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Is there a need for a European Minimum Wage?
Developments and experiences in the EU with a closer view to
Great Britain and Germany

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1. Introduction

25 years ago no one in Germany had thought that once Great Britain could become an economical role model. To that time, Great Britain was known as the “sick man” of Europe - high unemployment rate, high inflation and many strikes. But today situation is different - until a short time, Germany was the “sick man” of Europe. Even if today situation in both countries are better and seems to be stable, it is a fact that Germany and Great Britain - as well as all other European Member States - has to suffer under many exogenous and endogenous challenges. Existing systems need to be changed and to adapt to new situations. This is a difficult task, which affects nearly every area. This paper will focus on the problems Welfare systems has to face, hereby focusing on employment and wage.

Welfare States are becoming more similar. Social assistance is becoming more residual, pension schemes are becoming more contributory, and active labour market policies are transforming the passive character of social insurance. Not only are countries adopting similar programmes, but also they are using similar language to legitimate them (Cox 1999: 14). That is what the convergence theory is saying. The divergence theory on the other hand says, that Member States wants to be divers and do not want to become homogenous. A European minimum wage would support the convergence theory, as well as the fact that nearly all Member States do have a national minimum wage. Countries without a national minimum wage also start to change and to find their way to a minimum wage, like Germany does. We will have a closer look at these theories within this paper.

The comparison between the German and British labour market is one of the main used comparison. There are three reasons why this comparison is so likely used. First, the institutional framework of both countries are very different. Germany is a conservative Welfare State, Great Britain a liberal Welfare State. Because one can guess that institutions and regulations do have an impact on labour market one can expect many differences between both countries and can find many areas for research. In general one can say that Germany is a strong regulate system and Great Britain is mainly not regulate (Giesecke 2006: 22). Another important factor by looking on the labour market is the education system, which is also very different in both, Germany and Great Britain. Secondly, besides all this differences, Germany and Great Britain, also have similarities. Both have a similar population structure, a comparable GDP per capita and economics depend on the same way of the world economy because they are involved in the world economy. Besides both are embedded in a similar social-cultural environment (Giesecke 2006: 26). Last but not least there are very good and comparable data for both countries so this makes it very easy to compare them.

I introduce this two countries, although my research question is about a European minimum wage because there are special reasons why I choose these two European countries. I already explained why it is so likely to compare Germany and Great Britain but there are also some other reasons. Great Britain is always seen as a role model concerning a national minimum wage (NMW) and has a long history dealing with the NMW. Other countries also have a long history concerning a NMW, but Great Britain is very good to compare to Germany (see above) and was one of the first European countries with regulations concerning wage. In general, Great Britain is often seen as a role model in employment policy, as well as Denmark and the Netherlands (Steinle 2001: 181).

Germany does not have a NMW. But currently there is a big discussion about a NMW and it seems like Germany is moving forward to it. This is a very interesting process and I want to have a closer look on this process.

Both, Germany and Great Britain would of course be affected by a European minimum wage and both countries would have to change their NMW system for it. Even if Great Britain already has a NMW, they do not fulfil the discussed amount for a European minimum wage

of 50–60% of the national average wage. If Germany still has no NMW while the EU is introducing it, Germany will get lots of problems in introducing a European minimum wage. So in both countries it is interesting to see how situation in the country is and how they will be affected by a European minimum wage. I also had a short look at other European countries and their experiences with a NMW to embed my two model cases into the European context. This is also done to show that there are not only these two cases but many more. As theoretical background I used the convergence theory because the high number of minimum wages in the EU led me assume a convergence within the EU. The OMC should give a further theoretical background, to explain a possible framework for a European minimum wage.

There are some explanations I have to give in the beginning. It is important to have a clear distinction between the national minimum wage (NMW), the national average wage and the European minimum wage. A NMW applies for the whole country. Besides there are often collective agreements, which includes a higher wage for single industries. But this collective agreements are not allowed to be less than the NMW (if a NMW exist). The national average wage is the national average wage of the workers in the country, which can be higher than the NMW. A European minimum wage should apply for the whole EU. According to international standards a wage is a low wage if it is less than two thirds of the national average wage (Sperber 2008). A “working poor” is somebody who earns less than 50% of the national average income. So a EU minimum wage should be above this level.

For Germany it would be needed to distinguish between west and east Germany because standard of living and situation on the labour market are very different. I did this only if there are model calculations for a possible national minimum wage or similar things were it was really important to distinguish, but in general I use numbers for whole Germany. Otherwise it would have been to complicated, also in the comparison to Great Britain or other European countries.

I used of course many professional literature and publications of institutions but I also had to use many newspaper articles, especially by talking about the current debate in Germany and the Post minimum wage, because here so far nearly no official publications exist. But of course I tried to use only well-known German newspapers, mainly the *Frankfurter Rundschau* and the *Financial Times Deutschland*.

The paper is structured as follows: I will start with the theories, which specific are the convergence and divergences theory and different methods of learning. The Open Method of Co-ordination will be explained afterwards as a possible instrument for the introduction of a European minimum wage. The NMW will be explain afterwards. Thereby I will distinctive between the social and the economic dimension. Then we will have a closer look at the different NMW that already exist in the EU. After that, the paper will have a closer look to the situation in Great Britain and shows the long way to the British NMW and how situation is now. Thereby the paper will also look deeper at the economic dimension and shows which impact the NMW has on companies.

Germany does not have a NMW. Reasons for this and signs that this might change are explained in the next chapters. Thereby the paper will also have a closer look at the current debate about a minimum wage for the German Post sector, because this discussion was the start for the current debate about a NMW for Germany.

After knowing the situation in two different countries and with the background of the theories in the beginning we will come to the European level and the possibilities there for a European minimum wage.

At the end of each chapter I will give a short conclusion of the chapter in question. In the end there will be the final conclusion and some additional information in the annex.

2. Convergence and Divergences Theory

Since the establishment of Welfare States during the first decade after World War II, its evolution has come to be analysed in terms of convergence and divergence. The concept of convergence relates to the long term process of growing institutional and policy uniformity of advanced industrial societies. The notion of convergence concerns an elusive concept with numerous analytical problems with respect to time, policy goals, content, instruments, outcomes and means (Hemerijck/Bakker 1995: 145). It suggests, that under the influence of common demographic, economic and technical developments as well as similar social, political and financial problems, Welfare States will become more and more alike.

By contrast, the divergence perspective emphasizes the extent to which various advanced industrial societies are able to maintain the extraordinary diversity of policies and institutions, when confronted with common international pressures and similar domestic problems (Hemerijck/Bakker 1995: 145). So the divergence perspective sees it more likely, that domestic Welfare States regimes are more likely to grow apart than towards each other in the future.

