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Lothar Funk* and Hagen Lesch**

Minimum Wage Regulations in Selected European Countries

The recent controversy over the EU Directive on Services has given new impetus to the debate on minimum wages. Which EU countries have regulations on minimum wages and to what extent do these regulations differ? Are they effective as an anti-poverty tool?

The regulation of minimum wages varies across Europe. This comparative study examines the issue in 21 European Union (EU) member states (Cyprus, Luxembourg, Malta and Portugal excluded). Fifteen of the 21 European countries considered have some kind of statutory national minimum wage (in a similar way to non-European countries, such as Canada, Japan and the USA). This group is made up of seven of the "old" EU15 member states and all of the eight new Central and Eastern European EU member states. Whereas France, Greece, Spain and the Benelux countries have a long tradition of protecting pay at the bottom of the labour market in this way, Ireland and the United Kingdom introduced national minimum wage systems only in the late 1990s. In Austria, Denmark, Finland, Germany, Italy and Sweden – the remaining six "old" EU member states – collective agreements are the main mechanism used for regulating low pay.

There are commonalities and clear differences in the extent to which either minimum wages or collective bargaining have established a common floor for wage levels. The present study updates and extends former studies[1] as well as describing the main features and highlighting recent developments with regard to minimum wage systems.[2] A particularly important debate is currently underway on distributional and employment issues and these, too, are highlighted in the study. It is based mainly on written answers to questionnaires distributed by the authors to the national centres of the European Industrial Relations Observatory (EIRO) in spring 2005.[3]

The study:

- outlines minimum wage systems in countries with statutory national minimum wages and those where collective agreements set minimum rates;
- looks at the beneficiaries of minimum wages;
- analyses the main structural characteristics of minimum wages (e.g. differentiation by age, region or qualifications);
- sets out the differences between the two groups of countries with regard to adjustments of minimum wages;
- examines how statutory minimum wages are enforced in the different countries;
- describes the role and positions of governments and social partners regarding minimum wages;
- briefly analyses the main academic debates on the issue in the countries studied.

Statutory Minimum Wage Countries

With regard to minimum wages, we can distinguish between two groups of countries: the larger group includes those countries with a national minimum wage that is set either by law or by a national intersectoral

* Professor of International Economics, University of Applied Sciences Düsseldorf, Germany.

** Head of the "Collective Bargaining Section", Cologne Institute for Economic Research (IW), Germany. The authors wish to thank the European Industrial Relations Observatory (EIRO) and the contributing National Centres as well as, in particular, Mark Carley for their support and comments.

[1] See J. Dolado et al.: The Economic Impact of Minimum Wages in Europe, in: Economic Policy, No. 23, 1996, pp. 317-372; OECD: Making the most of the minimum: statutory minimum wages, employment and poverty, in: Employment Outlook, June 1998, pp. 31-59; Eurostat: Minimum Wages – EU Member States, Candidate Countries and the US 2004, in: Statistics in Focus, No. 10, Luxembourg 2004.

[2] An extended version also includes Bulgaria and Romania, which are due to join the EU in 2007, as well as Cyprus, Malta and Norway. See L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html [9.8.2005].

[3] Note that Cyprus (for a few specific occupations), Luxembourg, Malta and Portugal, which are not included in this study, also have statutory national minimum wages.

Table 1
National Minimum Wage (Adult Rate), 2004, in National Currency (gross)[1]

Belgium	Monthly	EUR 1,210
Czech Republic	Hourly Monthly	CZK 39.60 (EUR 1.24) CZK 6,700 (EUR 210.09)
Estonia	Hourly Monthly	EEK 14.60 (EUR 0.93) EEK 2,480 (EUR 158.50)
France[2]	Hourly Monthly	EUR 7.61 EUR 1,286.09
Greece	Daily Monthly	EUR 25.01 EUR 559.98
Hungary	Hourly Daily Weekly Monthly	HUF 305.00 (EUR 1.21) HUF 2,440 (EUR 9.70) HUF 12,000 (EUR 47.68) HUF 53,000 (EUR 210.60)
Ireland	Hourly	EUR 7.00
Latvia	Hourly Monthly	LVL 0.474 (EUR 0.71) LVL 80 (EUR 120.26)
Lithuania	Hourly Monthly	LTL 2.95 (EUR 0.85) LTL 500 (EUR 144.81)
Netherlands	Monthly	EUR 1,264.80
Poland	Monthly	PLN 860 (EUR 189.98)
Slovakia	Hourly Monthly	SKK 37.40 (EUR 0.93) SKK 6,500 (EUR 162.41)
Slovenia	Monthly	SIT 117,500 (EUR 491.45)
Spain	Daily Monthly	EUR 16.36 EUR 490.80
UK	Hourly	GBP 4.85 (EUR 7.14)

[1] Conversions into EUR, where necessary.
[2] Rates applies only to workers on a 39-hour week.

Source: European Industrial Relations Observatory (ed.): Pay Developments – 2004, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

agreement, while the smaller group consists of countries with collectively agreed minimum wage rates negotiated between the social partners at sector level. In many of the countries with statutory minimum wages, the legal minima may be supplemented by minimum rates set in collective agreements – though the level and coverage of such agreements varies, as does the relationship of their minima to the national minimum rate.

Looking first at the countries with statutory minimum wages, Table 1 shows the level of these wages in the national currency in 2004 (rates in euro are given in parenthesis for countries that are not members of the euro-zone).

Across the former EU15, the monthly national minimum wage ranged in 2004 from €490.80 in Spain and €559.98 in Greece to €1,264.80 in the Netherlands and €1,286.09 in France. In France, the monthly wage figure given is based on a minimum hourly wage of €7.61 (in 2004) and applies only to employees still working a 39-hour week, following recent moves to a statutory 35-hour week. The minimum-wage recipients who are on a 35-hour week are covered by a guaranteed monthly wage scheme. This scheme allows for wages that are lower than €1,286.09 per month; however, it has prevented wage cuts that were proportionate to the reduction in the statutory working time. In 2003, the monthly minimum wage based on a 35-hour week was – compared with the average wage – 2.8 percentage points lower than the monthly minimum wage based on a 39-hour week. Among the new member states, the monthly minimum wage in 2004 ranged from €120.26 in Latvia to €210.60 in Hungary and €491.45 in Slovenia.

Overall, it is possible to distinguish between three groups of countries with distinct levels of statutory minimum wages:

- the first group includes the new member states apart from Slovenia; here, statutory monthly minimum wages varied between €120 and €211 in 2004;
- the second group, with monthly minimum wages between €491 and €560, includes one new member state – Slovenia – as well as Spain and Greece;
- the third group, with statutory monthly minimum wages in excess of €1,000, includes Ireland, the United Kingdom (UK), the Netherlands, France and Belgium.

The range between the national minimum wage levels decreases if the data are compared controlling for different price levels in the various countries. This can be done by applying purchasing power parities to households' final consumption expenditure; such an analysis has been carried out by Eurostat.[4]

The development of statutory minimum wages since 1995 is shown in Table 2. In most countries for which a complete time series (1995-2004) is available, minimum wages have increased rapidly over the last 10 years. The largest increase can be seen in some of the new member states. In Hungary, the minimum wage increased by 60% over 1995/8, by 105% over 1998/2001 and by 33% over 2001/4 (however, these figures depend on the periods chosen for examination – over 1998/2000 and 2003/4, the increase was relatively slow, while it should be taken into account that inflation was relatively high over 1995/2003). The Czech Republic has experienced similar increases. The increase among the "old" member states has not been as great as it has in the accession countries.

