different levels of collective agreements, 2009 (establishments with 10 or more employees)



Source: J. Visser, ICTWSS Database 3.0, 2010; the averages for EU-27, EU-15 and EU-12 are weighted.

<sup>1</sup> Thanks to Gijs van Houten of the European Foundation for the Improvement of Living and Working Conditions for providing the ECS data used in this chapter.

**Table 4.1: Employees falling under different levels of collective agreements, private and public sector, 2009 (% of total employees covered by any type of agreement, establishments with 10 or more employees)**

	Local or company		Local or company and higher level		Higher level with derogation		Higher level	
	Private	Public	Private	Public	Private	Public	Private	Public
EU-27	44	26	6	8	6	5	44	62
AT	17	37	12	7	1	6	69	51
BE	29	11	8	7	9	2	55	80
BG	77	58	4	12	2	9	17	22
CY	76	56	3	4	1	7	20	33
CZ	86	90	5	2	1	1	7	7
DE	38	4	4	1	13	10	45	86
DK	31	5	21	9	6	8	42	78
EE	85	n.a.	0	n.a.	0	n.a.	14	n.a.
ES	28	27	4	5	4	1	63	67
FI	17	6	7	8	2	3	73	83
FR	52	23	5	5	1	2	42	69
EL	46	21	7	2	1	3	45	74
HU	72	67	6	6	2	6	20	21
IE	44	8	1	1	26	16	29	74
IT	18	15	19	40	1	1	63	44
LT	94	95	0	1	0	0	6	3
LU	28	3	17	3	5	4	51	90
LV	69	79	4	6	16	7	11	9
MT	82	n.a.	0	n.a.	1	n.a.	17	n.a.
NL	36	20	0	4	14	7	49	69
PL	95	55	0	3	1	2	3	40
PT	22	4	5	4	2	0	71	92
RO	91	71	2	4	0	1	6	25
SE	33	17	15	21	4	3	48	59
SI	55	10	10	3	4	1	32	86
SK	87	58	5	7	3	11	5	23
UK	69	26	4	7	4	5	23	62

Source: ECS 2009.

There is great diversity across Europe, however. Company-level bargaining is dominant (i.e. covers above 50 % of the total of employees covered by any type of agreement) in the UK and 11 of the 12 new Member States (the exception being Slovenia). Higher-level bargaining, including two-tier bargaining

and higher-level agreements with derogation clauses, is dominant in the EU-15 (except for the UK) and Slovenia. Two-tier bargaining features most prominently in terms of employees covered in Italy, Sweden and Denmark; while Ireland and Germany have the highest percentage of employees covered by higher-level

agreements which contain derogations (see also below) <sup>(2)</sup>.

<sup>2</sup> In Ireland, there are only few sectoral collective agreements and they do not tend to include derogations. However, in the survey respondents probably refer to the national social pacts which have included an inability-to-pay clause since 2003, which also includes key conciliation and dispute-settling functions for the Labour Relations Commission (LRC) and the Labour Court (van Klaveren forthcoming).

Important differences also emerge when comparing the public and the private sector, with bargaining being noticeably more decentralised in the latter (Table 4.1). On average, for the private sector, of those employees covered by any type of agreement, bargaining is exclusively at company or establishment level for 44 %. In contrast, this is the case for only 26 % in the public sector. In some countries, single-employer bargaining hardly features at all in the public sector; 5 % or less if public sector employees are covered by local agreements in Portugal, Denmark, Germany and Luxembourg. The main exceptions to the broad picture are Austria and Latvia where there is substantially more local bargaining in the public than in the private sector. Conversely, higher-level bargaining is much more widespread in the public sector than in the private sector: of all public sector employees covered by any type of agreement 75 % fall under a higher-level agreement as compared to 56 % of private sector employees.

The differences in the importance of the various bargaining levels between countries and between the public and private sector have important implications. Two issues are of major significance here. One is that higher-level bargaining leads to more equal wages and working conditions in the companies or organisations falling under such agreements, taking a number of standards out of competition in the respective sector. Conversely, company-level bargaining allows for the definition of wages and working conditions in line with the specific circumstances of the respective company or organisation, leaving more space for tailored competitive strategies, which foster wage inequalities.

The other is that there is a clear link between the dominant level of bargaining and the percentage

of employees covered by collective agreements. The coverage of collective bargaining in the countries where company-level bargaining is dominant is markedly below that of the countries where higher-level bargaining is dominant (the only exception being Romania). In the former group coverage falls between about 15 and 55 %, while in the second group it ranges from about 60 to 100 %. Multi-employer agreements by themselves already cover large numbers of companies or establishments that are directly part of the agreement. In addition, in a number of countries collective agreements can also be extended to cover entire sectors or branches, substantially increasing their coverage in this way (see Chapter 1).

#### 4.2.2. Developments over time and across countries

As discussed in Chapter 1, decentralisation has been an important feature of developments in industrial relations in Europe in recent decades. The most extreme form of decentralisation follows from a decline in the coverage of collective agreements, resulting in more individual bargaining between employer and employee or to the unilateral definition of wages and working conditions by employers. Chapter 1 showed, however, that across the EU collective bargaining coverage has been relatively stable over the 2000s, with only a slight decline. More commonly decentralisation takes the shape of a shift in emphasis between bargaining levels, with the importance of company- or local-level collective bargaining gaining at the expense of sectoral collective bargaining, or of sectoral bargaining gaining at the expense of inter-sectoral bargaining. Decentralisation of collective bargaining towards company level is seen as a way of flexibilising wage setting and

linking wages more closely to the competitive position and requirements of individual companies. In terms of the process involved, Traxler (1995) distinguishes between organised decentralisation — increased scope for company-level bargaining but within the framework of rules and standards set by higher-level agreements — and disorganised decentralisation, that is, the replacement of higher-level bargaining by company bargaining.

Amongst the EU-15, the UK underwent a process of disorganised decentralisation during the 1980s and 1990s, as sector-level, multi-employer agreements were almost entirely displaced by single-employer, company or local-level, bargaining arrangements in the private sector. As a result, bargaining coverage declined from 70 % in 1980 to 34.8 % in 2007. To some extent developments in the central and east European (CEE countries) Member States in the early 1990s can also be viewed as a rapid process of disorganised decentralisation. Although before 1990 sectoral bargaining never played an important role in most of CEE countries and collective bargaining has always taken place mainly at company level, the central state had an important influence on wage setting and coverage rates were high. After 1990, in most CEE countries central elements disappeared from the wage-setting process (with the important exception of the minimum wage) and coverage rates declined rapidly. The main exception was Slovenia, where a continuous series of inter-sector social pacts and extensive sectoral bargaining have played a key role in wage setting (Stanojevic, 2010) <sup>(3)</sup>.

<sup>3</sup> Sectoral bargaining plays a substantial role as well in Slovakia; however, its significance has been declining recently as the number of multi-employer agreements concluded declined from 53 in 2004 to 37 in 2008 and the number subject to legal extension fell from eight to two in the same period (Cziria 2008; 2010).