One of the scientists, who did research on convergence theory is Wilensky, who came to the conclusion that different national systems of social care were converging towards similar goals and institutions of social policy as a result of economic development (Hemerijck/Bakker 1995: 151). He also came to the conclusion, that *“the emergence of the welfare state is no more than the imperative corollary of the dynamic of economic progress, which fosters a society-wide movement toward the policies and institutions of the contemporary Welfare State.”* (Hemerijck/Bakker 1995: 151). Clar Kerr came in his research to similar results.

Wilensky's convergence argument leaves little room for institutional variation and political choice in the process of Welfare State convergence, but he also thinks, that institutional leftovers are of little consequence to Welfare State proliferation. Also variation in ideology and political institutions is far less significant than levels of economic development and related differences in demographic structures in explaining differences in social security spending across nation-states. It is the economic growth that makes countries with contrasting political traditions more and more alike in their Welfare State policies.

From Wilensky's analysis one can follow that national and international political elites only have a limited scope for choice between alternative goals, content and instruments of economic and social policy. However, according to Wilensky, faced with increasingly similar social, economic, technological and demographic problems, developed industrial societies are more likely to administer rather homogeneous national systems of social care.

Unfortunately, Wilensky ignores the historical developments and is therefore not very helpful. Unfortunately, most other studies too. The crisis in the 70s and 80s and the plethora of national responses discredited Wilensky's convergence claim (Hemerijck/Bakker 1995: 153).

Another study was done by Cox. Welfare States are becoming more similar. Social assistance is becoming more residual, pension schemes are becoming more contributory, and active labour market policies are transforming the passive character of social insurance. Not only are countries adopting similar programmes, but they are also using similar language to legitimate them (Cox 1999: 14).

The absence of a clear sense of how politicians legitimate ideas for welfare reforms makes it difficult to explain the apparent convergence in welfare reform (Cox 1999: 14).

Cox (1999) argues that the liberalization of economic and political institutions in the nineteenth century embedded liberal values into those first welfare programmes. The expansion of welfare programmes after World War II resulted from an embourgeoisement of political values of the political parties who enacted those reforms. This embourgeoisement of politics continued until the present day, and today liberal language is central to the way welfare reforms are legitimated. As this convergence of values has taken place, policy makers find that the world offers more possibilities for new policy ideas, hence the increase in policy borrowing (Cox 1999: 14)

Country-specific divergences constituted a productive ground for the emergence of a form of comparative analysis with a distinct focus on domestic institutional structures as critical intervening variables in the explanation of diverse trajectories of industrial restructuring. The crisis in the 70s prompted a paradigm shift in comparative Welfare State analysis, away from cross-national generalizing toward “middle range “ matched comparison argumentation. A new generation of Welfare State scholarship explicitly centred their analyses around the political structure of the sovereign state with its characteristic institutional arrangements for combating unemployment and poverty.

Corporatist researchers centred their institutional arguments around the administrative structures of the state and the organizational attributes of functional organized interests. In contrast to Wilensky’s structural functionalism, a number of academics found a superior explanation for institutional diversity among Welfare States in the social and political distribution of power among the different levels and actors. A variety of Welfare State typologies were developed; the most famous example is Esping-Andersen’s model with three different kind of Welfare States – the liberal, the social–democratic and the conservative Welfare State. His divergence perspective, like Wilensky’s convergence theory, is primarily concerned with Welfare State growth and development. Esping-Andersen claims that the Welfare State redraws the boundaries of politics and economics in a manner that strengthens the domain of politics. He views the Welfare State as a political institution that enables citizens to make ends meet without relying on the labour market. According to Esping-Andersen, social rights permit people to make their living standards independent of pure market forces (Hemerijck/Bakker 1995: 155). Very famous is also his *decommodification* level. Decommodification refers to the degree, to which individuals or families can uphold a socially acceptable standard of living independently of market participation. High degrees of decommodification render citizens of the Welfare State less vulnerable to loss of income from jobs, in the sense that the Welfare State makes their living conditions essentially less dependent on the labour market within which people have to trade their capacity to work as a commodity.

Esping-Andersen is critically interested in the manner and the extent to which domestic Welfare State arrangements structure the labour market and the status of the family in advanced societies. He was the one who introduced a gender element into the comparative Welfare State debate (Hemerijck/Bakker 1995: 156). He also sees the importance of the history of Welfare States and sees the path dependence. Nevertheless one can criticise him because his typologies are not flexible and do not fit to all Welfare States.

Esping-Andersen divergence perspective in effect turns Wilensky’s convergence argument theoretically on its head in two respects: Firstly, Esping-Andersen argues that the political effect is stronger than the effect of economic development, as he finds no significant correlation between a country GDP and its type of Welfare State regime. In contrast to Wilensky’s structural functionalism, Esping-Andersen successfully introduces a voluntaristic element of political choice into the comparative study of social policy. Secondly, Esping-Andersen attaches much more value to the institutional effect of historical legacies of Catholicism in explaining social policy innovation (Hemerijck/Bakker 1995: 159).

But one also have to say, that the divergence perspective with its distinct emphasis on the institutions of the nation-state, runs the risk of overrating national sovereignty and the scope for independent actions. It might underestimate the consequences of international interdependence in the world political economy.

As we will see later in this paper, many Member States do have a NMW, which can be seen as a sign of convergence. Besides, they all legitimate it with a similar language (Cox 1999) – social, fair etc. In details, it is different in the Member States, but the fact that so many Member States have a NMW leads obviously to the convergence theory.

The comparison Great Britain – Germany shows just one example. Discussion in Germany is very lively, but it seems that there is only one possibility: to get a NMW. With it, a further

step of convergence will be done. That this is more difficult in different countries resulted from the path dependency. Germany is strongly bounded in its path, but it has already shown that it is able to leave the path. One example is the new parental leave system, where Germany learned – successfully – from Sweden. Therefore it has to leave old paths.

All these steps support the convergence theory. But convergence does not happens on its own. It can only happens if one know what happens elsewhere and how it works there. Then politicians can start to think if this could be a possibility for the own country. Process of learning from each other will be explained in the next chapter, as well as the Open Method of Co-ordination (OMC), which gives a good framework for it.

So, at national level we find many signs for convergence – one example is the NMW. A European minimum wage would be one further step – and a very big one, too. In the discussion about it we might find arguments from the divergence theory, which says that even when countries are confronted with common international pressure and similar domestic problems they still hold their diversity of policies and institutions. We will come back to this point later in this paper.

3. Methods and the Learning Aspect

Learning aspects developed more and more during the last years – working groups were established between different countries (for example between Germany and Great Britain) (Schmid 1999: 5). But learning from each other does have borders, for example in the different political–institutional framework condition and the economic structure of the countries.

Besides the national problems in the employment and social policy call in the long term for an establishment of a European policy model, with the goal of acquisition of intellectual hegemony (Schmid 1999: 6). Such a „learning by seeing“ through „policy–borrowing“, „monitoring“ and „diffusion“ has the advantages, that it does need less conditions to the information- and decision systems of a political system than a central planned strategy (Schmid 1999: 6). This is especially for Germany important because through the federalism marked reform barrier exist (Schmid 1999: 6).