[4] See Eurostat, ibid.

Table 2
Development of Minimum wages (gross), 1995–2004

Country	Basis	Minimum wage in EUR[1]						Change in %		
		1995	1998	2001	2002	2003	2004	1998/95	2001/98	2004/01
Belgium	Monthly	1,053	1,074	1,140	1,163	1,186	1,210	+2.0	+6.1	+6.1
Czech Republic	Monthly	68.89	82.98	156.57	178.49	194.14	210.09	+20.4	+88.7	+34,0
Estonia	Monthly	29	70	102	118	138	159	+41.4	+45.7	+55.9
France	Hourly	5.64	6.13	6.67	6.83	7.19	7.61	+8.7	+6.1	+6.1
Greece	Monthly	350	425	473	499	520	560	+21.4	+11.3	+18.4
Hungary	Hourly	48.40	77.36	158.69	198.37	198.37	210.60	+59.8	+105.1	+32.5
Ireland	Hourly	–	–	5.97	6.35	6.35	7.00	–	–	+17.3
Latvia	Monthly	42.09	63.14	90.20	90.20	105.23	120.26	+50.0	+42.9	+33.3
Lithuania	Monthly	39	121	125	125	130	145	+210.0	+3.3	+16.0
Netherlands	Monthly	982	1,047	1,180	1,232	1,265	1,265	+6.6	+12.7	+7.2
Poland	Monthly	86	127	205	195	182	183	+47.7	+61.4	-10.7
Slovakia	Monthly	65	70	114	133	148	167	+7.7	+62.9	+46.5
Slovenia	Monthly	190.56	264.72	366.65	408.82	445.66	491.45	+38.9	+38.5	+34.0
Spain	Monthly	377	409	433	442	451	491	+8.4	+5.9	+13.4
UK	Hourly	–	–	6.04	6.18	6.62	7.14	–	+13.9[a]	+18.3

Note: Monthly figures are rounded.
[1] Based on the average exchange rates of 2004.
[a] Relates to 1999/2001.

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

In the former EU15, the largest increase has been in Greece – 21% over 1995/8, 11% over 1998/2001 and 18.4% over 2001/4. A notable rise can also be seen in the UK; after its introduction in 1999, the statutory minimum wage rose by 14% over 1999/2001 and by 18% over 2001/4.

Relationship with Average Earnings

The development of nominal minimum wages often appears to be very impressive in absolute terms, especially in the new member states; however, this should be compared with the dynamics of wages more widely. Table 3 presents the minimum wage as a proportion of average monthly gross earnings since 1995 – a common measure known as the "Kaitz index".[5] Among those countries for which 2004 data are available, the Kaitz index ranged from 33% in Spain to 51% in Ireland. In the majority of the countries for which data are available, the minimum wage is less than 50% of average monthly gross earnings. Three broad groups of countries can be distinguished in this respect:

- the first group, where the index varies between 33% and 38%, includes the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Spain;
- the second group, with Kaitz indices of between 40% and 45%, includes the Netherlands, Slovakia, Slovenia and the UK;
- the third group, with Kaitz indices in excess of 45%, includes Greece and Ireland. If figures for 2003 and 2002 are considered for those countries for which

Table 3
Minimum Wages as % of Average Gross Wages, 1995–2004

Country	Minimum wage as % of average gross wage						Change in percentage points		
	1995	1998	2001	2002	2003	2004	1998/95	2001/98	2004/01
Belgium	52	49[a]	na	46	na	na	-3[b]	-3[c]	na
Czech Republic	27	23	34	36	37	37	-4	+11	+3
Estonia	26	27	29	30	32	34	+1	+2	+5
France	47-48	49	47-48	46-47	46-48	na	+1-2	-1-2	+0-1
Greece	na	na	na	na	na	47	na	na	na
Hungary	31	29	39	41	36	36	-2	+10	-3
Ireland	–	–	51	49	na	51	–	–	0
Latvia	31	32	38	35	37	38	+1	+6	0
Lithuania	28	45	44	43	41	38	+17	-1	-6
Netherlands	48	46	45	45	na	na	-2	-1	na
Poland	41	40	37	35	36	36	-1	-3	-1
Slovakia	34	30	40	41	42	41	-4	+10	+1
Slovenia	41	40	41	42	42	44	-1	+1	+3
Spain	42	na	35[d]	na	na	33	na	na	na
UK	–	–	37	38	39	40	–	–	+2

[a] Figure refers to 1999. [b] Figure refers to 1995/9. [c] Figure refers to 1999/2002. [d] Figure refers to 2000.

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

[5] See H. Kaitz: Experience of the past: The national minimum wage, in: US Department of Labor, Bureau of Labor Statistics: Youth unemployment and minimum wages, Bulletin 1657, 1970; and J. Dolado et al., op. cit., p. 321.

Table 4
Minimum Wages and Wages in Low-paid Sectors

Country	Minimum wage as % of average gross wage (full-time basis) in:				
	Whole economy	Textiles & clothing	Retail	Hotels & restaurants	Hairdressing/ personal services
Belgium (2002)	46	na	50	67	na
Czech Republic (2003)	37	54/73[a]	59	71	na
Estonia (2004)	34	74	67	57	79[b]
France (2002)	46-48	56	50	65	na
Greece (2004)1	47	90-100	88-100	85-93	na
Hungary (2003)	36	76	48	63	71[c]
Ireland (2004)	51	67/72[d]	na	na	na
Latvia (2004)	38	na	na	na	na
Lithuania (2004)	38	52	43	61	44[b]
Netherlands (2003)	na	46	61	66	na
Poland (2004)	36	na	na	na	na
Slovakia (2004)	41	61	52	51	78[c]
Slovenia (2004)	44	73	na	59	36[b]
Spain (2004)	33	37/47[a]	46	49	62[b]
UK (2003)	40	51	52	60	na

[1] Range refers to different occupations.
[a] Refers to textiles/clothing. [b] Refers to personal services. [c] Refers to hairdressing. [d] Refers to hourly/monthly basis.

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

2004 data are not available, we can add Belgium and France to this group.

There are only minor differences between the groups if we compare 2004 figures with 1995 figures. In 1995 the first group with a low Kaitz index included the Czech Republic, Hungary and the three Baltic states, which are still (2004) in this group, but also Slovakia, which is currently in the second group. In 1995, the second group contained only Poland and Spain, both of which are now in the first group, plus Slovenia, while the third group contained Belgium, France and the Netherlands (which is now in the second group).

The development of the Kaitz index has been broadly stable in France, Ireland and Slovenia. In the other countries, statutory minimum wages have either risen faster than the average gross wage (Estonia, Latvia and the UK) or slower than the average gross wage (Belgium, the Netherlands and Poland) or fluctuated, sometimes rising more slowly and sometimes faster (the Czech Republic, Hungary, Lithuania and Slovakia). For those countries for which 2004 data are available, the Kaitz index is, in seven countries, higher today (2004) than it was in 1995; this is especially true for the majority of the new member states. The Kaitz index was lower in 2004 than it was nine years ago in Poland and Spain.