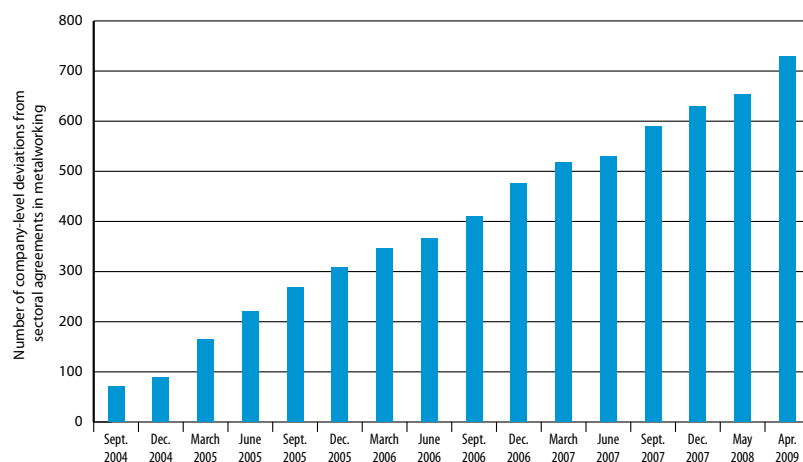
Organised decentralisation is largely an issue for the EU-15, where (inter) sectoral bargaining continues to play a major role. However, developments in the 2000s have not extended to all of these countries, and in those where a measure of (further) decentralisation has taken place, the extent of any change differs. Most profound has been the process of organised decentralisation of wage bargaining in the Nordic countries, and further organised decentralisation, but also the appearance of a disorganised dimension, in Germany. In Sweden, until the late 1980s private sector wage bargaining was undertaken at the central level, moving down to the sectoral level in the 1990s. In recent years, however, wage bargaining has continued to take place at the sector level in only a minority of sectors; more and more actual pay levels are determined at the local level within the context of sectoral guarantees concerning e.g. the minimum pay rise (Stokke, 2010). Similarly, in Denmark, following a process of decentralisation which started in the early 1990s, most employees are covered by sectoral agreements that now only set the sectoral minimum wage, leaving the rest up to local bargaining (Stokke, 2010; Ilsøe et al., 2007). In both countries wages can vary substantially between enterprises in the same sector. In Finland a tradition of 40 years of centralised wage agreements came to an end in 2007 as the Confederation of Finnish Industries decided not to participate further in central negotiations. As a result, wage bargaining moved down from the central level to the sectoral level. One of the key rationales for Finnish employers to press for such decentralisation was to enlarge the scope to introduce variable pay systems (Arrowsmith and Marginson, 2008). In Slovenia too, bargaining seems to be moving down from the inter-sector to sectoral level, with the

tradition of central agreement looking to have come to an end following the expiry of the most recent accord in 2009 (see Chapter 1).

Germany has also experienced a marked decentralisation of bargaining in the past decade, resulting in a significant shift of responsibilities from the sectoral level to the level of the company (Bispinck, 2008). The organised dimension to this process is driven by several mechanisms. First is the increased use of variable pay systems and in particular profit-related bonuses (see next section). Second is the increased use of opening and hardship clauses which allow company agreements to derogate from collectively agreed standards. Traditionally such clauses were designed for companies suffering from acute but temporary economic difficulties. In recent years, however, this has changed. The key agreement in this respect was the Pforzheim Agreement concluded in the metalworking and electrical industry in 2004, which allowed deviations from collectively agreed standards in certain cases in order to maintain and improve competitiveness, innovative capability

and investment (ibid.). Hence, opening clauses are now not only accessible for companies in acute economic difficulties but also for companies that more generally suffer from competitive pressures. As a result, the use of such clauses rapidly rose from 70 company-level derogation agreements in 2004 to 730 agreements in early 2009 (Chart 4.2); around 70 % of these agreements include derogations concerning wages (Bispinck and Schulten, forthcoming). Similarly in the chemical industry derogations concerning wages have been on the increase, from 6 in 1997 to 28 in 2003 to 115 in 2009 (ibid.). Thirdly, the number of sectoral collective agreements that have been legally extended has fallen steadily, from 408 in 1991 to 242 in 2005 (Bispinck, 2008). Fourthly, the coverage of collective agreements has fallen sharply since the mid-1990s also because of the growing propensity of employers to leave, or not join, employers' associations (see Chapter 1). In combination, these two factors have reduced the significance of the sectoral agreements and brought a disorganised element to the process of decentralisation in Germany.

**Chart 4.2: Number of company-level deviations from sectoral agreements in metalworking in Germany by quarter, 2004–09**



Source: Bispinck and Schulten (forthcoming).



In other EU-15 countries there has not been such a pronounced trend towards decentralisation of wage bargaining over the past decade. In Italy the picture has not changed much over the past 15 years. Since the conclusion of the July 1993 Pact, cost of living related wage increases have been negotiated at the sectoral level while company-level bargaining has dealt with additional pay elements linked to productivity, quality and competitiveness improvements, or company economic performance (Pedersini and Coletto, 2009). The incidence of such company bargaining has not, however, extended beyond 30 % of the private sector workforce and the take-up of the territorial alternative (potentially more attractive than company-specific negotiations to small- and medium-sized enterprises) has been low. This may change in the near future, however. In January 2009, a number of employers' organisations including the main Confindustria confederation, concluded the framework agreement for the reform of the collective bargaining system with two of the three main trade union organisations, UIL and CISL. The agreement was sponsored by the government which also signed it as the employer in the public sector. It promotes certain types of decentralisation of collective bargaining. Most importantly, it provides the possibility to introduce opening clauses permitting company-level collective bargaining — or territorial-level bargaining — to change in pejus the standards of sectoral agreements, including wages, in order to deal with situations of economic crisis and restructuring, or to promote economic and employment growth. The largest trade union confederation, CGIL, refused to sign the agreement considering that it would break the integrity of the national bargaining structure and weaken workers' protection (Pedersini, 2009). For the moment it is not yet clear if the agreement will

indeed lead to more decentralisation of collective bargaining, as the opposition of the largest trade union may prove to be a major obstacle to its implementation.

In France, the so-called 2004 Fillon law enacted a reform intended to further the decentralisation of collective bargaining. The law reversed the traditional favourability principle, which stated that lower-level collective agreements could not deviate from higher-level agreements to the detriment of the employee. It provides that lower-level agreements can deviate from higher-level agreements unless this is specifically forbidden. In doing so, it explicitly aims to promote company-level bargaining. Nonetheless, under the Fillon law the favourability principle remains in force in respect of four themes which are exempted from derogation at company level: minimum wages; job classifications; supplementary social protection measures; and multi-company and cross-sector vocational training funds (Ramos Martin, forthcoming). As a result, the possible effects of on wage bargaining are limited to additional wage elements which are not exempted, such as performance-related pay, shift allowances child-birth allowances, seniority payments, etc., the basic features of which have been commonly agreed at sectoral level. An evaluation of the impact of the reform published by the Ministry of Labour Social Relations and Solidarity in 2008 finds that there have been no notable changes in the levels at which bargaining takes place and that employers and trade unions continue to follow well-established practices (Dufour, 2008).

In Austria the sector level remains firmly established and decentralisation is limited. Some wage flexibility

is provided by the so-called 'distribution option', part of the metalworking collective agreement since 1997 (Adam, 2009a). Under this provision, the works council and the employer can redistribute a certain amount of the total wage bill at company level. For example, in 2007, 0.3 % of the actual wage increase could be distributed flexibly, in line with certain criteria (e.g. compensation for especially low incomes or high performance, reduction of the gender-related pay gap, etc.) to be agreed upon by the parties to the works agreement. More recently, an obligatory 'distribution pot' (Verteilungstopf) was included in the metalworking collective agreement, effective as of 2010, under which the employer is obliged to distribute a fixed amount of the total wage bill among the employees based on three criteria: work performance (including social skills); improvements of the company's pay structure in favour of low pay; and equal treatment of female and male workers (ibid.). Compared to the Nordic countries and Germany, however, this amounts to a highly limited form of decentralisation; the basic wage is still firmly set at the sectoral level. Similarly, in Belgium, the Netherlands and Spain decentralisation has hardly affected the predominant role of sector and intersectoral wage bargaining in determining the basic wage.

This does not mean, however, that in the latter countries no decentralisation of wage setting has taken place. As discussed in the following section, variable pay systems regulating additional pay elements related to individual or company performance are growing in importance across Europe. Similarly, in a number of countries cafeteria-type arrangements under which employees can exchange a defined part of their wages for additional free time or additional pension

contributions play an increasing role at the company level. The basic features of such types of flexible wage setting may still be defined in sectoral collective agreements, but their actual outcomes depend on the performance of companies or individuals and in the case of cafeteria plans also on the preferences of the latter.