This chapter will give a closer view to the different learning methods.

Policy borrowing is not a new development, and was commonplace in the historical development of the Welfare State. Bismarck's programmes were examined closely by others. British social reformers in the 19th Century examined Denmark's new Poor Law, just to name some examples (Cox 1999: 20). Borrowing has always occurred, and in each case it was prompted by a myriad of causes. Sometimes the policy makers engaged in careful and systematic examinations of foreign countries to find a variety of solutions to a similar problem and borrow ideas they could use. Sometimes they borrowed entire programmes. But in recent years the amount of borrowing increased more and more, and the importance of foreign model in the public debate about Welfare reform grows. This phenomenon needs to be explained. Borrowing of ideas, programmes as well as the terminology - such a convergence breaks down the distinctions that were often assumed to exist between Welfare States. The most famous one is the distinction of Esping–Anderson: liberal, conservative and social–democratic Welfare States, which creates social constructions that influenced policy makers. If one was looking to another country in search for a possible solution to a specific problem, one normally looked to a country within the same Welfare State class, because it makes the whole process much more easier, and reduced also the cost of borrowing ideas. Besides it was more likely that the lesson learned really worked in the own country.

Cross-national policy learning involving the broader public is more likely to stimulate political demands for „catching up with the best“. The guidelines, objectives and benchmarks must be debated more openly and not imposed from outside or above (Jacobsson 2001: 14).

When policy makers believed there were ideological differences among Welfare States, they used this as a filter to select the countries they would consider. But now, ideology has disappeared, and policy makers are more self–consciously pragmatic in their quest for foreign lessons. For example to learn from America is no longer irrelevant to European discussion, because some of the specific programmes offer useful ideas to pragmatic reformers (Cox 1999: 21).

Today it is often the case, that all wants to learn from one country, no matter if the lesson will be useful for them. But today decision–makers are often forced to make quick decisions, without the time or resources to make an exhaustive study of the lesson that will be learned. So they choose the easy way to choose the country which is seen as the role model for most of the countries. But of course this can go wrong, and this lesson does not fit to the own country. The **best–practices analysis** shows what a government ought to do. It identifies a single programme as the best and the government has to take different steps. One has to take care that one is not focusing on only one point of the programme but at the whole. Best–practices recommends lessons for the future.

The **benchmarking** process divides national programmes into those with more or less successful programmes. The learning can take place through the exchange of information within and between different categories. (Rose 2005: 54).

Peer group review brings policymakers together whose programmes have been benchmarked at the same standard so they can better learn from each other (Rose 2005: 52).

As the chapter above says, OMC is using these different channels to stimulate countries to learn from each other.

According to Borchert (in: Schmid 1999: 7) there are endogenous and exogenous causes why countries learn from each other. On the level of the actors, there is as an exogenous cause international diffusions and collective learning, and as an endogenous cause the rational choice and the approach of power resources. On structural level an exogenous cause is the modernisation- and globalisation theories and as an endogenous cause, the neo-institutionalism and the historical path-dependence (Schmid 1999: 7). Especially the globalisation and internationalisation leads to increasing transnational communication- and information processes, which build a basic for the transfer of policies and political learning processes. The same is true for the increasing European Integration, which is seen as a highly relevant factor for the explanation of national policies (Schmid 1999: 7). For example some of the employment policy innovation in the new German *Länder* do have a connection with the support programmes of the EU.

But learning from each other is not as easy as it seems. One has to consider that some interesting policies and best practices of countries are path-dependent, which means that they are reflecting specific historical conditions of development and the institutional structures of the country in question. From this it follows, that they cannot simply copied to the own country. Their central meaning and possible use for countries who want to learn from it is, that they can use them as role model, to give impulse and lively discussion points for the national social political debate. This includes also to learn from the mistakes other countries made and to avoid them (Schmid 1999: 8).

It is important to know, that also the often called role models like the Nordic countries or the Benelux countries do have difficulties in their Welfare State system and that there will be no silver bullet to a perfect solution.

In general one can say that it is easier to learn from small countries. Most of the time they have good networks which makes it easier to create social capital (Schmid 1999: 9). Also this small countries often can work with a kind of niche strategy and can often reach much with a small pack of measures. All this lead us to the fact that as more similar the Welfare State systems of the countries are as easier as is it to learn from each other.

The more similar the Welfare States are, the more likely and easier it is to learn from each other. It is also important to have a closer look at which kind and which level the transfer should happen, i.e. if it affects broad political discourse and role models or single instruments. It is from central meaning to judge the introduction of a market cell if it is a broad political instrument or an instrument, which can used in different target systems. It is helpful to distinguish between global problem definitions and solution strategies and specific programmes and instruments (Schmid 1999: 9). Table 1 will give an overview.

Table 1: Possibilities and borders of transfer of successful politics

Content of politics	Similar conditions	Different conditions
Global Problem definition and solution strategies	(1) Possibility of transfer and learning is high	(2) deficit of consensus
Specific programmes and instruments	(4) deficit of efficiency (technical compatibility problems)	(3) chance of a diffusion is low

(Source: Schmid 1999: 10)

Field (1) and (3) are clear, but in the main cases, field (2) and (4) more problems occurs. In these cases, the compatibility have to be increased – either technical or in the political – institutional area. If one for example want to transfer the model of part-time work, the social right conditions needs to be renewed, for example through a collective bargaining agreement to secure the low wage earners (minimum wages would be one possibility) (Schmid 1999: 10). For both, Germany and Great Britain, globalisation is a new challenges. Additional the further development and enlargement of the EU creates new situations and new external pressures. OMC is another external drive on change, which applies to both countries and push them into new and further reforms. Even if Germany today is in a similar situation like Great Britain was 1999, one do not have forget that they have different Welfare State systems. So field four of table one can occur. Also for a European minimum wage, the difficult fields would occur. This does of course not mean that it is not possible, but it shows at an early stage, that it will be no easy way – no matter if we talk about a German NMW or a European minimum wage. We will have a closer view to this table in chapter 9.4.

4. The Open Method of Co-ordination and the European Employment Strategy

Traditional welfare policy areas, such as social protection, have recently been defined as an area of common concern among the EU Member States and are no longer exclusively a national responsibility. The Open Method of co-ordination is one instrument to co-ordinate the social politics of the EU Member States with the goal of harmonisation.

OMC is the core instrument of the Lisbon Strategy (established 2000, re-launched 2005) for growth and jobs. The EU set itself the goal to become the most competitive and dynamic knowledge based economy in the world in 2010. It also wants to raise the overall EU employment rate to 70% and the employment rate for women to 60% by 2010 (De la Porte/Pochet 2003: 10). An additional target is to increase the employment rate for older workers to 50% in 2010.