Low-pay Sectors

In addition to comparing minimum wages with average monthly gross earnings in all industries and services, it is possible to compare minimum wages with average monthly gross wages in some specific low-paid industries. Table 4 presents the statutory minimum wage as a proportion of collectively agreed wages for low-skilled workers in textiles/clothing, retail, hotels/restaurants and hairdressing. According to the latest available figures, this proportion ranged from 37% (Spain) to 100% (Greece) in textiles/clothing; from 43% (Lithuania) to 100% (Greece) in retail; and from 49% (Spain) to 93% (Greece) in hotels and restaurants. Almost no information is available on average gross wages in hairdressing. Where data are available though, statutory minimum wages as a percentage of average monthly gross wages in hairdressing range from 71% in Hungary to 78% in Slovakia.

Among countries with complete data for textiles/clothing, retail and hotels/restaurants, it is possible to distinguish between three groups of countries. The first group includes countries where the national minimum wage is below 67% of the average wage in all three industries. This group includes France, Lithuania, Netherlands, Slovakia, Spain and the UK. In the second group of countries, the minimum wage is below 67% of the average wage in two of three industries; this group includes the Czech Republic and Hungary. The third group comprises those countries where the minimum wage is below 67% of the average wage in one or none of the three industries, and includes Greece and Estonia. Overall, there are notable differences in minimum wages as a proportion of average gross wages for low-skilled activities in low-paid industries.

Countries Without a Statutory Minimum Wage

The second, smaller group of countries that do not have a statutory minimum wage comprises Austria, Germany, Italy and the Scandinavian countries. A common feature of this group of countries is the high coverage rate of collectively agreed minimum wages, generally laid down in sectoral agreements. The percentage of employees covered by these collectively agreed minimum wages ranges from approximately 70% in Germany to almost 100% in Austria and Italy (though excluding “irregular” workers, who make up a relatively large share of the Italian labour market). In Denmark, the percentage of employees covered by collectively agreed wages is estimated at between 81% and 90%, while in Finland and Sweden this figure is 90%. This means that a high proportion (at least two thirds) of all dependent employees are protected by collectively agreed wages. However, this finding needs to be modified if we look at some specific branches rather than the whole economy. In particular, in Germany there are some sectors (e.g. business services and personal services, such as health and social work) and regions (the new eastern Länder) with low coverage rates, in which wages and minimum standards on working time are not set by collective agreements.

Available figures on coverage rates in low-paid industries are more scarce. There are high rates in Austria (where minimum wages are set in each sectoral collective agreement), Finland and Italy (excluding irregular workers) in the textiles and clothing industries as well as in retail and hotels/restaurants (as they are in Sweden in the latter two industries). The high coverage rate in Finland is due to the fact that collective agreements have "erga omnes" applicability in their respective sectors; this means that all employers, including non-organised employers, are obliged to pay at least the collectively agreed minimum wages. Similarly in Italy, collectively agreed minimum pay levels negotiated by trade unions apply to all workers. They represent the compulsory minimum even for employees of firms that do not belong to employers' associations.

The coverage rates of agreed minimum wages in low-paid industries are much lower in Germany. Current estimates indicate coverage rates of around 50% in textiles/clothing, 55% in retail and only 36% in personal services (including hairdressing). While it is possible to extend collective agreements to non-organised employers, this right is not exercised as extensively as it is in Finland and Italy. In Germany, however, statutory minimum wages do exist for specific branches.[6] They are based on regulations introduced to implement the EU Directive on the posting of workers in the framework of the provision of services. The first branch-specific minimum wage was introduced in January 1997 in the main construction industry. The social partners negotiated further minimum wages for employees in the electrical engineering industry who work on construction sites and for workers in the roofing industry in the same year. Today, there are four branches with this kind of sector-specific minimum wages: the main construction industry, the roofing industry, the painting industry and the demolition/wrecking industry. The German government has recently proposed that the Posted Workers Act should be extended to all sectors of the economy in order to fight "wage dumping".[7]

Table 5
Collectively Agreed Minimum Wages in Low-paid Sectors in Countries Without a Statutory Minimum Wage as % of the Gross Average Wage (Whole Economy)

Country	Textiles & clothing	Retail	Hotels & restaurants	Hair-dressing
Austria (2003)	48/52[a]	51/53[a]	48	46
Finland (2002)	>50	>50	>50	na
Germany (2004)	50[b]	45[b]	42[b]	35[b]
Italy (2004)	57	60	59	52

[a] Figures refer to blue-/white-collar workers. [b] Minimum wages as a percentage of gross average wage in industry (including energy and construction), wholesale, retail, banking and insurance.

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

Table 5 provides an overview of the relative level of collectively agreed minimum wages in some low-paid sectors. In Austria, Germany, Finland and Italy, the only four countries for which figures are available, the lowest collectively agreed wages in low-paid sectors are around 50% of the gross average wage in all industries and services. There is only one major exemption: German hairdressers, who receive 35% of the gross average wage.

Comparing the relative level of the lowest collectively agreed wages in the countries considered in this section with the relative level of statutory minimum wages – in comparison with the gross average wage in both cases – we can conclude that the lowest collectively agreed wages are as high as statutory minimum wages in the third, "high minimum wage" group of statutory minimum wage countries (see above) – i.e. those that have statutory minimum wages in excess of 45%.

Beneficiaries

Apart from Belgium, in all other countries with a statutory minimum wage the latter applies, in principle, to all adult employees, as Table 6 shows. In Belgium, the minimum wage affects only private sector employees. The list of exempted groups of adult employees is small. There are no exemptions in Estonia, Greece,

[6] See W. Möschel: Wage Dumping and Germany's "Entsendegesetz", in: INTERECONOMICS, Vol. 40, No. 3, pp. 129-135.

[7] Details of the level of current minimum wages are provided in W. Möschel, ibid., p.130.