The present economic and financial crisis has intensified the debate on the decentralisation of wage bargaining in some countries (see Chapter 3). The fact that the impact of the crisis differs strongly between companies even within the same sector has brought current sector wage-setting arrangements under renewed pressure, as in Austria for example (see Box 4.2). In the Nordic countries and Germany there are a number of examples of crisis-induced organised decentralisation, with sectoral agreements providing for additional opt out possibilities related to the crisis (see Chapter 3; also Glassner and Keune 2010). In Ireland, a long tradition of national-level pay agreements has come to an end as government, unions and employers' organisations could not come to agreement on wage policy during the crisis (see Chapter 3). For the moment voluntary coordination of wage bargaining between unions and employers governs wage setting, which may point to a return to centralised pay agreements at some point in the future. Elsewhere amongst the EU-15, however, the crisis does not seem to have led to, or created pressure for, further decentralisation of wage bargaining.

### 4.3. Variable pay systems

A second issue which is of paramount importance for wage flexibility is that of variable pay systems (VPS). Under variable pay systems, on top

#### Box 4.2: The Austrian wage bargaining system under strain because of the crisis

In Austria, the Federation of Austrian Industry (Industriellenvereinigung, IV) recently called for Austria's common practice of multi-employer agreements to be replaced by company-level settlements. Such a change would signify a breach of Austria's traditional system of annual sectoral collective bargaining. IV argued that any wage increases concluded at sectoral level would substantively threaten those enterprises currently operating at a loss due to the economic crisis. IV's demand was strongly rejected by the trade unions, which called for the conclusion of sector agreements providing for decent increases in wages as a means of sustaining domestic purchasing power and therefore economic activity (at a time of sharp decline in exports and investment expenditure). After a series of unsuccessful negotiating rounds in several sectors of the economy during April and May 2009, the trade unions accused the employers of apparently adopting a concerted strategy of obstructing wage negotiations. As of mid-May, talks in about 10 sectors employing some 400 000 workers were deadlocked, including electronics, textiles, road haulage, paper, chemicals, information technologies and graphic design. Five of the strongest trade unions organised a demonstration on 13 May, involving some 25 000 participants, with the aim of pressurising the employer side to return to the negotiating table.

For the moment, it seems that the Austrian system of sectoral wage bargaining will survive this crisis. In November 2009 the pattern-setting metalworking industry concluded a new sectoral agreement, after protracted negotiations. The agreement sets a real wage increase for the sector of about 1 %, similar to previous years. It also includes a commitment from the side of the trade unions to enter into negotiations with the employer side on working time flexibility and to present proposals on how to render working time more flexible in the sector.

*Source: Adam (2009b, 2010).*

of the 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 for many years been a hotly debated issue. The classical economics questions in this debate are to what extent monetary incentives can improve firm performance and workers' productivity, skills, motivation and involvement in process and product innovation, and what the role of such incentives is in attracting and retaining core staff (e.g. Lazear, 2000; Blinder, 1990; Cox, 2005; Robinson and Wilson, 2006; Marsden and French, 1998). Closely related is the question to what extent VPS are an instrument of flexibilisation in terms of adjusting wage costs to firm performance and in particular in reducing wage costs in times of economic hardship. An alternative to these efficiency-based approaches are those dealing with the contribution of profit sharing and employee share

ownership to the redistribution of wealth and the strengthening of economic democracy (e.g. Gold, 2003; Standing, 1999). Finally, there are an increasing number of studies trying to map and explain the emergence of VPS from a more institutionalist perspective and to understand the respective roles of public policy, workers' representatives and management (Pendleton et al., 2002; Nergaard et al., 2009; Kabst et al., 2006; Vaughan-Whitehead et al., 1995).

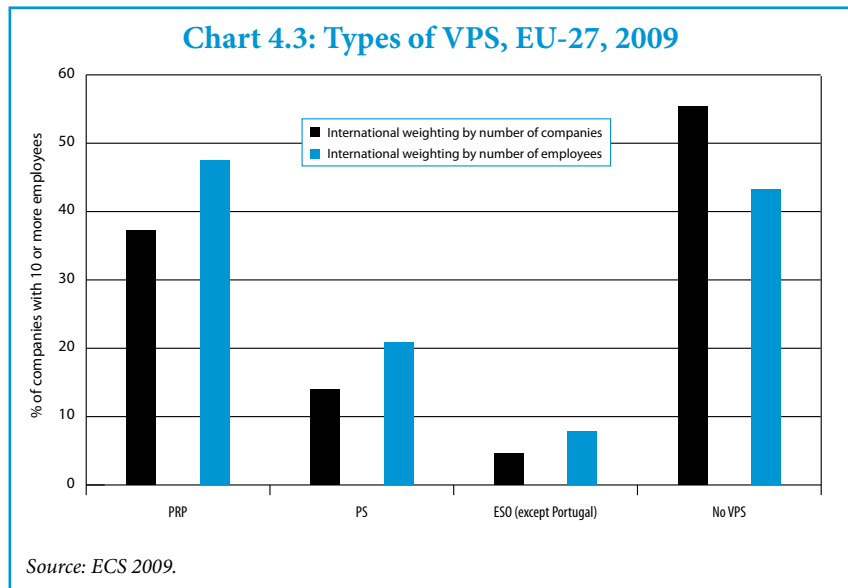
The debates on variable pay, and in particular on the efficiency-based approaches, are rather inconclusive: whereas many studies point to a positive relationship between VPS and productivity or firm performance, others shed doubt on these results, finding that there is no or even a negative relationship, whilst yet others identify factors conditioning any relationship. There is also a lack of comprehensive comparative data and research.

This section draws on new comparative data from the European Company Survey (ECS) on the use of various types of VPS in Europe across the EU. It identifies differences between countries, sectors and enterprises of different sizes and considers some of the factors which might account for cross-country differences in particular. The ECS data also throw light on the motives management has for implementing VPS and on the respective position of employee representatives towards these schemes. The focus is on the use of three major types of VPS: individual and team-based performance-related pay (PRP), profit sharing (PS) and employee share ownership (ESO) (4). Since the ECS provides data only for one point in time, reference will be made to other sources to gain some indication of developments over time in the use of VPS. The discussion is largely confined to the private sector since PS and ESO, with Box 2.1 briefly comparing the situation in the public sector.

### 4.3.1. The incidence of VPS in the private sector

Variable pay systems (VPS) are a widespread, although far from universal, feature of contemporary pay systems in the EU. Across the EU-27, one of more types of VPS are found in 44.5 % of companies with 10 or more employees, employing 56.6 % of employees. Conversely, this means that just over half of companies, employing just under half of the relevant workforce, do not use any form of VPS (Chart 4.3). Of the three types of VPS distinguished above, performance-related pay, based on individual or team performance,

4 Unfortunately, for performance-related pay, the ECS did not differentiate between traditional output-based schemes and more recent appraisal-based schemes.



is by far the most frequently used: Chart 4.3 shows that 37.2 % of companies employing 47.5 % of employees have some form of performance-related pay. This reflects the widespread belief that performance pay leads to higher productivity and improved company performance, even though, as noted above, there is no consensus on this relationship amongst the many studies undertaken. Much lower is the incidence of employee financial participation through profit sharing schemes (14.0 % of companies, employing 20.9 % of employees) and employee share ownership schemes (4.6 % of companies, employing 7.9 % of employees). Set against the initiatives from the European Commission to promote employee financial participation, these latter figures seem low (5).