In theory, OMC should involve all relevant stakeholders like the Union, Member States, local and regional collectivity, social partners and civil society. But in practice this is not overall the case. At European level the economic and financial players in the Economic and Financial Affairs Council were dominant compared to the Labour and Social Affairs Council. To solve this imbalance there is one Council session per year on economic and social questions (De la Porte 2002: 44). So the Council can be found on the top of the decision making pyramid, setting the overall objectives. For the practical implementation of the OMC to different policy areas the Commission has the coordinating role. It structures the framework in which different players interact (De la Porte 2002: 44). The European Parliament has a weak role and is only advisory.

OMC is based on the setting of common objectives, indicators and benchmarking, exchange of best practices and monitoring at EU level. Member States are free to choose their way to achieve the common objectives. Therefore they have to make a national action plan (NAP) where they commit their plans and reform programmes. These NAPs are used as a basis for evaluating their efforts and adds transparency. The comparison of national situations allows the identification of strengths and weaknesses and helps to set priorities. It also allows other countries to learn from the “best practices”. The OMC works as a kind of “catalyst” for policy developments at EU, national and local level. Besides it should stimulate a partnership approach to governance within the Member States, including the way in which they involve different stakeholders like social partners, local and regional authorities in their policy. So it should mobilise all relevant actors. An important element of the OMC is the exchange of information and communication between relevant parties, also including the institutional set-up of facilitation. OMC is based on soft policies instead of hard policies (De la Porte 2002: 41). This means that there are no sanctions if a Member State does not fulfil the guidelines.

The concrete structures of the OMC are different for the various policy fields. The European Employment Strategy (EES) and the Social Inclusion differs in some ways.

The European Employment Strategy (EES) is part of the OMC and has the leading role in the implementation of the employment and labour market objectives of the Lisbon Strategy. It was the first OMC and is the only one who is Treaty based. It is the main tool to give direction and to ensure co-ordination of the employment policy priorities to which Member States should subscribe at EU level. Main objective of the EES is to increase the employment rate by attracting and retaining more people in employment, increasing labour supply, modernising social protection systems, improving adaptability of workers and enterprises and increasing investment in human capital through better education and skills. The EES is build on four pillars: employability, development of entrepreneurship, adaptability and equal opportunities. Each pillar has its own guidelines which were made in a top-down manner. Each pillar should have the same weight but the pillar of employability has the focus of attention.

In taking action, Member States should ensure good governance of employment and social policies and ensure that the positive developments in the fields of economic, labour and social affairs are mutually reinforcing (Employment Committee 2008: 7). The Employment Committee also wants “*ensuring affordable access to basic social services, adequate levels of minimum resources to all, combined with the principle of fair remuneration in order to make work pay are equally important.*” This approach should ensure that work pays for all workers (Employment Committee 2008: 10).

Besides in order to create a real “European labour market”, job-seekers throughout the EU should be able to consult all job vacancies advertised through Member States employment services—mobility of workers within the EU should be fully ensured within the context of the Treaty. So the labour market infrastructure should be strengthened (Employment Committee 2008: 11).

Because Member States has different situations and concepts for and on the labour market the EES has different challenges for them. Especially the corporatist and southern countries have difficulties to face all the challenges of the EES, but also the other ones have to change if they want to fulfil the EES. Common for all Member States is that they need to be more flexible.

Social Inclusion is another OMC. Formally it was named Social Exclusion, but name changed because it turns out that the term “equality” should be conceived as inclusion instead of exclusion.

The decision to apply OMC to combat poverty and social exclusion was taken to impact the eradication of poverty by 2010, which was a logical decision because this issue is closely linked to the EES.

The European conception of the social model and of social inclusion is very broad and therefore able to adapted by different national models, practices and discourses. It emphasis social solidarity and wants to ensure that all individuals are integrated (de la Porte 2002: 51). Besides it emphasises the multiple nature of disadvantage and looks beyond issues of income inequality to incorporate the social and cultural aspects of disadvantages. It also has a look on citizenship rights.

The main objectives are formulated around four axes, which are each made up of more specific objectives. First axes is “*to ensure the facilitation of participation in employment and the resource of access to resources, rights, goods and services to all*”(de la Porte 2002: 52). Second axes is the prevention of risks of social exclusion, the third axes includes setting out actions for disadvantaged groups like for example children or handicap people. The fourth axes wants to mobilises all involved actors.

The underlying logic of the social inclusion strategy differs from the one in EES. The National Action Plan on Social Inclusion (NAP/inc) has been constructed on the basis of the general European objectives, rather than detailed guidelines. Another important different is, that the Social Inclusion OMC is not Treaty based. Therefore, the coordination process is more limited.

Also here because of different national situations and conditions, Member States deal different with Social Inclusion. Poverty rate in Southern countries and in Anglo-Saxon countries is higher than in corporatist countries. In return, in corporatist countries poverty rate is very high among certain groups.

4.1. The Open Method of Co-ordination in Germany

Germany has a federal structure, so there are different levels with different responsibilities which need to be co-ordinated. Therefore the OMC faces a real complicated environment in Germany. There are three levels of political responsibility to consider: federal, the *Länder* and the local level. Competences are divided among these levels but many issues must be dealt under the competing competencies where in principle the *Länder* and/or the local levels are in charge but the federal level has to secure similar life conditions across the country and is also entitled to take legislative actions. Additionally, a tradition of coalition governments and a proportional election system strengthen the need for a consensual policy approach. So there are always multiple actors at all levels, seeking to participate in the policy-making process. But each level of governance knows that it cannot succeed without the co-operation of the other actors. The dominant principle is the principle of subsidiarity.

Within the scope of the OMC Germany established working groups with some countries to learn from each others "best practice" (Schmid 1999: 5). So for example bilateral contacts with Italy about the entrepreneurship pillar has taken place as well as contacts with Denmark about job rotation (Büchs/Friedrich 2005: 254). Also with Great Britain Germany established a working group, concerning questions about welfare policy and learning from best practice (Schmid 1999: 5).

Germany and Social Inclusion

The German government publishes annually a National Report on Poverty and Wealth (NARB). It is a comprehensive compendium of social data, but lacks concrete policy proposals. The *Länder* are responsible for securing a "social balance in living conditions" (Büchs/Friedrich 2005: 268).

The formal procedure of the NAP/incl processes is dominated by governmental actors who also have the political responsibility. Key actor is the Ministry of Health and Social Security, which co-ordinates the process of NAP-building and finalises it (Büchs/Friedrich 2005: 268). The consultative body consists of sub-national representatives or their umbrella organisations, the welfare associations, social NGOs and experts. It discusses key concepts of the NAP and comments on the ministerial draft. Parliamentarians are invited to participate, but participation is low. The final version is submitted to the cabinet which adopts it without much ado and passes it to the European Commission.