Table 6
Beneficiaries of Statutory Minimum Wages

Country	Minimum wage applies to…	Groups of exempted employees	Coverage
Belgium	Private sector employees	Public sector employees, apprentices	na
Czech Republic	All employees	Lower monthly and hourly minimum wage rates exist for certain specific situations, e.g. when in first employment aged 18 to 21 or for employees collecting partial invalidity benefits	2%-3% of all employees
Estonia	All employees	No exemptions	na
France	All employees	Civil servants, apprentices, employed prisoners	2.9 m. employees or 13% of all employees
Greece	All employees, apprentices and civil servants	No exemptions	na
Hungary	All employees	No exemptions	na
Ireland	All employees	No exemptions	57,000 private-sector employees (excluding agricultural), or 4.5% of all employees
Latvia	All employees	No exemptions	15.7% of all employees
Lithuania	All employees	Reduced minimum wages apply to some groups of public sector employees (public politicians, judges, civil servants, soldiers and public officials); these are irrelevant because none of these groups receive only the minimum wage	18.4% of all employees and 10.1% of full-time employees
Netherlands	All employees	No exemptions	130,000 or 2.1% of all employees
Poland	All employees	No exemptions	4.2% of all employees
Slovakia	All employees	Reduced minimum wages (50% to 75%) for disabled employees receiving a disability pension	2%-4% of all employees
Slovenia	All employees	No exemptions	2.7% of all employees
Spain	All employees	Apprentices, people with disablilities	1%-3% of all employees
UK	All employees	No exemptions among adults (trainees receive lower rate – see main text)	1.5 million, or 5% of all employees

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

Hungary, Ireland, Latvia, the Netherlands, Poland, Slovenia and the UK (though there is a lower rate for adult trainees). Apprentices are exempted in Belgium, France and Spain (where people with disabilities are exempted too). In the Czech Republic, lower minimum wage rates exist for certain specific situations – for example, during the first employment or equivalent working relationship of an employee aged 18 to 21 (applicable for six months from the date on which the employment starts). Reduced minimum wages for some groups of public sector employees exist in Lithuania; however, this exemption is irrelevant, as the groups affected receive higher gross wages than the minimum wage anyway.

As Table 6 also shows, the percentage of employees with earnings at the minimum wage level is markedly different between countries. According to the latest available data, the proportion of beneficiaries ranges from 1% to 18% of all earners. In the Czech Republic, Ireland, the Netherlands, Poland, Slovakia, Slovenia, Spain and the UK, the percentage of earners who are beneficiaries ranges from 1% to 5%. By contrast, the percentage in Lithuania is 18.4%, in Latvia 15.7% and in France 13%.

There is only a small amount of information available on the proportion of various subgroups receiving the minimum wage. In the Czech Republic, a higher proportion of women (3.1%) than men (1.1%) receive the minimum wage, and minimum wage earners are overrepresented in agriculture, textiles and the clothing industries, as well as in accommodation and catering. In France, the percentage of part-time employees who receive the minimum wage is twice as high as the average, while in small businesses (fewer than 10 employees), the percentage of beneficiaries is twice as high as the average. France's highest coverage rate is reported amongst agricultural and domestic workers. An overrepresentation of part-timers, women, young employees and employees in retail, hotels and catering as well as agriculture is reported from the Netherlands. In the UK, the Low Pay Commission reports that 70% of beneficiaries are women.[8] According to Eurostat es-

[8] See Low Pay Commission: The National Minimum Wage – Fourth Report of the Low Pay Commission, 2003, http://www.lowpay.gov.uk/lowpay/report/pdf/lowpay-nmw.pdf [9.8.2005], p. 13.

Table 7
Structural Characteristics of Statutory Minimum Wages

Country	Wage subsidies for minimum wage earners	Differentiation by regions or sectors	Differentiation by age	Differentiation by qualification /occupations
Belgium	No	No	Reduced rates for 16-20 year olds; seniority rules for employees aged 21.5 with 6 months in employment (+2.75%) and for employees aged 22.5 with 12 months in employment (+ 4%)	No
Czech Republic	No	No	Reduced rates for 15 to 21 year olds	Reduced rate (50%-75%) for disabled people receiving full or partial invalidity benefit
Estonia	No	No	No	No
France	Reduction of employers' social security contributions	No	Reduced rates for 16-17 year-olds	Reduced rate for disabled people; adjustments to specific working conditions (e.g. concierges, janitors, domestic workers, nannies) and for employees in the hotel and catering trades
Greece	No	No	No	Minimum wage varies according to employees' length of service and marital status; different minimum wages for blue-collar and white-collar workers
Hungary	No	No	No	No
Ireland	No	No	Reduced rates for employees under age 18	Reduced rate for employees over age 18 in the first two years after the date of first employment; reduced rate also for employees undergoing a prescribed course of study or training
Latvia	No	No	Differentiation by age and by qualification/occupations, under same conditions – with 14% higher hourly rates, and both groups may work only up to 7 hours a day and 35 hours a week	
Lithuania	No	No, but possible by law	No	No
Netherlands	For low-paid employees (earning less than €17,805 per year) employers pay less wage tax (€530 per year)	No	Reduced rates for 15-22 year olds	No
Poland	No	No	No	Employees who have worked less than two years receive a reduced rate (80% during the first year of employment, 90% during the second year)
Slovakia	No (there are wage subsidies for employers that employ long-term unemployed people and/or unemployed people with disabilities)	No	Reduced rates for employees aged 16-18 (75%) and under 16 (50%)	Reduced rates (50% and 75%) for employees with disabilities
Slovenia	No (there are reimbursements of employers' contributions to social funds for employers recruiting long-term unemployed people)	No	No	No
Spain	No (there are reductions of social contributions that are not linked to the minimum wage)	No	No	Reduced rate (66.7%) for apprentices and people with disabilities
UK	No	No	Reduced rates for 16-21 year olds	Reduced rate (85%) for adult workers for the first six months of employment (if they are new recruits and on a training scheme)

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

timates, the proportion of full-time employees earning the minimum wage is usually higher for females than for males, except in Hungary and Poland, where the male percentage is higher, and in Latvia where the percentages are almost equal.[9]

It is estimated that sector-specific statutory minimum wages in Germany, based on the Posted Workers Act (see above), currently cover a total of 795,250 employees. This includes 521,000 blue-collar workers in the main construction industry, nearly 170,000 blue-collar workers in the painting industry, nearly 84,200

[9] See Eurostat, op. cit., p. 4.

in the roofing industry and an estimated 11,050 in the demolition/wrecking industry. As a result, branch-specific statutory minimum wages cover 2.1% of all employees.

Structural Characteristics

By looking at the structural characteristics of minimum wages, which are summarised in Table 7, it is possible to discern many different features. One common feature is that statutory minimum wages exist only at the national level. There are no differences between various sectors or regions.

More widespread are differences according to age and qualifications. The figures set out above (in Table 1) are the full adult rates. However, eight countries apply lower rates to younger or less experienced workers. The countries with no age-based different rates are Estonia, Greece, Hungary, Lithuania, Poland, Slovenia and Spain. The group of countries with differences based on age includes Belgium, the Czech Republic, France, Ireland, the Netherlands, Slovakia and the UK. We can add Latvia which has a special hourly rate for younger workers, who may only work up to 35 hours a week, to this latter group.

Brief details of these differences are provided in Table 8. In France, Ireland and Slovakia, the full adult rates apply to all employees aged 18 and over, while there are one or more reduced rates that apply to all employees under 18. In Belgium, the full adult rates apply to all private sector employees aged 21 and over, while there are five lower rates for workers aged between 16 (younger workers also receive this rate) and 20. In addition, two higher rates exist for workers aged 21.5 and over with at least six months' service and workers aged 22.5 and over with at least 12 months' service. In the Czech Republic and the UK, the full adult rate applies to workers aged 22 and over. In addition, there are two further rates that apply to younger workers. In the Netherlands, the full adult rate applies to workers aged 23 and over, while there are eight reduced rates ranging from 30% for workers aged 15 to 85% for workers aged 22.