The occurrence of VPS in the EU is closely related to three key factors:

5 As early as 1989, the European Commission included employee financial participation among the priority objectives of its action programme for the implementation of the Community Charter of Basic Social Rights of Workers, followed by a Commission recommendation on this issue (1992) and a Commission 'Framework for promoting employee financial participation' in 2003 (Lowitzsch 2006).

country, sector and size (a fourth factor concerns the public-private sector divide, see Box 4.3). Large differences in the use of VPS can be observed between countries (Chart 4.4). For example, while in the Czech Republic as many as 71 % of companies use PRP schemes, in Hungary only 19.8 % of companies do so. Similarly, profit sharing is used in 35 % of French companies but only in 2.9 % of Italian companies, whilst employee share ownership is found in 12.9 % of Danish companies but only in 0.9 % of Lithuanian ones. The main factor explaining these differences may concern different institutional contexts, i.e. different rules and regulations that govern the use of VPS. For example, the high level of PRP in the Czech Republic is likely to be linked to the fact that the Czech Labour Code, unique in the EU in this respect, specifically encourages performance pay. Indeed, it stipulates that 'wages and pay shall be provided according to the complexity, responsibility and strenuousness of work; according to the difficulty of working conditions; according to work performance and achieved work results' (Arrowsmith and Marginson, 2008: 20). It also

provides for binding rules regarding extra pay and personal bonuses whereby consistently high levels of performance may be rewarded with an individual bonus of up to 50 % of the pay tariff of the highest wage level in the particular pay grade (ibid.). In Slovenia, where the incidence of PRP schemes is also high, it is the social agreement between the national social partners for the period 2007–09 that advocated relat-

ing wages to productivity (ibid.). 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 since the 1960s. This scheme requires companies to set aside a statutorily defined percentage of their profits for distribution to employees (van het Kaar and Grünell, 2001). In Denmark, multiple options and tax

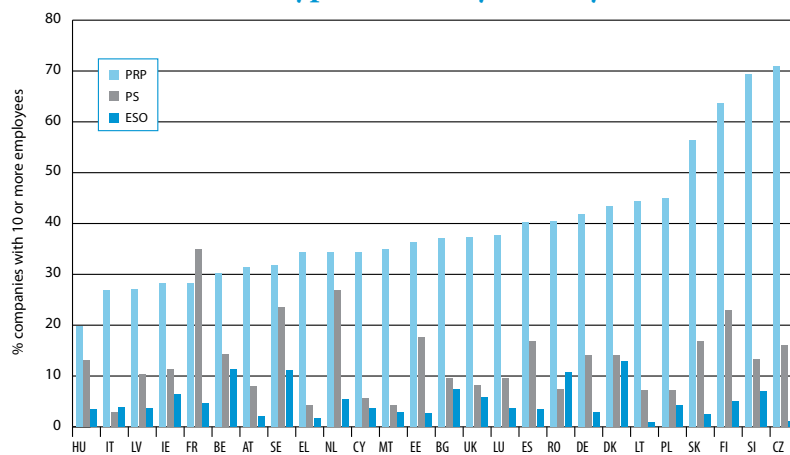
benefits serve to promote employee share ownership and ESO schemes are increasingly subject of collective bargaining. Through such statutory or collectively agreed regulations and promotional measures the state and the social partners can play a decisive role in promoting the use of VPS.

There are also clear differences in the use of variable pay schemes between sectors (Chart 4.5). The three types of VPS are most prevalent in financial intermediation followed by real estate and business services, and by trade and repair. Conversely, in health and social work, public administration and defense, and education, only limited use of VPS is evident. The sectors with a high incidence of VPS often have a long tradition of individual and collective financial incentives.

In addition, 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 rewards improvements in education and training (van het Kaar and Grünell, 2001).

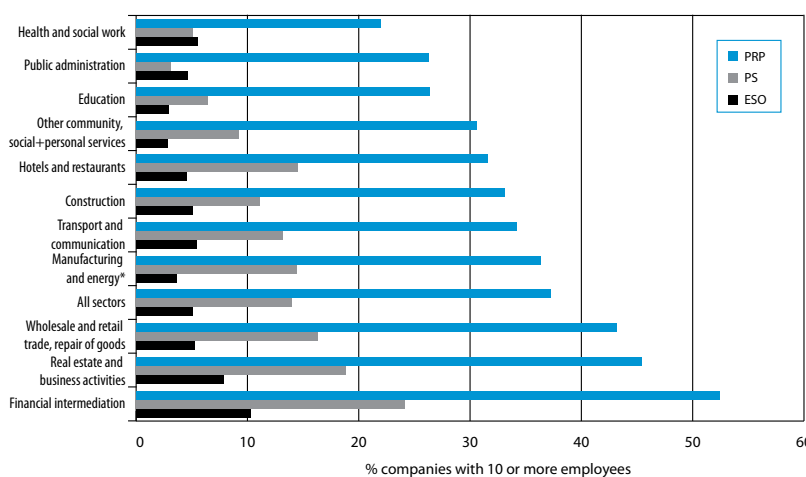
Turning to size, the use of all three types of VPS increases continuously with the employment size of establishments (Chart 4.6). Comparing companies with 10-19 employees to those with 500 or more employees, the incidence of PRP schemes in the largest establishments is twice that in the smallest. For PS and ESO schemes, the respective differences are 2.3 and 3.6 times. Amongst enterprises with 250 or more employees, over 60 % apply PRP schemes, some 27 % use PS schemes and some 13 % have ESO schemes, all far above average. This is not surprising: designing and implementing VPS schemes often requires substantial management

Chart 4.4: Types of VPS by country, 2009



Source: ECS 2009.

Chart 4.5: VPS by sector, 2009



Note: 0.4% (or 69) of companies reported being classified to NACE sector public administration and defence. \* This might be a misclassification (the manufacture of defence equipment is classified elsewhere) or the companies might provide support services.

Source: ECS 2009.

### Box 4.3: comparing VPS in the public and private sector

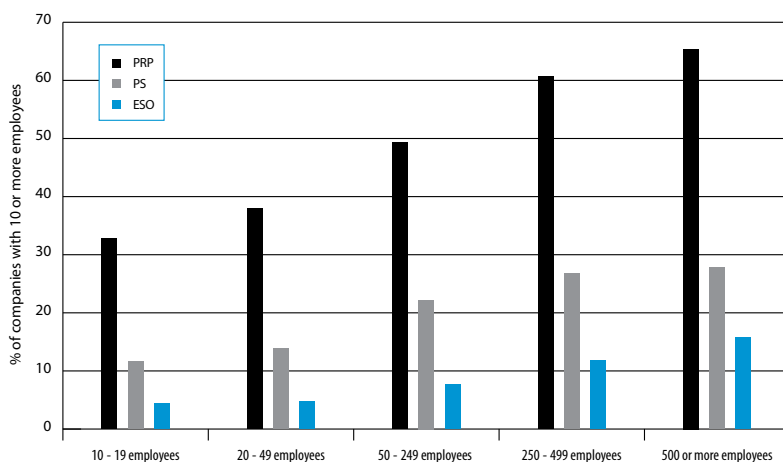
VPS are by no means the prerogative of the private sector. In the public sector more than one-third (36 %) of establishments use at least one type of VPS. This is well below the respective figure for the private sector (44.6 %) but still important. The major difference from the private sector is that VPS in the public sector is largely confined to performance related pay (PRP). PRP schemes are used in 33 % of public sector establishments, close to the 37.2 % figure for the private sector. Forms of financial participation by employees are scarce, reflecting the different ownership and non-profit status of many public sector organisations. Even so, almost 6% of public sector establishments reported profit sharing (PS) schemes and 2 % employee share ownership (ESO) schemes.

#### VPS in public and private establishments, EU-27, 2009 (% establishments)

	Public	Private
PRP	33.0	37.2
PS	5.7	14.0
SO	2.0	4.6
No VPS	63.9	55.4

Source: ECS 2009.

#### Chart 4.6: VPS by company size, EU-27, 2009



Source: ECS 2009.

involvement, administrative capacity, expertise in HRM techniques, etc. (Cox, 2005). Larger companies are more likely to have these resources than smaller ones. This is also consistent with findings that multinational companies have, in many countries, been among the main promoters of variable pay schemes (Marginson and Meardi, 2009).