As said before, because of the federal structure of Germany, many different actors are involved. At the **federal level**, the Committee for Health and Social Affairs does not give much attention to the NAP/incl – in fact, the NARB seems to be more important for them. The NARB is largely applied to the NAP/incl process. Both documents are co-ordinated by the same consultative body seeking to secure broad participation. In general, the NAP/incl process at the federal level is largely dominated by civil servants who do not perceive it as relevant to their work but rather as a reporting mechanism to the EU (Büchs/Friedrich 2005: 269).

At the **sub-national level**, there are the *Länder*, local authorities and the civil society as actors.

One can assume that the real test for the Social Inclusion process within the German federal system is its ability to activate sub-national actors. This is because the fragmentation of the political system presents a serious challenge to successful implementation of a rather centralised top-down process like the Social Inclusion process.

By speaking about the *Länder* involvement in the NAP/incl process, one needs to distinguish between the *Länder*'s activities at federal level via the *Bundesrat* and the individual *Land* domestically. The *Länder* mainly participate in the national and increasingly also European policy-making process via the *Bundesrat*. So the *Länder* do not directly participate in EU-level decision-making on the OMC.

In the NAP process, the *Länder* are predominantly involved via the Conference of the Labour and Social Affairs Ministries (CLSAM), which is the horizontal co-operative body for all sixteen *Länder* Social and Labour Ministries. The involvement of the CLSAM is important in order to meet the requirement of the vertical character of poverty policies.

Individual *Länder* hardly engage in the NAP/incl beyond the CLSAM. The spectrum of engagement ranges from fundamental resistance and blank rejection of the Social Inclusion process to the development of quite sustainable structures and attempts to use the NAP process within the *Land's* own policy-making (Büchs/Friedrich 2005: 271).

For the **local authorities**, the NAP process largely remained an “alien”. Its involvement in the process seems to be confined to participation of their umbrella organisations in the consultative body and in commenting on the draft NAP, without informing its members (Büchs/Friedrich 2005: 271).

In contrast to the disinterest of most official actors, many actors in the **civil society** arena show a firm commitment to make political use of the NAP/incl. Their engagement commenced at federal level but in the meantime efforts have increased to initiate regional processes and to stimulate the local level. The functioning co-operation between European NGO networks, such as the European Anti-poverty Network (EAPN), and domestic federal umbrella organisations, such as the National Poverty Conference, resulted in the establishment of NAP/incl working groups to prepare their contributions to the first NAP. Further structural improvements are needed to enable the different actors to communicate and co-ordinate with each other (Büchs/Friedrich 2005: 272).

Having been well-informed by their European umbrella organisation about the OMC and the NAP/incl, most welfare associations and social NGOs were committed to make use of this new process. They use the NAP/incl as a tool for their domestic lobbying efforts and the multi-dimensional conceptualisation of poverty and social exclusion is very much welcomed. It provides them with additional arguments and political backing to strengthen their position in domestic debates.

Interactions with the European level

In relation to the NAP process, quite lively contacts exist between representatives of the Commission and actors from all levels named above.

It is striking that during preparation of the NAP/incl there is only little official contact between the governmental actors and the Commission. This differs significantly as regards to social NGOs. Their European awareness is stronger. In the last years one could also see an increasing interest of the local level in the OMC and in strengthening trans-European links (Büchs/Friedrich 2005: 273).

A direct influence of the Social Inclusion process on policy instruments could so far not be found (Büchs/Friedrich 2005: 273). Nevertheless to a certain extent, incorporation of the NAP/incl into domestic policy-making processes seems to have taken place. The NAP/incl is close to the National Report on Poverty and Wealth (NARB) and profit from the NARB's higher political leverage by its inclusion in the relevant process and thus increase in quality and importance (Büchs/Friedrich 2005: 274).

Some of the relevant actors see the Social Inclusion process as a kind of “Trojan horse” for increased European competencies to the detriment of the significant sub-national competencies for social policies in Germany. This does not mean that they do not want to fight against poverty, but a mismatch exist between the German policy-making tradition and the “culture of evaluation” and “management by objectives” promoted by the Social Inclusion process (Büchs/Friedrich 2005: 274).

In sum, the NAP/incl process in Germany seems to be marked by the following characteristics:

- a public-private division between formal compliance from public actors and active political aspirations for the NAP/incl by private actors. Whereas the former primarily seek to meet the requirement of the NAP, the latter combine political aspirations with this plan
- an apparent absence of policy-makers as a major obstacle for the NAP/incl process
- time pressure
- the horizontal dispersion of actors in the social sphere resulted in a strong role for civil society actors. Their attempts to stimulate the NAP process and to render it a policy tool considerably contributed to the (limited) dynamic of the process
- the federal structure makes the co-ordination of a NAP to a difficult task in Germany
- specific features of the policy area: NAP/incl needs to be attached to the NARB in order to become integrated in domestic policy-making process, but on the other hand the NARB is itself a rather weak policy tool that could profit from the NAP/incl.

(Büchs/Friedrich 2005: 276)

The German discourse on social inclusion now takes place in a European frame. The NAP/incl as a policy presentation document requires increased statistical efforts and serves as a new frame of references for national actors in this policy field. By strengthening monitoring and evaluating processes and by forcing the government regularly to present the country's policy efforts, German administrative culture is also challenged. Monitoring and evaluating has been relatively underdeveloped in Germany so far.

The NAP/incl process has a stronger bottom-up dynamic. Social NGOs significantly tried to establish a horizontal co-ordination and created new forums for discussion that are open to governmental actors of all levels.

The actor constellation contributes to the NAP processes complexity. Germany is a co-ordinated social market economy which provides strong roles for the social partners, with a tradition of subsidiarity in social provision, i.e. welfare associations and social NGOs form essential components of the social system. As pointed out above, this influences the NAP process. The NAP/incl benefits from the active commitment of civil society actors to make political use of the Social Inclusion OMC, for instance by trying to initiate regional processes.

In Germany, the NAP is seen as a presentation of own policy strategies and not as a document in which pros and cons of policy approaches are discussed (Büchs/Friedrich 2005: 258).

Interesting but not surprising is that the *Länder* in Germany do not have a homogeneous position towards the OMC. This is because different *Länder* face very different labour market situations (for example the eastern *Länder* have a very high unemployment rate) and therefore the OMC creates different challenges for them. In general one can say that conservative *Länder* tend to be more critical towards the OMC. They say the OMC would undermine the principle of subsidiarity and enable the EU to gain influence in areas belonging to their responsibility. On the other hand, social-democratic *Länder* tend to be more positive towards the OMC (Büchs/Friedrich 2005: 259).

4.2. The Open Method of Co-ordination in Great Britain

In 1997, the “New” Labour government came to power in Great Britain, promising a new relationship with the EU, pledging to tackle social exclusion and committing itself to a process of constitutional reform, including the devolution of powers to Scotland, Wales and northern Ireland. At the same time, the Amsterdam Treaty introduced into the EC Treaty provisions for co-operation between Member States to combat social exclusion to make a decisive impact on poverty. This commitment was given effect through the Nice European Councils's decision to launch the OMC in the area of social inclusion. This chapter will show the developments that take place in Great Britain during the processes of creating NAPs on social inclusion (NAP/incl).