Differences based on qualifications or occupation exist in the Czech Republic, France, Greece, Ireland, Latvia, Poland, Spain and the UK. The differentiations mainly take account of disabilities (as in the Czech Republic, France, Slovakia and Spain) or work experience (as in Greece, Ireland and Poland). In Greece, the minimum wage varies according to employees' length of service and marital status. In Ireland, reduced rates apply to employees over 18 in the first two years after they start work; reduced rates also apply to employees undergoing a prescribed course of study or training. In Poland, reduced rates apply to all employees who have worked less than two years, irrespective of age. Less common are adjustments to specific working conditions. In France, minimum wage adjustments are possible for specific occupations as well as for employees in the hotel and catering industries. In Latvia, workers in high-risk jobs receive a higher minimum wage rate.

Wage subsidies for low-paid workers, including minimum wage earners, are applicable only in France

Table 8
National Minimum Wage – Lower Rates for Younger and Less Experienced Workers, 2004

Country	% of Adult rate	Applicable to:
Belgium	94	Workers aged 20
	88	Workers aged 19
	82	Workers aged 18
	76	Workers aged 17
	70	Workers aged 16 and less
Czech Republic	90	Workers aged 19-21 in the first six months of employment
	80	Workers aged 18 and less
Ireland	90	Workers aged under 18/workers aged over 18 and undergoing final third (lasting one month to one year) of a course of authorised training or study
	80	Workers aged 18 and over in first year of employment/workers older than 18 and undergoing second third (lasting one month to one year) of a course of authorised training or study
	75	Workers aged over 18 and undergoing first third (lasting one month to one year) of a course of authorised training or study
	70	Workers aged 18 and over in second year of employment
Latvia	Special hourly rate	Workers aged 15-18, who may only work up to 35 hours a week
Netherlands	85	Workers aged 22
	72.5	Workers aged 21
	61.5	Workers aged 20
	52.5	Workers aged 19
	45.5	Workers aged 18
	39.5	Workers aged 17
	34.5	Workers aged 16
	30	Workers aged 15
Poland	90	Second year of employment
	80	First year of employment
Slovakia	75	Workers aged 16-18
	50	Workers aged under 16
UK	84.54	Development rate for workers aged 18-21 inclusive, plus workers aged 22 and above during first six months in a new job with a new employer and who are receiving accredited training
	61.86	Workers aged 16 and 17, other than apprentices

Source: European Industrial Relations Observatory: Pay Developments – 2004, 2005, http://www.eiro.eurofound.eu.int/2005/03/update/tn0503103u.html.

and the Netherlands. Measures exempting low wages from social security contributions have existed for a number of years in France and have been the subject of a number of amendments. In the Netherlands, employers can reduce their tax bill if they employ low-paid workers. Reductions in social contributions are also common in Slovakia, Slovenia and Spain; these are, however, primarily linked to recruiting long-term unemployed people. The UK introduced a national minimum wage just as a tax-credit policy was being extended, at least to some extent in order to avoid the positive repercussions on labour supply expected from tax credits being cancelled out by a drop in wages at the bottom of the wage ladder.[10]

In Germany, statutory minimum wages based on the Posted Workers Act are, as mentioned above, sector-specific. Moreover, regional differences exist between the old federal states (western Germany) and the new ones (eastern Germany) in all the branches concerned, except the roofing industry. In addition, the social partners are authorised to introduce more than one minimum wage rate for a specific sector. In 2003, they introduced a second minimum wage for more qualified workers in the main building industry, while in the painting and demolition/wrecking industries, the social partners have also introduced two minimum rates.

Adjustment

Statutory minimum wages are adjusted regularly by governments. Adjustment is annual in Belgium, the Czech Republic, Estonia, France, Hungary (though there was a freeze in 2003), Slovakia, Slovenia and the UK (in practice, since 2000). Adjustments are made twice a year in Greece and the Netherlands and, sometimes, in Poland and Spain. In the Netherlands, increases normally take place each 1 January and 1 July, but as part of a 2003 "social agreement" between the government and the social partners, the legal minimum wage has been frozen at that year's level. Statutory minimum wages are adjusted regularly, but generally at intervals longer than one year, in Ireland, Latvia and Lithuania. Since the minimum wage was introduced in Ireland in April 2000, increases have taken place approximately every 16 months. The Latvian government usually raises minimum wages every two years, though since the mid-1990s there have been two cases of annual adjustment.

In most countries, the statutory minimum wage is set by the government after consultation with the social partners, as indicated in Table 9. Looking first at the old EU member states, in Belgium the national minimum wage (based on an intersectoral agreement and given legal force through a royal decree) may rise in one of two ways: either linked to increases in prices or based on an agreement between the social partners in the National Labour Council. In France, the minimum wage is adjusted by decree after the government has consulted with the social partners, with increases reflecting consumer prices, increases in manual workers' hourly wages and government policy. In Greece, all minimum wage increases are determined in the framework of National General Collective Agreements (signed by the social partners, usually every two years), with the government giving them legal force. In the Netherlands, the minimum wage is adjusted by the government, based on the development of collectively agreed pay. However, in the event of severely adverse economic developments, or a rise in unemployment or the number of employees with disabilities, the government can decide to abandon this mechanism temporarily, as is currently the case following a tripartite agreement in 2003 (see above). The Spanish government adjusts the national minimum wage based on consultations with the social partners, and on forecasts for inflation, productivity and the general economic situation.

In the UK, the government decides on minimum wage adjustments, based upon recommendations from the Low Pay Commission (LPC), which was established in July 1997 and granted permanent status in October 2001. The LPC is made up of a chair, three members from the business community, three from the trade unions and two independent academics. It monitors and evaluates the economic and social impact of the national minimum wage. In its recommendations to the government, the LPC takes the economic and social implications of any increase into account. It has usually recommended increases for a two-year period. In Ireland, minimum wage increases have been negotiated by the social partners at national level as part of the country's current series of social pacts. There is currently no body such as the UK's Low Pay Commission – a National Minimum Wage Commission, which was set up in 1998, played a major role only until the advent of the legal minimum wage in April 2000.

Among the new EU member states, there is a special role in minimum wage-setting for tripartite councils; this is especially true in the central and eastern

[10] See OECD: Employment Outlook, Paris 2003, p.129.