These differences by size also point to the fact that the percentage of companies using such schemes says little about the percentage of employees covered by them. Because VPS are more widespread amongst larger companies, the percentage of employees covered is consistently higher than the percentage of companies (as shown in Chart 4.3).

### 4.3.2. Management motives and employee representatives' attitudes

The ECS gives some insight into the motives management has for the introduction of VPS. In particular it has identified the reasons why managements decide to introduce such schemes. Chart 4.7 reports the findings for profit sharing schemes (6). The most important management motive for the use of profit sharing is to increase staff motivation: more than 60 % of managers see this objective playing a large role in the decision to adopt profit sharing schemes and over 20 % see it playing at least some role in this respect. Between 40 and 50 % of managers see profit sharing as an important instrument to boost employee productivity, improve employee involvement in process and product improvements, and attract and keep well-qualified staff. Another 20 to 30 % see these three objectives play some role in adopting profit sharing schemes. Cost containment does not emerge as a salient rationale: some 60 % of managers say that the reduction of wage costs in periods when economic activity slackens plays little role in adopting profit sharing schemes. Hence, from the perspective of management, such schemes are primarily oriented towards improving the functioning of human resources and assuring the continued availability of personnel of the appropriate quality.

Trade unions have varying positions on VPS, both between and within countries. Concerning between-country differences, in some countries (e.g. Ireland or Italy) unions see VPS as a way to give employees a share in favourable company results, with the Irish unions seeing variable pay also as a way of broadening

6 Comparable data on the other two types of VPS were not available.

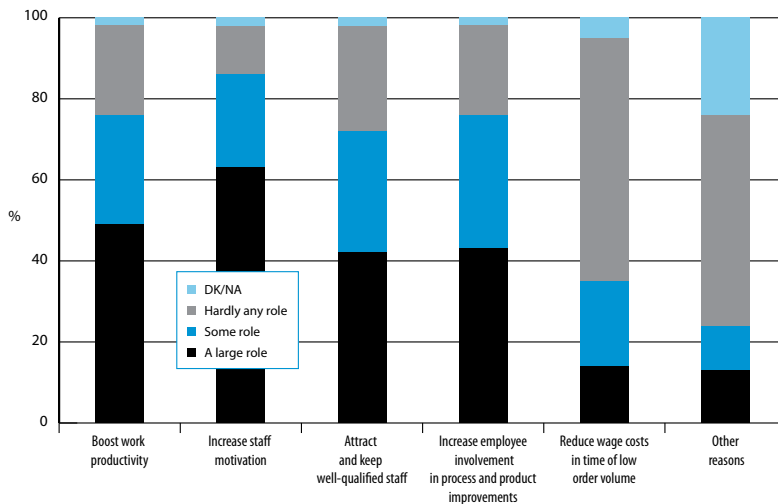


employee ‘stakeholding’ in the enterprise; while in others (e.g. Belgium and France), unions believe that workers should not have to shoulder the burden of corporate risk through variable pay (van het Kaar and Grünell, 2001). Trade unions also fear that VPS may affect basic wages, lead to greater wage inequality and potentially undermine solidarity and principles like equal pay for equal work. In most central and

east European Member States trade unions accept VPS elements as long as long as they are paid on top of collectively agreed wages; although in the Czech Republic (where the incidence of PRP schemes is the highest in the EU) the policy of the main trade union confederation, ČMKOS, is to increase base wages as a proportion of earnings and thereby to reduce the variable proportion (Arrowsmith and Marginson, 2008).

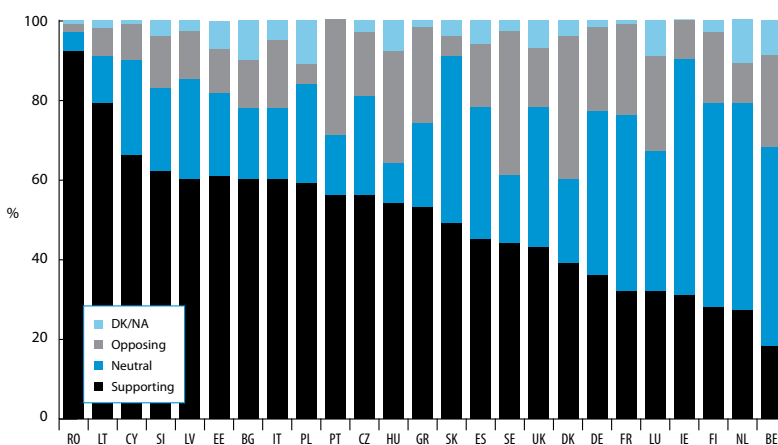
The position of company-level employee representatives varies both across and within countries, with responses ranging from cautious cooperation to confrontation with management, depending on the type of VPS in question, the institutional context and the local power relations (Nergaard et al., 2009). As Chart 4.8 shows, in the central and east European Member States 50 % or more of company-level employee representatives are supportive of VPS, while — with the exception of Hungary — the percentages opposing VPS are low (7). At the other end of the spectrum, in the Netherlands, Belgium and Finland the percentage of employee representatives supporting VPS is below 30, while in particular in Sweden and Denmark the positions of employee representatives are rather polarised with a substantial share supporting and a substantial share opposing VPS.

**Chart 4.7: Management’s motives for introducing profit sharing schemes**



Source: ECS 2009.

**Chart 4.8: Attitude of company-level employee representatives towards VPS, by country, 2009**



Source: ECS 2009.

### 4.3.3. Developments over time

The ECS presents a picture of the situation concerning VPS at one moment in time and does not allow for comparisons over time. The consensus in the literature is that the use of VPS has been increasing in recent years (Arrowsmith and Marginson, 2008; Kersley et al. 2004; Welz and Fernández-Macías 2008), including appraisal-based forms of PRP and forms of profit sharing and profit-related pay. Not all types of VPS are, however, on the rise; in particular, the use of piecework, one of the most traditional forms of performance pay, is in decline. This follows changes in job requirements, which increasingly emphasise quality, flexibility and teamwork (Arrowsmith and Marginson, 2008).

7 The data available did not allow a differentiation according to the different types of VPS.

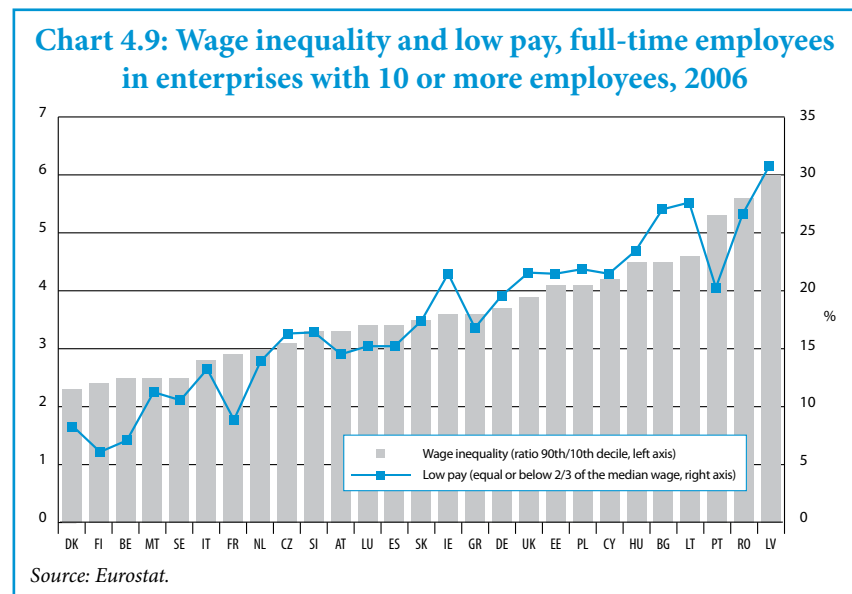


Growth in the use of VPS reflects the growing interest in variable pay arrangements on the part of employers (see above). In some countries, institutional factors have also been important, as indicated earlier. The growth of VPS has prompted, and been facilitated by, the decentralisation of pay setting. As Arrowsmith and Marginson (2008) show, VPS are only to a limited extent regulated by multi-employer agreements, through general recommendations or procedures, and are more usually left to company-level negotiation or determination. The result, the authors argue, has been unilateral implementation of schemes by companies, more marked in some countries than others, as well as their introduction through negotiations with local trade unions or works councils. The increasing use of variable pay may then undermine the relevance of sector-wide collective agreements, while also contributing to the further individualisation of employment relations.