The Labour Party brought a number of constitutional reforms. It devolved powers to Scotland, Wales and Northern Ireland, which had a number of consequences for the development of a British anti-poverty and exclusion strategy. Devolved governments acquired policy responsibility for the delivery of anti-exclusion policies in a number of areas, while central government retained responsibility for tax and welfare policies as well as for the negotiation of EU policy matters. Overall fiscal policy is set at central government level with the devolved governments funded through block-grants (Armstrong 2005: 298).

It is known that Great Britain was (and is) very sceptical to the EU. Concerning to the EU social policy, Great Britain said, this will lead to nothing. But they could not ignore it and had to follow EU targets so they tried to do it their own way and to improve it in a way which fits the best to them.

Already before the introduction of the OMC, the British policy and research were familiar with the language of social exclusion and therefore there was no discursive barrier to British adaptation the EU process (Armstrong 2005: 291).

1997 the Social Exclusion Unit (SEU) in Great Britain was established and social exclusion became an important topic. It has been influenced in shaping the common social indicators agreed at EU level (Armstrong 2005: 290). First, the main topic in Great Britain was on child poverty because if one is tackling child poverty, the significance of the relative absence of an explicit discourse of poverty lies in the relative importance attached to tackling exclusion in the form of exclusion from the labour market.

The move towards analysis of social exclusion has served to generate a good deal of research on the processes, dynamics and multiple dimensions of exclusion, including to issue of income poverty.

As one can see, for the Labour government the connection between poverty and labour market was right from the beginning very strong and it tried to lead its measures against poverty in strong connection with labour market issues.

The first of the six key priorities identified in the 2004 Joint Report on the 2003-2005 NAP/incl is the promotion of investment in, and tailoring of, active labour market measures. Besides the Report identifies the development of an inclusive labour market and the promotion of employment as a right and opportunity for all as a core challenge.

The “New Deal” policies of the Labour government were very much oriented towards promoting a transition from welfare to work and preventing the risk of social exclusion through labour market inclusion (Armstrong 2005: 293). The government reinforced the message that paid employment is the best protection against social exclusion. This leads also to the introduction of the NMW, as we will see in chapter 7.

New Labour has been the pioneer of new modes of governance, particularly the use of governance by objectives, targets and indicators. This has been a hallmark of the Labour

government's approach to domestic policy from poverty, health and education to transport and crime. It also has been a feature of techniques at the devolved level (Armstrong 2005: 294).

It seems that the idea of OMC is very much in line with the governance approaches developed in Great Britain post 1997 and that Great Britain should have little difficulties accommodating OMC process into its own decision-making processes (assuming a political willingness to do so). But in practise, this openness encounters certain obstacles (Armstrong 2005: 295). The British Treasury had developed a budgetary planning process, the Comprehensive Spending Review (CSR). To support the CSR, the Treasury agrees with spending departments, so-called Public Service Agreements (PSA), that incorporate objectives, targets and indicators. The area of social inclusion and employment policy are covered by a PSA agreed between the Treasury and the Department of Work and Pension (DWP) (Armstrong 2005: 295). In this way, there is a close integration of economic, employment and social inclusion policies within the domestic aspiration for the streamlined and synchronised EU co-ordination process. But the EU and Great Britain cycles of planning are not themselves synchronised. Great Britain puts its priorities and planes early than the EU, which has the consequence that Great Britain's Policy priorities are set in advance of the EU policy-cycle (Armstrong 2005: 295).

If there is a sense that the Lisbon process is having difficulty reaching into the national systems, then this is the evidence of why it might be that domestic systems encounter problems responding to OMC pressures. A system like the British one – which seems to be in principle open to the idea of OMC – nonetheless, exhibits points of resistance to EU steering.

Institutional Adaption of the OMC

Despite the publicity surrounding the creation of the Social Exclusion Unit as a means of joining-up government, the task of preparing the NAP/incl fell not to the Unit but to the central government DWP. DWP is responsible for delivering on welfare and benefit reforms. It is also accountable for meeting PSA targets relating to poverty and social inclusion. DWP produces the annual “Opportunity for All” report to the parliament. Besides DWP is also the author of the NAP/empl, emphasising the close connection institutionally between the employment and social inclusion co-ordination process (Armstrong 2005: 296).

The first NAP/incl was prepared within the Poverty and Social Exclusion Unit in the DWP and more a abridge of the “Opportunity for All” report. The second NAP/incl was different. By involving the devolved administrations, local and regional governments as well as NGOs one hoped to develop a shared understanding of the problems and strategies for tackling social exclusion. It was recognised that there was a traditional institutional resistance to this more participative style and that the production of the NAP/incl could be presented as a EU requirement acted as a form of external drive on change: the threat of the EU could be turned into an opportunity to do something different and to break out of the traditional bureaucratic processes (Armstrong 2005: 297). So here, the Nice objective to “mobilise all relevant actors” had work and has provided opportunities for NGOs and civil servants to mobilise and participate.

It can be argued that this development of new ways of working within the DWP and especially the new relationship with NGOs around the NAP-building process have resulted in a positive evaluation of the NAP element. In process terms, this can be seen with the second NAP/incl and was reinforced through the dialogue that has emerged with anti-poverty groups in UK and first lack strong institutional foundations.

The NAP/incl has created the opportunity to develop a truly national overview about what is going on in the UK post-devolution. But the preparation of “National” Action Plans raised issues of how to co-ordinate the activities of central and devolved governments. A number of structures were put in place to deal with domestic and European policy making. For example the Joint Ministerial Committees (JMC) were established to bring ministers from central and

devolved governments together. But the JMC played no role in co-ordinating the NAP/incl. Instead, co-ordination fell to civil servants within DWP with contributions received from their colleagues in the devolved administrations (Armstrong 2005: 300).

At the devolved level, different networks developed and came together under an umbrella group – the UK Coalition Against Poverty (UKCAP) (Armstrong 2005: 305). It developed the idea of creating a Social Policy Task Force (SPTF), with the aim of influencing the process and content of the NAP/incl. The SPTF acted as a forum, bringing together not only the sub-state networks but also a broader coalition of NGOs. It was able to develop a strategy for influencing the NAP/incl, with some member SOGAR being able to devote staff time to it (Armstrong 2005: 305).

As one can see, anti-poverty groups did find their ways to mobilise themselves around the NAP-building process and sought to influence the content of the NAP/incl. The fact that the NAP/incl itself reports some of the outcome of that work at least indicates a superficial responsiveness to this outcome. So the “real “ strategy work is at the devolved level.