Table 9

Statutory Minimum Wage Adjustment and Enforcement

Country	Frequency of adjustments	Adjustment body	Adjustment criteria	Supervising institutions	Fines in case of non-compliance
Belgium	Annually	Social partners	Indexation (minimum wage rise is linked to “health index” of prices)	Industrial tribunal or Federal Public Service Employment, Labour and Social Dialogue	Yes
Czech Republic	Annually	Government, after consulting the social partners	Consumer prices index	Public labour offices (of which there are 100)	If labour offices find shortcomings, the employer is fined and obliged to top up pay to the level of the minimum wage
Estonia	Annually	Government decree, based on a decision by the social partners	Various factors – in particular forecast for consumer prices index, labour productivity and economic situation	Labour inspectorate	No penalties. If employer pays less than the minimum wage, the employee can demand the arrears with 0.5% interest, through labour inspectorate
France	Annually	Government decree, after consulting the social partners	Development of prices index and basic hourly manual workers’ wages	Labour inspectorate, with various monitoring bodies	Maximum fine of €1,500 for each case of non-compliance
Greece	Twice a year	Government by law (different laws for private and public sector), based on national collective agreement	Consumer prices index	Labour inspectorate and labour courts can intervene in the event of complaint	Employer has to pay any arrears with interest
Hungary	Regularly	Government, after an agreement is concluded by the tripartite council	Negotiations are integrated into the annual intersectoral bargaining round	Labour inspectorate	Maximum is €410 (single case) to €24,500 (multiple cases).
Ireland	Every 16 months (in practice)	Government and social partners through social pacts; recently, Labour Court has a role	Negotiated as part of national pacts	Labour inspectorate	Fines and/or imprisonment
Latvia	Irregularly, depending on political considerations (every 1-2 years)	Government, after consulting the social partners	Pressure from social partners, budgetary considerations and minimum wage increase plan agreed by social partners	Labour and financial control institutions	Courts rule on cases of non-compliance. Normally, employer must pay all unpaid wages
Lithuania	Regularly	Government, upon Recommendation of tripartite council	No specific criteria	Labour inspectorate	Employers paying less than the minimum wage are fined up to LTL 10,000 (€2,896)
Netherlands	Twice a year (frozen since 2003)	Government decision	Development of collectively agreed wages	Labour inspectorate	No penalties; government stipulates employers should not pay less than the minimum.
Poland	Once or twice a year	Tripartite commission, with reference to proposals and information presented by the government	Forecast for consumer prices index and other economic indicators	Labour inspectorate	Yes
Slovakia	Annually	Government, based on a decision made by social partners (tripartite agreement)	Relationship with average wage and subsistence minimum, plus whole economic situation	Labour inspectorate; employee representatives at the workplace	Up to SKK 1,000,000 (€24,988)
Slovenia	Annually	Government, based on a decision made by social partners (tripartite agreement)	Expected inflation	Labour inspectorate	Up to SIT 500,000 (€2,091)
Spain	Once or twice a year	Government, after consulting the social partners	Forecasts for inflation, productivity, economic situation	Labour inspectorate	Yes
UK	Annually (in practice, since 2000)	Government decision, based on recommendations by the Low Pay Commission	Whole economic situation (taking into account economic and social implications)	Inland Revenue and employment tribunals or civil courts	GBP 7.20 per day and worker; employer has to pay any arrears to employees.

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

Table 10
Adjustment and Enforcement of Collectively Agreed Minimum Wages

Country	Frequency of adjustments	Criteria for adjustments	Supervising institution	Fines in case of non-compliance
Austria	Annually	Pay increases influenced by bargaining outcomes in pattern-setting metalworking industry; increases vary with the sectoral power of trade unions	No specific supervising institution; trade unions support employees when they appeal to the labour court over non-compliance with minimum rates of pay	No, but employer has to refund any arrears
Denmark	Annually	No specific criteria used in bargaining	Industrial court and trade unions	Unions are allowed to take action against companies failing to pay, through boycotts
Finland	Annually	Specified in collective agreements, with no single criterion (such as inflation) used	In conflicts between an individual employee and an employer, a trade union can take the case to the civil court on behalf of its members. Additionally, the unions provide legal assistance to members when they sue their employers	Yes. Additionally, the employer has to refund the arrears
Germany	Annually or every two years	Productivity, inflation, profits	No institution; but individual employees or unions can appeal to the labour court; with regard to statutory minimum wages based on Posted Workers Act (AEntG), customs authority fights against illegal working including non-compliance with minimum wage	No, but employer has to refund the arrears; fines only exist for sectors affected by the AEntG
Italy	Every two years	Expected inflation rate	Labour tribunal	Yes. Additionally, the employer has to refund the arrears
Sweden	Annually	Expected inflation rate, productivity growth (as for ordinary wage-setting)	Labour court	No, but employer has to refund any arrears

Source: L. Funk, H. Lesch: Minimum Wages in Europe, 2005, http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html.

European countries.[11] In these cases, the government decides on national minimum wage adjustments after reaching (or seeking) an agreement with the social partners. In the Czech Republic, Poland and Slovenia, the decision is mainly linked to the expected development of consumer prices. Apart from Poland, in these countries other economic indicators play only a minor role. In Hungary, negotiations over minimum wage adjustments are integrated into the annual intersectoral pay bargaining round. There is no accepted formula or automatic mechanism.

Collectively agreed minimum wages are adjusted annually in Austria, Denmark and Finland, and every two years in Italy, as shown in Table 10. In Sweden, the agreed minimum wages and their annual adjustment are set in three-yearly sectoral agreements at the same time as ordinary wages. In Germany, the picture is somewhat different. There are some branches, such as the chemicals industry, in which the social partners negotiate every year; however, there are other branches, such as the metalworking and electrical industry and the construction industry, in which the social partners sometimes negotiate only once every two years. In such cases, the agreements adjust minimum wages in stages.

The main criterion for adjustment in these cases is the expected inflation rate. In addition, trade unions in Austria and Germany usually try to include workers' contributions towards increases in productivity. In these countries, collective bargaining rounds are characterised by pilot agreements, with the lead usually taken by the metalworking and electrical industry. The development of profits plays only a minor role in determining agreed wage rises in Germany.

Furthermore, it should be noted that the German Posted Workers Act grants the social partners an important role in setting minimum wages for the sectors concerned (see above), as they have to determine the branch-specific minimum wage. If agreement is reached between the social partners, the Minister of Economics and Labour declares the negotiated minimum wage generally binding. This means that all employers, including non-organised domestic and foreign employers acting as subcontractors, are obliged to pay at least the collectively agreed minimum wages.

Enforcement

All countries with statutory minimum wages, apart from Greece, have monitoring organisations that over-

[11] See L. Funk, H. Lesch: Industrial Relations in Central and Eastern Europe – Organisational Characteristics, Co-determination and Labour Disputes, in: INTERECONOMICS, Vol. 39, No. 5, 2004, pp. 267f.

see their enforcement. However, the specific institutions that are responsible for this task differ (see Table 9). In most cases, labour inspectorates exist and play this role. In other countries, either industrial or employment tribunals (Belgium and the UK) or labour offices (the Czech Republic) are responsible. These countries differ widely with regard to the imposition of fines on employers for non-compliance. For instance, in the Netherlands, the government only stipulates that employers should not pay less than the minimum wage without imposing a sanction in the case of violation, while in Hungary, at least formally, large legal penalties apply in the event of non-compliance. In general, information with regard to fines is scarce. Examples include fines of GBP 7.20 per day and worker concerned in the UK, on top of any arrears to employees. In Slovakia, employers that pay less than the minimum wage may be fined to up to SKK 100,000,000 (€24,988). In Hungary, the fine can be up to €24,500 in cases of multiple violations.

In countries without a national statutory minimum wage, supervision is mainly delegated to trade unions or the social partners in general and industrial/labour tribunals or courts (Denmark, Finland, Italy and Sweden – see Table 10). In Germany, individual employees or trade unions can appeal to the labour court. Moreover, the customs authority fights against illegal working, which includes non-compliance with minimum wages that are based on the Posted Workers Act. The fines in the event of non-compliance differ. In some countries, fines and, normally, a duty to refund the arrears (Finland, Germany in certain sectors, and Italy) exist while in other countries there is simply a responsibility for employers to refund the arrears (Austria, Germany in most sectors and Sweden).