## 4.4. The minimum wage

### 4.4.1. Low pay and wage inequality

The minimum wage is relevant to the issue of wage flexibility as it sets limits to wage flexibility by establishing a wage floor in the labour market. Depending on the level at which the minimum wage is set it may also play an important role in containing wage inequality and low pay. The generalised decline of trade union density across Europe, combined in some countries with a declining coverage of collective wage bargaining and/or the decentralisation of wage bargaining, factors that are negatively correlated with wage inequality (European Commission,



2008, Chapter 3), make the minimum wage all the more relevant in this respect. Other factors too are leading to increasing concern about wage inequality and low pay, including the rise of non-standard flexible employment contracts and the growing use opening clauses in collective agreements in certain countries, in particular Germany (see above). Worries concerning low pay are further strengthened by the increased mobility of labour within the EU (Vaughan-Whitehead, 2008). In countries receiving migrants from central and eastern Europe, it is often feared that these workers will be forced to accept low pay and that, in turn, this will result in downward wage pressure for domestic workers. In sending countries, low pay is seen (or this was the case at least until the onset of the crisis) as a motive for outward migration, resulting in shortages of workers and skills.

The incidence of low pay and the extent of wage inequality vary substantially across the EU, as Chart 4.9 shows. The chart also shows a clear positive correlation between the two indicators. In the countries where

wage inequality is highest, low pay is also most widespread. Low pay, here referring to full-time employees in enterprises with 10 or more employees who are paid at, or below, two-thirds of the median wage, averages 17.2 % for the EU-27. This represents one out of every six employees. If part-time employees and employees in small enterprises were to be included in the calculation, this percentage would most likely be substantially higher. Low pay affects more than a quarter of employees in four countries: Bulgaria, Romania, Lithuania and Latvia, reaching 30.9 % in the latter. The proportion affected is below 15 % in the Nordic countries, Belgium, France, Austria, the Netherlands and Italy, all countries where multi-employer bargaining dominates and/or extensions of collective agreements by the state play a crucial role. With only a few exceptions low pay and wage inequality are higher in countries where company-level bargaining dominates and coverage of collective agreements is low, while both are lower in countries where higher-level bargaining dominates and coverage rates are high. The most

striking exception here is Germany where, at 19.6 %, low pay is above the EU average and only just below the level in some of the countries where company bargaining dominates, including the UK and Poland. This may well result from the disorganised element that has emerged in Germany where collective bargaining has been further decentralised (see the first main section).

Wage inequality, here defined as the ratio between the 90th and the 10th decile in the distribution of wages, is lowest in Denmark (ratio of 2.3) and highest in Latvia (ratio of 6.0). Again, wage inequality tends to be greatest where company bargaining dominates and collective bargaining coverage is lower. Conversely, it is lowest where higher-level bargaining dominates and collective bargaining coverage is higher. In contrasting ways, the Czech Republic and Portugal would seem to be the main exceptions to this pattern (see Chart 4.9).

#### 4.4.2. The statutory minimum wage

Minimum wages can be set by law or by collective agreements. Statutory minimum wages are the most common mechanism. Twenty out of 27 Member States have a statutory minimum wage and in some of the other seven there is debate over the desirability of introducing a statutory minimum wage or devising, or strengthening, functional equivalents.

The presence of a statutory minimum wage does not, however, necessarily lead to a lower incidence of low pay: the seven countries with the highest level of low pay all have a statutory minimum wage. The absolute level of the statutory minimum wage, its relative value as compared to the average wage and its enforcement are the key

**Table 4.2: The statutory minimum wage in 20 EU countries, per hour, 2002–09 (euro)**

	2002	2009	Growth	Real growth
BG	0.3	0.71	1.37	0.52
RO	0.19	0.83	3.37	1.12
LT	0.71	1.4	0.97	0.47
HU	1.03	1.47	0.43	- 0.03
LV	0.49	1.47	2	0.86
PL	1.02	1.7	0.67	0.43
SK	0.88	1.7	0.93	0.47
EE	0.7	1.73	1.47	0.8
CZ	1.28	1.82	0.42	0.19
PT	2.1	2.71	0.29	0.14
SI	2.28	3.41	0.5	0.11
MT	3	3.67	0.22	0.05
ES	2.68	3.78	0.41	0.14
EL	2.83	4.05	0.43	0.18
UK	4.6	6.43	0.4	0.2
BE	7.05	8.41	0.19	0.02
NL	7.4	8.47	0.14	0
IE	5.97	8.65	0.45	0.19
FR	6.67	8.71	0.31	0.15
LU	7.46	9.49	0.27	0.06

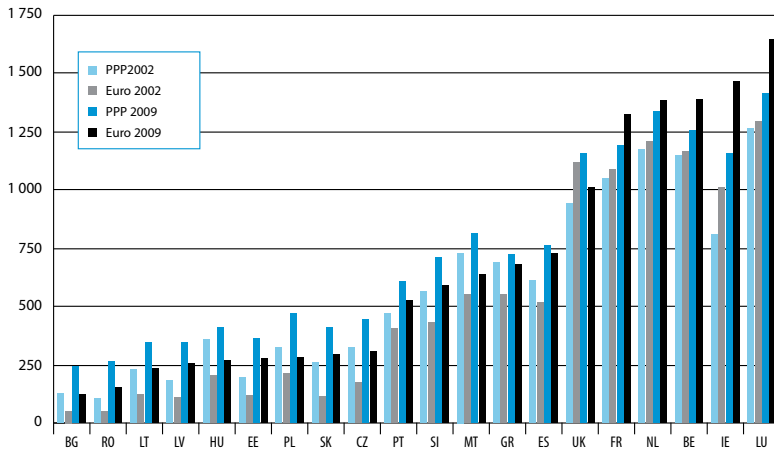
Source: ECS.

The hourly minimum wage is calculated in different ways, depending on the country. In the countries where it exists, the statutory hourly minimum wage for adults is used. Where this is not available, the statutory monthly minimum wage for adults and the average collectively agreed weekly working time provided by the European Industrial Relations Observatory is used to calculate the hourly minimum wage (see <http://www.eurofound.europa.eu/eiro/studies/tn1004039s/tn1004039s.htm#hd1>). In case the latter is not available the statutory working week is used. For further details see: [http://www.boeckler.de/pdf/ta\\_mindestlohndatenbank.pdf](http://www.boeckler.de/pdf/ta_mindestlohndatenbank.pdf).

factors determining the extent to which minimum wages provide an effective floor in the labour market. Table 4.2 and Chart 4.10 respectively show the levels of the hourly and monthly minimum wages for the 20 EU countries with a statutory minimum wage for the years 2002 and 2009. The large differences in the level of the minimum wage across countries are striking, with the highest minimum wage in euro terms (both hourly and monthly) being more than 10 times higher than the

lowest. In 2009, the hourly minimum wage ranged from EUR 0.71 in Bulgaria and EUR 0.83 in Romania to EUR 8.71 in France and EUR 9.49 in Luxembourg. Monthly minimum wages, range from EUR 122.7 in Bulgaria, to EUR 1641.7 in Luxembourg. In purchasing power parity the range becomes smaller because of price differences but the highest monthly minimum wage is still almost six times as high as the lowest minimum wage. The repercussions are important: the six countries