It has emerged an on-going participative process supported not only by sub-state anti-poverty networks and national NGOs but also by the DWP. In short, this new process gave anti-poverty groups and networks access to central government civil servants in a way that simply had not been possible before within the domestic arena. In the context of devolution, the UK NAP/incl has provided an opportunity for sub-state networks to join together to seek to develop a UK-wide perspective on social exclusion. Nevertheless a gap remains between national and EU level because UK NAP/incl remains primarily as a report and not as a plan or strategy.

“Social inclusion now has nothing to do with distributional equality, but means lifting the poor over the boundary of a minimum standard” (Armstrong 2005: 293). This emphasis that the government is creating “opportunities” for individuals rather than with the more relational issues of inequality. Viewed this way, we might can assume that what we are seeing is an end to a radical egalitarian politics and the beginning of a form of neutered social democracy that at best can hope to create opportunities – particularly to engage in paid work (Armstrong 2005: 293).

4.3. Conclusion

So what does all this findings teach us and how do they lead us to the minimum wage? Let’s try to sum up.

Germany is a federal state, with multiple actors at all levels. At national level, opinion about NAP/incl differs, but in general it is not seen as an important document. The national report NARB seems to be more important. On the other hand, quite lively contacts exist between representatives of the Commission and actors at all national levels. The NAP/incl profits from the NARBs higher political leverage by its inclusion in the relevant process. Main problem for Germany is that it is not used to participate at monitoring and benchmarking processes. These instruments are very new in Germany. Another difficulty is the already named federal structure of Germany, which makes the co-ordination of a NAP to a difficult task. Nevertheless, Germany is learning in and at this process, and especially social NGOs are putting forward on Social Inclusion. This let us assume that population has an interest on this topic and let us also assume that Social Inclusion matters are putting forward with a strong bottom-up dynamic. This goes hand in hand with the fact, that more and more Germans fear their social future and find social situation in Germany more and more unfair. So one can assume that situation for the introduction of a social instrument like a NMW is good and that it is time for a NMW in Germany. This would be the first step for Germany, before it can/have to prepare itself for a European minimum wage. But this is currently not a topic in Germany, first of all the discussion about a NMW needs to come to a conclusion.

Great Britain is always sceptical about the EU, but it has to follow it. Great Britain policy and research were familiar with the language of social exclusion, so there were no discursive barrier to the adaption of the OMC. First goal was to tackle child poverty. Great Britain saw the connection between poverty and labour market right from the beginning and tries to deal with it. New Labour has been pioneer of new modes of governances, especially the use of governances by objectives, targets and indicators. So it seems like Great Britain is very much in line with the OMC. Unfortunately, EU and British cycles of planning g are not synchronised – Great Britain plans earlier as the EU, which can lead to difficulties. The British NAP/incl involves all relevant actors, but first lack institutional foundations. New processes were developed and gave anti-poverty groups and networks access to central government civil servants in a way that had not been possible before. Nevertheless NAP/incl remains more as a report and not as a plan or strategy. For Great Britain one can conclude that it was already well prepared but the OMC pushed it more forwards with new governance and opens the way for a NMW.

Because now Great Britain has its NMW since nearly ten years, it should be also prepared for a EU minimum wage and should be able to adapt little changes to fulfill the criteria for a European minimum wage. Besides its institutional framework for the NMW could be used as a role model for other Member States as well as for the European minimum wage.

At the European level, traditional welfare policy areas like social protection have recently been defined as an area of common concern among Member States. It is no longer exclusively a national responsibility. As we know, the OMC tries to co-ordinate the social politics of Member States. Therefore, it could play an important part for a EU minimum wage. With help of the NAP and benchmarking instruments, Member States are able to compare each other and to learn from each others. This could be especially helpful for countries without a NWM. They have plenty of possibilities to look to other Member States and their NMW system. Also in order to fulfill the criteria of a EU minimum wage, countries could learn from the “best pupil in class” to improve their existing system. So OMC could support Member States by adapting a EU minimum wage. Besides the EU would be able to control the development and progress of single Member States concerning the minimum wage.

5. What is a National Minimum Wage?

The idea of a national minimum wage (NMW) already exist since a long time. Historically it came up for the first time in the last decade of the 19 century. New Zealand was the first country with a NMW in 1894. In Europe, Great Britain was the first country which introduced the idea of a NMW (1908), but a countrywide minimum wage was introduced many decades later. In Massachusetts (USA) the first NMW was introduced 1912 (Schulten 2006: 14). First it was only valid for special industries or occupational groups. In the second half of the 20 century a NMW came up in more and more countries and also over all industries. Here the USA took a pioneering task. In 1938 they agreed on the Fair Labour Standards Act. Most of the OECD states have a NMW or some form of minimum wage–setting arrangement in place, which harmonise with one or more of the relevant ILO (International Labour Organisation) conventions. Today 20 out of 27 EU Member States have a general minimum wage laid down by the government. (Schulten/Watt 2007: 2).

In many international agreements the right of fair and suitable wages is written down as a social basic right. Examples therefore are the Universal Declaration of Human Rights (1948), the EC Social Charta or the Charter of the Fundamental Social Rights of Workers (1989). Besides it is also included in the Charter of the EU.

The OECD defines a minimum wage as a minimum level of payment by law for work performed, which is primarily intended to protect vulnerable low wage workers from exploitation. Normally it is established by law and is legally enforceable. The key purpose of a minimum wage is social – to prevent poverty. It should enable workers to maintain a basic standard of living. On the other hand, a minimum wage has also an economic objective: It should motivate workers, enable them to enjoy the benefits of economic growth and contribute to the economic (OECD 2002: 53).

As most other elements of labour market and industrial relations regulation, minimum wages in EU Member States are established at the national level. Some other aspects have more recently been subject from regulations from the European level: For example national working time regimes have to fit under the framework of the Working Time Directive, or other areas which belongs to the Open Method of Coordination (OMC). To the OMC belongs the European Employment Strategy (EES), under which Member States should improve and coordinate their employment policy, and the Social Inclusion (more detailed information about it were already given). But a minimum wage is - so far – established at national level.

There are collective labour agreements and legal agreements. A collective agreement applies only for a special scope, which means for one province, one industry, one occupational group or just for one company. But of course from this it follows, that there are big differences in the binding to collective agreements and there are of course big gaps in coverage. For this reasons there are sometimes additions with legal agreements. The state can extend the scope of a collective labour agreement by declaring it for generally binding. If there is no collective labour agreement the state can introduce a legal minimum wage (Schulten 2006: 10). Besides unions still can bargain different wages for industries which are higher than the NMW. But these wages cannot be less than the NMW, so every worker guaranteed get the level of the NMW.

Unions prefers a collective labour agreement because they can have more influence on it. The legal minimum wage is often seen as a “second–best–solution” in cases where influence of unions is not big enough or where there is no union. But the state is making the legal minimum wage in close cooperation with the unions. Besides unions still can bargain different wages for industries, which can be higher than the NMW. But these wages cannot be less than the NMW, so every worker gets guaranteed at least the level of the NMW.