Views of Government and Social Partners

In countries with statutory minimum wages, many governments reportedly regard such wages as an instrument of social protection (as in Latvia, Lithuania, the Netherlands, Poland, Slovenia and Spain) or as a way to cover non-unionised workers paid low wages (as in Spain). Other important aspects include the goal either of refraining from state intervention (Greece, Hungary and Slovakia) or of using the minimum wage as an important tool in tripartite negotiations (Estonia). In the UK, the minimum wage is regarded as a means of promoting fairness as well as efficiency, as it encourages employers to compete through high-quality products and services instead of through wage competition only. Positive effects that the British government expects from implementing a national minimum wage include the reduction of staff turnover and absence from work, as well as lower taxes as a result of reduced spending on in-work benefits.

In general, many trade unions regard the minimum wage as an effective means of combating poverty and low pay (in general and in terms of closing gender wage gaps). Other unions argue that minimum wages set at a low level reduce their significance as a means of protecting employees (e.g. in Belgium, Greece, Hungary, Ireland, Latvia, Slovenia and the UK). Some trade unions call for a rise in current minimum wages in either absolute or relative terms, especially in the new member states (e.g. in the Czech Republic and Slovakia). This is also true for some of the trade unions in France. Other trade unions, such as those in the UK, argue that the minimum wage should represent a living wage, i.e. not requiring additional state benefits to supplement it. One argument in favour of a rise in the minimum wage could be that, as argued by Irish unions, the minimum wage can boost employment, first by increasing the spending power of the low-paid and, second, by spurring employment growth in low-paid sectors through guaranteeing basic levels of pay. Other trade unions, such as those in the Netherlands, stress that the current level of the minimum wage has not had negative employment effects. However, some unions also acknowledge that current minimum wages are a “blunt instrument” with regard, for example, to addressing gender inequality if women often work part-time, as happens in France.

British trade unions support the view that the adult minimum wage should be unified, in the sense that the adult rate should be applied to all employees who are 18 and over, and Belgian trade unions have criticised some of the existing age-related differences in their country (and even demand a Europe-wide minimum wage). By contrast, trade unions in Hungary support a more differentiated minimum wage according to skill levels. A further interesting criticism, for example in Estonia, is that the annually agreed national minimum wage constrains the development of sectoral bargaining – which is currently almost non-existent – and both central trade unions and employers’ organisations state that there is a need to develop sectoral agreements in the near future.

The responses of employers differ considerably in countries with statutory minimum wages. Most countries can be grouped either into those where employers, more or less, support the existing minimum wage regulations and those where they oppose the current regulations as they regard them, to varying degrees, as an obstacle to hiring because they increase labour costs. The former group consists of Hungary, Lithuania, the Netherlands, Poland, and Spain. The latter group includes Belgium, the Czech Republic, Estonia, France, Greece, Ireland and Slovenia. Employers in Latvia have mixed opinions on whether an increase in the minimum wage would, on the one hand, help to stop the emigration of workers and, on the other hand, affect competitiveness adversely. Finally, quite a few employers' associations also call for a stronger differentiation of existing minimum wages with respect to skills, regions and/or sectoral differences. This is characteristic, for example, of employers in Estonia, Slovakia and the UK.

The positions of governments on minimum wages differ widely among those countries without a national statutory minimum wage. While there are no debates on the issue in Denmark, Italy and Sweden, the Austrian government has proposed a statutory monthly minimum wage of €1,000 for full-time workers. By contrast, the Finnish government sees no need for setting a statutory minimum wage. Germany is currently discussing the extension of the Posted Workers Act to include other sectors in order to fight "wage dumping" involving foreign workers, especially those from new EU member states.

It is interesting to note that a similar variety of positions exists among the social partners. There is no debate on this issue at all among unions and employers' organisations in Sweden (which is also true for the government). In Denmark, the social partners support the existing situation, as does the government. In Austria, neither trade unions nor employers call for a statutory minimum wage as both social partners regard the high coverage rates of collective agreements reached through free collective bargaining as sufficient. Similarly, neither the Finnish government nor the social partners demand a statutory minimum wage, although employers call for the possibility of deviating from collectively agreed minimum wages. In Italy, employers call for a regional differentiation of collectively agreed minimum wages between North and South, but trade unions reject this proposal. In Germany, trade unions support proposals to extend the Posted Workers Act to other economic sectors, while employers oppose this move and would prefer to stick to current regulations.

Employment and Distributional Issues

The national evidence seems to confirm that current minimum wages are not regarded as a major obstacle to employment in most of the countries analysed here. However, it is often argued – for example by the OECD – that while available cross-country evidence suggests that statutory minimum wages, at the levels at which they are currently set in OECD countries, do not have major negative effects on aggregate employment, a high statutory minimum wage undermines the employment prospects of disadvantaged groups: "For these groups, the most effective solution in terms of employability would therefore be to lower the minimum wage. But this could reduce the attractiveness of work compared to welfare receipt for some groups (for example, young people). A second-best solution would be to offer employers a reduction in non-wage labour cost for those employed at or around the minimum wage. That is, a high minimum wage appears to call for policies that support labour demand".[12] In other words, "tax-credit schemes and employer subsidies pose questions about the minimum wage and the level at which it should be set". For example, as a high minimum wage compresses the wage distribution at the bottom of the wage ladder, it may be very expensive to introduce broad in-work benefits since the targeted low-wage earners may represent a relatively large proportion of those in employment. Additionally, a minimum wage may also have the effect of pushing up other wage rates that are above the minimum wage, or have a knock-on effect by influencing pay rates in areas not covered by the minimum wage – that is, effects on the structure of wages and employment.

In the countries with a statutory minimum wage, national academic debate and evidence on these issues – employment and the wage structure effects of minimum wages and interactions with other systems of protecting the low-paid – is quite sparse. In quite a few of these countries – such as Belgium, Greece, Latvia, Lithuania, Poland, Slovakia and Spain – the existence of the minimum wage and its effects is not currently a major issue of debate. Where national information exists, this often tends to oppose the argument that wage floors set by minimum wages have a noteworthy negative effect on employment (as in France, Slovenia, Spain and the UK). However, in Estonia and Hungary negative effects of strong increases in minimum wages are also acknowledged. Studies in the Netherlands

[12] See OECD: Employment Outlook, op. cit., p. 129.

show mixed results. Examples on these issues include the following.

- In Estonia, an independent study of "micro-data" found that 8% of workers in the sample had to accept wages lower than the minimum, despite the fact that the minimum wage is compulsory for all workers without exception (the lower the sectoral average wage, the higher the proportion of workers receiving below the minimum rate). The study also found that minimum wage increases lead to a fall in employment among the workers directly affected and to a rising proportion of workers with earnings below the legal minimum wage.
- In France, independent empirical studies have (according to the French EIRO centre) regularly failed to find that the SMIC minimum wage has a detrimental impact on employment.
- In Hungary, one study finds a significant reduction in employment in small firms and the job-loss/job-finding probabilities of low-wage workers. Low-wage segments of the economy appear to be particularly adversely affected.
- Despite the introduction of a national minimum wage in April 2000, unemployment subsequently dropped sharply in Ireland. Research has found that only a modest number of employees had a pay increase as a direct result of the introduction of a minimum wage (there were strong sectoral differences, however). Most families gaining from the minimum wage are in the middle-income distribution range, research indicates. Positive effects were reported by about 3% to 12% of employees surveyed with regard to workers' morale, productivity increases and lower staff turnover.
- In the Netherlands, according to one influential study, the relationship between the level of the minimum wage and employment appears to be weak. However, some studies find that decreasing the minimum wage for unskilled long-term unemployed persons would increase employment.