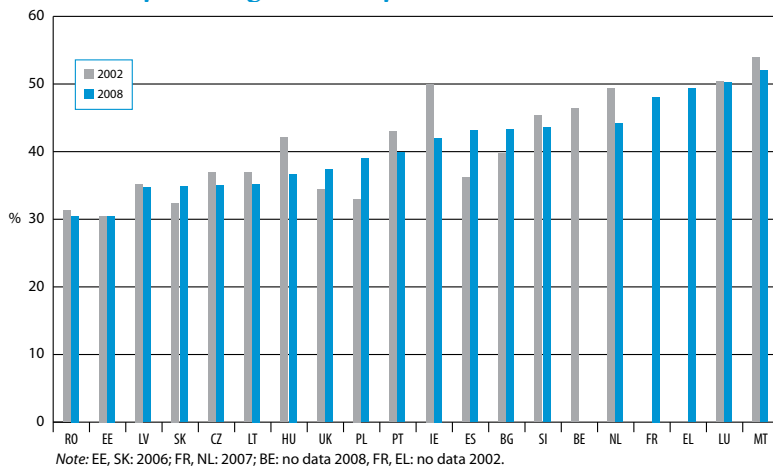
**Chart 4.10: Monthly minimum wage in 20 EU counties, 2002 and 2009 (euro and PPP)**



Source: Eurostat.

real terms minimum wage growth is higher in central and east European Member States than in the EU-15. Over the period 2002–09, the real minimum wage per hour increased by 80 % in Estonia, by 86 % in Latvia and by 112 % in Romania. The exception was Hungary, where real growth over this seven-year period was just below zero. Amongst the EU-15 the highest real growth over this period was in the UK (20 %), well below that in most of central and eastern Europe, while in Belgium, Luxembourg and the Netherlands there was hardly any growth. Over time, then, the gap between the two groups of Member States has been reducing, albeit slowly.

**Chart 4.11: Monthly minimum wage as a percentage of average monthly earnings, industry and services, 2002 and 2008**



Note: EE, SK: 2006; FR, NL: 2007; BE: no data 2008, FR, EL: no data 2002.

Source: Eurostat.

Following the onset of the crisis, this trend would seem, however, to have come to a halt. It might have been expected that the real value of statutory minimum wages would have been maintained or even increased so that they could effectively perform their protective function in particular in the countries with the lowest minimum wages (and where low pay is most widespread). However, data from WSI's minimum wage database show that in 2009 the hourly minimum wage saw its real value decline in nine countries. In some cases this decline was quite substantial (e.g. 5.6 % in Romania and 4.2 % in Lithuania). These countries include eight of the central and east European Member States (the exceptions being Slovenia and Slovakia), whilst the ninth is the UK. With the exception of the Czech Republic, these are all countries where low pay is already relatively high.

Turning to the relationship between the statutory minimum wage and average wages, in 2008 the level of the statutory minimum exceeded 50 % of the average wage only in Luxembourg and Malta, whereas in 10 countries it amounted to less than

with the lowest hourly minimum wage are also the six that have the highest incidence of low pay and they are among the eight countries where wage inequality is highest.

In general the central and east European Member States have lower minimum wages than the EU-15, with Slovenia being somewhat of an exception. Nonetheless, the two groups of Member States should not be considered as internally homog-

enous. Amongst the EU-15, the Portuguese minimum wage of 2009 amounts to only 28.6 % of that of Luxembourg, whilst amongst the central and east European Member States the Romanian minimum wage amounts to only 24.3 % of the Slovenian one. When observing the growth over time of the minimum wage, a clearer difference emerges between the two groups of Member States in the pattern of growth over time. Both in nominal and in

40 % of the average wage (Chart 4.11). This underlines that in a significant group of countries the level at which the statutory minimum is set most likely means that it has only a limited impact on low pay. Moreover, the minimum wage seems unable to keep up with average wage developments in the labour market. Between 2002 and 2008 the minimum wage lost some terrain to the average wage in 11 countries, most strongly in Ireland (a decline of 8 percentage points), Hungary (- 5.4 percentage points) and the Netherlands (- 5.1 percentage points). Conversely, the minimum wage increased by more than the average wage in only five countries, in particular in Spain (6.9 percentage points) and Poland (6.1 percentage points). Recent reductions in the real value of the statutory minimum wages in some countries (see above) suggest that the dominant tendency for minimum wages to fall behind average wages may be further spurred by the present crisis. As a result, in a number of countries the statutory minimum wage may see its key role as a protective floor in the labour market decline, or cease to be of significance at all, with all the associated consequences for low pay and wage inequality.

#### 4.4.3. Minimum wages through collective agreements

In Germany, Italy, Denmark, Austria, Sweden, Finland and Cyprus there is no general statutory minimum wage. In Cyprus, a statutory minimum wage exists for a limited number of occupations only (sales staff, clerical workers, auxiliary healthcare staff and auxiliary staff in nursery schools, crèches and schools). Elsewhere, the setting of minimum wages has traditionally been left largely to trade unions and employers who define

#### Box 4.4: A European minimum wage policy to guarantee decent wages?

In recent years there has been a growing debate on whether or not minimum wages should also become a focus of EU-level policy (Schulden, 2008, Vaughan-Whitehead, 2010). Several prominent EU policymakers, such as Luxembourg Prime Minister and President of the Eurogroup, Jean-Claude Juncker and the former European Commission President Jacques Delors have called for a European minimum wage policy, according to which every employee should be entitled to a decent wage.

The idea of a European minimum wage policy was discussed for the first time in the 1970s when the Council of Europe tried to define the 'right to a fair remuneration' which was laid down in the Council's European Social Charter from 1961. At that time the Council proposed a definition according to which a fair wage had to be at least 68 % of the national average gross wage. The Council developed a new threshold in the 1990s which determined that a fair wage has to be at least 60 % of the national average net wage.

At EU level the first debate on a European minimum wage policy came with the adoption in 1989 of the Community Charter of Fundamental Social Rights for Workers. This states that 'workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living'. In 1993 the European Commission published an 'opinion on an equitable wage' in which it demanded the Member States to 'take appropriate measures to ensure that the right to an equitable wage is protected.' It emphasised that 'the problem of low pay is an issue in all countries of the European Community' and that 'the persistence of very low wage levels causes problems of equity and social cohesion, which could be harmful to the effectiveness of the economy in the long term' (European Commission, 1993). In reaction to the Commission's activities the European Parliament demanded more binding European guidelines for national minimum wages and encouraged all Member States 'to establish a minimum wage that amounts to a certain proportion of the national average wage' (European Parliament, 1993). More recently, the European Parliament returned to the issue in 2008 and called 'on the Council to agree an EU target for minimum wages ... to provide for remuneration of at least 60 % of the relevant ... average wage' (European Parliament, 2008).

Considering the large differences in the absolute value of the minimum wages, a European minimum wage policy is not about the harmonisation of minimum wages towards a single European rate. Instead it aims to set up common standards at EU level, which, for example, might guarantee that national minimum wages are not fixed below a certain percentage of national average wages. As noted by the European Parliament, in many EU countries 'the minimum wage is set very low or at below subsistence level' (European Parliament, 2007: 469), as relative minimum levels wage are often well below 50 % of average wages. There is also growing awareness in many Member States of the problem of low pay, and several have started to develop strategies for more substantial increases of minimum wages in a mid-term perspective. A European minimum wage policy might be able to support such policies in order to make sure that all employees in Europe receive a decent wage.

*This box was contributed by Thorsten Schulden, Institute of Economic and Social Research (WSI) in the Hans-Böckler Foundation*

minimum wages in collective agreements, mainly at the sectoral level. In Germany the Minister for Labour, under the Arbeitnehmer-Entsendegesetz (Postal 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 exist now for a limited number of sectors, including construction, but remain controversial as shown by the case of the postal sector. Collectively agreed minimum wages for the postal sector, set in a collective agreement between Ver.di and the Postal Services Employers'

Association (in which Deutsche Post is the largest and most influential member), were legally extended by the government to the entire sector in late 2007. However, the competitors of Deutsche Post challenged the sectoral minimum wage in court. The court ruled against the government's action, on the grounds that parties to other collective agreements in the sector had not had access to the procedure adopted, leaving the sector without a generally applicable minimum wage (Vogel, 2010).