It is reported from several countries that there are no major interactions between minimum wages and other systems of protecting pay at the bottom of the labour market (such as training or wage subsidies). These countries include Belgium, Estonia, Greece, Lithuania and the UK (though the OECD highlights this interaction).

Some countries do report interaction of the minimum wage with other systems of protection of low-paid workers, including the Czech Republic, Ireland, Latvia, the Netherlands and Slovakia. Regarding interactions with other governmental programmes, tax reform has been important for removing people on the minimum wage from the tax net in Ireland. In the Netherlands, interactions exist between the minimum wage and other forms of protecting the low-paid, as certain wage subsidies or tax grants are granted only to those employees earning the minimum wage or slightly above it. In Slovakia, the minimum wage serves as a "substitute" in the absence of collective agreements in certain enterprises. In Slovenia, the minimum wage is regarded as compatible with other measures (e.g. training and increasing the number of enrolled pupils and students) aimed at fighting poverty and social exclusion.

Most countries report that the minimum wage has undoubtedly been important for raising income levels among female workers and facilitating a reduction in the gender wage gap. These countries include, in particular, Greece, Ireland, the Netherlands, Slovakia, Slovenia, the UK and, to a lesser extent, Lithuania. In France, women appear to be "trapped" in part-time work, as the minimum wage is not effective in giving access to full-time employment. This highlights problems of low-wage traps. There are no, or hardly any, academic debates on such gender equality questions in the Czech Republic, Hungary, Latvia (where women and men appear to be employed to a similar degree on minimum wages), Poland, Romania, Slovenia and Spain.

Academic debate on core minimum wage issues in those countries without a national statutory minimum wage is mainly limited to Germany and Italy. Direct interactions of agreed minimum wages with other systems of protecting pay at the bottom of the labour market appear not to play an important role in these countries. However, proposals exist in Italy to combine a statutory minimum wage with wage subsidies, while Denmark has recently introduced lower starting wages for immigrant workers in the public sector undergoing training. While some academic studies in Italy support a statutory minimum wage in order to protect the "working poor", in Germany a controversial debate about proposals made by the government to extend the Posted Workers Act to other economic sectors has been going on for some time.[13] Moreover,

[13] See R. Bispinck, C. Schäfer, T. Schulten: Argumente für einen gesetzlichen Mindestlohn, in: WSI-Mitteilungen, Vol. 57, No. 10, 2004, pp. 575-577; H. Lesch: Beschäftigungs- und verteilungspolitische Aspekte von Mindestlöhnen, in: IW-Trends, Vol. 31, No. 4, 2004, pp. 41-50.

some research bodies call for a tax credit to prevent "working poor" problems, instead of introducing additional statutory minimum wages.[14] Others warn that tax credits without a minimum wage may additionally burden the public budget.

Conclusion

The minimum wage is a controversial issue. Its proponents argue that it is an instrument for protecting low-paid incomes; its opponents argue that it may price low-skilled workers out of jobs, and that many of those typically affected by the minimum wage do not live in poor households. Despite some criticisms, the majority of EU countries have statutory minimum wages in addition to collectively agreed wages; the latter also provide a minimum wage floor. It is noteworthy that statutory minimum wages are calculated carefully in most countries covered this study. As a proportion of average monthly gross earnings, the minimum wage ranges from 29% to 51% and in a majority of countries the minimum wage is less than 45%. In the light of collectively agreed wages in low-paid sectors in those countries without a national statutory minimum wage, which usually represent 45% or more of the average wage, the ratio in countries with a minimum wage does not seem to be very high. In other words, countries with a collective bargaining-based minimum wage system tend to set relatively high minimum rates, compared with many national statutory systems. It would be interesting to see in future research how this interacts with employment opportunities. Even if national evidence in several countries appears to demonstrate that no noteworthy negative employment effects exist – even in the case of relatively high minimum wages – one should not jump to conclusions that statutory minimum wages have no adverse employment effects. This is simply because a comparison of observed employment levels at two points of time has led some academic studies to conclude that minimum wages have had no adverse employment effects. However, this simple before/after comparison is not the correct one if labour demand has shifted (due to strong economic growth, for example). In other words, in a growing economy, the expected effect of a one-off increase in the minimum wage is to reduce the rate of growth of employment (and not to result in a lower level of persons working at the new minimum wage compared to the former minimum). However, a lower growth of employment will also have a detrimental effect on certain groups in society and the argument that minimum wages have had no adverse employment effects may well not be as valid as is sometimes claimed.[15]

Furthermore, information on the redistributional effectiveness of a minimum wage is rather sparse. The percentage of employees with earnings at the minimum wage level is markedly different between countries. There are some countries in which the percentage of beneficiaries ranges from 1% to 5% only. This reflects the fact that most employees are covered by collectively agreed or individually negotiated wages that are higher than the legal minimum. However, there are higher rates of coverage by the minimum wage if we look at specific sectors. The statutory minimum wage often protects workers in low-paid sectors like agriculture, textiles/clothing, retail, hotels/restaurants as well as some personal services. As female workers are over-represented in some of these industries, the statutory minimum wage tends primarily to protect women. Taking this into account, we can conclude that the minimum wage may be regarded as a rather effective instrument for reducing gender wage gaps, as is acknowledged in many countries in this study (even though gender wage gaps have certainly not disappeared for other reasons).

Whether the minimum wage protects low-skilled workers effectively is, however, much less clear. On the one hand, it guarantees minimum earnings. On the other hand, we can see that some countries differentiate the statutory minimum wage according to age and qualifications. There are eight countries with reduced rates for younger or less-experienced workers. This reflects the danger that a minimum wage may price low-skilled workers out of jobs. A minimum that is not calculated carefully is an obstacle to combating youth unemployment, which is a huge problem in most countries analysed in this study.

Finally, quite a few recent studies raise questions about the effectiveness of the minimum wage as an anti-poverty tool by demonstrating that the main beneficiaries of the minimum wage are employees in better-off households. Therefore, more research is needed in this respect as it is reported from the countries covered here that studies which analyse interactions of the minimum wage with other systems of protecting the low paid or poor people appear to be rare.

[14] See P. Gregg: The Use of Wage Floors as Policy Tools, in: OECD: Economic Studies, Vol. 31, No. 2, 2000, pp. 133-146; OECD: Employment Outlook, op. cit., p. 129; H. Lesch, op. cit., pp. 48 f.

[15] See R. G. Ehrenberg and R. S. Smith: Modern Labor Economics: Theory and Public Policy, 9th ed., New York et al. 2005, p. 110.