One consequence of collectively agreed instead of statutory minimum wages is that minimum wages may not be uniform, but differ by sector and possibly also by type of job or by region. For example, in Germany, in 2009, the relevant collective agreement set a minimum wage of EUR 863 for a salesperson without experience in the bakery sector in eastern Germany, while agreement concerned set a minimum of EUR 1 844 for a skilled steelworker without experience in both eastern and western Germany (WSI, 2010). And in sectors where trade unions are weak, collectively agreed minimum wages may be low as compared to similar countries with a statutory minimum. For example, the minimum wage of EUR 863 in the bakery sector in eastern Germany is well below the statutory minimum wages of more than EUR 1 300 in France, Belgium and the Netherlands. Moreover, those parts of the labour market not covered by collective agreements may lack any minimum standard.

Nonetheless, collective agreement would seem to be an effective mechanism for establishing minimum wages in most of the countries concerned. Compared to the EU average, the incidence of low pay is low in five of these seven countries

(Chart 4.9). The Nordic countries have among the lowest levels of low pay in the EU and in Italy and Austria low pay is also below the EU average. High trade union membership, combined with extensive coverage of collective agreements, results in relatively low level of wage inequality and discourages the emergence of very low wages. The major exception is Germany where, as discussed above, the incidence of low pay and wage inequality are above the EU average. In response, German trade unions have been campaigning for a national, cross-sectoral statutory minimum wage of EUR 7.50 intended to provide workers not covered by collective agreements with a decent minimum wage level, which would also set a floor for sectoral minimum wage negotiations (Bispinck, 2008). The minimum wage has been a concern elsewhere too. In Austria unions and employers have been concerned that a substantial group of the employed workforce had a gross wage below EUR 1 000 per month, with estimates varying from 20 000 to 100 000 employees (Hofbauer and Adam, 2009). To tackle this problem, the Austrian Trade Union Federation and the Austrian Federal Economic Chamber concluded an agreement which establishes a minimum wage of EUR 1 000 as of 1 January 2009, and which covers almost the entire private sector. The number of private sector employees earning below EUR 1 000 is reported to have fallen to a few hundred as a consequence (*ibid.*). The minimum wage has been an issue of debate in Sweden as a direct result of the ruling of the Court of Justice (CJEU) in the Laval case. Finally, and going beyond the divide between statutory and collectively agreed minimum wages, in recent years there has been a lively debate about the possibility to introduce a European minimum wage policy (see Box 4.4).

## 4.5. Conclusions

Wage flexibility and the role of wage-setting institutions in fostering or limiting such flexibility have been at the core of the European economic and labour market debate for some time. This chapter has reviewed three types of wage-setting institutions that are important in determining the extent of wage flexibility: the level at which collective wage bargaining takes place and the extent to which it has been decentralised over the last decade; the use of variable pay systems (VPS); and the minimum wage and its relation to low pay and wage inequality.

Company-level bargaining dominates in the UK and the new Member States which entered the EU between 2004 and 2007, with the exception of Slovenia. Higher-level bargaining dominates in the EU-15 (except the UK) and Slovenia. Amongst the countries where higher-level bargaining dominates, the 2000s have seen significant decentralisation of wage-setting arrangements in Sweden, Finland, Denmark and Germany. In Finland, the main development concerns a move from central-level bargaining to sector-level bargaining, while in the other three countries the scope for company bargaining has been enhanced at the expense of the sector level. This decentralisation has largely been 'organised' since the increased role for company-level bargaining remains within a framework of rules and minimum standards set at the sectoral level. However, in Germany elements of disorganised decentralisation are also present, as the coverage of collective agreements declines with falling level of employers' association membership and decreased use of extension arrangements. The process of decentralisation in these countries seems to have been



accelerated during the present economic and financial crisis.

In most other countries where higher-level wage bargaining dominates, little change can be observed in the bargaining arrangements for basic wages over the 2000s. In these countries the social partners would seem to prefer stability in collective bargaining systems and to continue with practices that have proven their value. In some of them, such as Italy and France, changes have been made to the regulations governing collective bargaining with the aim of promoting decentralisation, but as yet this has not led to significant changes to wage bargaining in practice. An exception is Ireland, where the long tradition of national-level pay agreements has been broken as the government, unions and employers' organisations could not come to agreement on wage policy in the face of the crisis (see Chapter 3). The above concerns the setting of basic wages. There has, however, been more generalised decentralisation across the EU in negotiations concerning additional pay elements, including the various types of VPS.

Today, more than half of the EU workforce falls under some form of VPS. The most frequently used type of VPS is performance-related pay, with profit sharing and employee share ownership schemes being substantially less widespread. There are large differences in the incidence of VPS schemes between countries, in part according to country-specific rules and regulations promoting VPS through specific provisions in labour legislation, tax regulations or agreements between social partners. VPS are utilised more widely in certain sectors (financial intermediation, business services, wholesale and retail) than in others (health and social work, education). They are also more widespread amongst larger than smaller enterprises.

The use of VPS seems to be increasing over time, representing a specific form of flexibilisation of wage setting. For managers, VPS schemes are attractive as a means to improve the functioning of human resources and to attract and retain good quality personnel. Employee representatives have mixed opinions about VPS, differing strongly across countries. In the central and east European Member States a majority of employee representatives supports VPS, while in some of the EU-15 less than one third do so.

Low pay remains a serious problem in the EU and affects one out of every six workers in enterprises with 10 or more employees. The level of low pay is closely related to the level of wage inequality. In general, both are higher in the countries where company bargaining dominates and coverage of collective agreements is low; they are both lower in countries where higher-level bargaining dominates and coverage rates are high. The most noticeable exception to this is Germany.

In 20 of the 27 Member States a statutory minimum wage exists, with its value in 2009 ranging from EUR 122.7 in Bulgaria to EUR 1 641.7 in Luxembourg. A statutory minimum wage is, however, no guarantee against low pay: the countries with the highest level of low pay all have a statutory minimum wage. It is the level of the minimum wage that determines the extent to which it constitutes an effective wage floor in the labour market. In particular in a number of the new Member States its level is too low to perform this function. While in the long run, the level of the minimum wage in the central and east European Member States is slowly getting closer to that of the EU-15, in 2009, in the midst of the crisis, the real value of the minimum wage declined in many of these countries. More generally, in over half of the countries concerned, the statutory minimum wage lost

value compared to the average wage during the 2000s. This suggests a declining capacity to prevent low pay from emerging.

In the seven countries without a general statutory minimum wage, minimum wages are largely set in sectoral collective agreements. Amongst these countries low pay is not widespread, with the important exception of Germany. Here, in certain sectors, the minimum wage is set at comparatively low levels and decline in the coverage of collective agreements is leaving large groups of workers without the protection of a minimum wage. As a result, the desirability of a statutory minimum wage has become the subject of considerable debate.

Finally, although major differences between countries exist, the general tendency across countries is towards wage-setting arrangements that provide for more wage flexibility. Where change takes place in bargaining systems it results almost invariably in further decentralisation of wage bargaining. There is a marked tendency towards flexibilisation of wage systems through more extensive use of VPS. At the same time, there has been a parallel tendency for the incidence of low pay to increase, partly as a result of declining collective bargaining coverage. The efficacy of statutory minimum wages — and in Germany collectively agreed sectoral minima — to counteract this tendency has been shown to be in doubt. While these developments may have certain advantages from an efficiency point of view, they may also lead to undesirable social consequences. Searching for the right balance between, on the one hand, efficiency and, on the other hand, equity and solidarity is one of the core dilemmas of the European social model.



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