There are difference between the countries, also with the actors which are involved. Some of these differences will be named later on.

The NMW gets its political legitimation out of the disequilibrium of power between work and capital (Schulden 2006: 10). The social legitimation it gets out of the right that waged work should enable workers to have a minimum of living standard and social participation, as it is also claimed in the national and international agreements named above (Schulden 2006: 11).

5.1. The National Minimum Wage in the economic dimension

The economic dimension of a NMW is not the main topic of this paper, but here I will give a very short overview about what some of the famous economic theories say about a NMW. I will do this to at least mention the economic side of a NMW.

Neoclassical economics have the opinion that a NMW would have no effect on the labour market or if there would be an effect this would be a negative one. They argue as follows: If the NMW is below the wage which has developed on a “free” labour market, then it has no effect because it does not affect already existing wages. If the NMW would be above the wage which has developed itself on a free market, the demand for work would decrease – unemployment rate would be increasing. So according to this theory a NMW would damage the low wage sector instead of being useful (Schulden 2006: 12).

The neoclassical theory says that unemployment exist because of insufficient differentiation in the wage structure. Wage differentials would develop itself through the institutional structures of the labour market–collective agreement, NMW. Because this institutional structures are responsible for the unemployment, they need to be removed.

But in reality this would have the consequence that the low wage sector would increase very soon.

The “mistake” neoclassical economics do, is that they think about the labour market as a real market – but this is not the case. On the labour market there are many frictions and there are many competitive situations and a disequilibrium of power between work and capital (Schulden 2006: 12).

New literature tries to describe the labour market as a monopsony market. The companies (demand side) have the monopsony. They are in the position to make wages, which are below the market wage which would develop itself on a real market with real competition. On a monopsony market there is no real clear connection between wage and employment. So a NMW would balance the market power of the companies and enable the development of a real “market wage” so there are no negative expectations on the labour market (Schulden 2006: 13).

The efficiency wage theory sees a connection between wage level and productivity. An increasing of the NMW could have theoretically positive effects on labour if it comes together with disproportionate increasing of productivity. Then there would be a wage competition with a minimum level (Schulden 2006: 13).

From Keynes point of view there are two functions a NMW could have – with a positive effect for employment and economic growth: NMW could lead to a stable demand because especially in the low wage sector there is a high consumption rate and a low saving rate. Secondly NMW could help to avoid deflationary trends in cutting wages, especially in times where unions are weak and unemployment high (Schulden 2006: 13).

There are also other economic theories and of course one could go deeper into the named theories and their opinion about a NMW. I just wanted to introduce the most famous ones. Aim of this chapter was to give a short introduction what a NMW is about. Some arguments for and against a NMW can be found in annex.

5.2. The National Minimum Wage in the social dimension

As already said, key purpose of a minimum wage is social – to prevent poverty. It should enable workers to maintain a basic standard of living. On the other hand, a minimum wage has also an economic objective: It should motivate workers, enable them to enjoy the benefits of economic growth and contribute to the economic (OECD 2002: 53). We already had a look at the economic dimension, but now we will have a closer view to the social dimension of a minimum wage.

In many international agreements the right of fair and suitable wages is written down as a social basic right, as for example: *“in accordance with arrangements applying in each country workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living.”* (Community Charta of the fundamental Social Rights of Workers, Title 1 paragraph 5).

Wage is the main income source of workers. It have to enable them to pay their rent, their insurances, the living basics (food, clothes etc.) and to save some money for unexpected or planned extraordinary expenses. Moreover, a minimum wage should also enable the worker to have a minimum cultural live. This is important for the social status of the workers. They have to be able to use cultural attractions and to stay in contact with other peoples. This does not be the main use of the wage, but it has to be a little part of it. Many low–paid people felt undervalued, exploited and powerless to break out of the poverty trap. The minimum wage should secure a minimum standard of living.

Companies will also profit from a minimum wage: If working conditions are good, respectively the wage is at an adequate level, the worker will be more productive, will get closer to “his” company and works more effective. Here the economic dimension and the social dimension are getting very close, but in fact a minimum wage has both dimension which are sometimes hard to separate. Another argument which includes both dimension is the argument, that a minimum wage could stop wage dumping, which has economic consequences as well as social because if wage dumping stops, workers would have a better basic for their living conditions.

As Adam Smith said, a worker has to be able to live from his wage, in the ideal case it should be a little bit more.

“Ein Mensch muss von seiner Arbeit leben können und sein Lohn muss wenigstens existenzsichernd sein! Ja, er sollte in der Regel etwas höher sein.“

Adam Smith, Vom Reichtum der Nationen, 1776 (Initiative Mindestlohn 2007: 9)

A unit minimum wage would create not only competitive equality for all industries, but-which is for the social dimension more important-also more equality and fairness for workers. Many workers, especially the one working in the low-wage sector, would get a wage which would be more fair than their current wage and it would equal-no matter of sex. So it would also lead to more gender equality. All this would lead to a higher level of satisfactory in the population which has positive consequences in all areas-economic, cultural, private, political.

But one also has to say, that a minimum wage is not a solution for all problems. Even if the national average wage will increase with all its positive consequences, a minimum wage will not solve poverty. This is, because many of the people living in poverty do not work, so they will not profit from a minimum wage. Besides it does not necessarily create new working places. So situation for the “working poor” might improve, but not for the one living in poverty without work. To solve poverty, more instruments than a minimum wage are needed.

To sum up, a minimum wage is a very social instrument because it's aim is to guarantee workers a fair and adequate wage, which enables them to an adequate standard of living. It supports the weak and poor workers and leads to more equality. Most important, it should enable the worker to an adequate standard of living without public support.

6. Minimum Wages in the EU

This chapter will give a little overview about different NMW policies in the EU today. It also shows some of the main experiences that countries with a NMW in the EU have made. This is done to embed the cases of Germany and Great Britain, which will be explained in chapter 7 and 8, in the European background. Besides it shows a clear connection to the convergence theory because as one can see, besides all the differences, Member States assimilate each other. Of course NMW are very different between the Member States and also do not fulfil their function in all countries, but they exist. This maybe also a sign that Member States learned from each other.

In Europe, minimum wages are regulated either by law or by collective agreements. Today 20 out of 27 EU Member States have a general minimum wage laid down by the government. (Schulten/Watt 2007: 2).

There are three groups of countries within the EU in terms of the absolute level of the national minimum wage. The first group consist of countries with a relatively high minimum wage between 7.36€ and 8.69€ per hour. To this group belongs the Benelux states, France, Ireland and Great Britain. The second group has a minimum wage between 2.62€ and 3.86€. This group includes most of the southern European countries. The third group has a very low minimum wage between 0.47 and 1.58 €. Here one find the eastern European countries (Bosch/Kalina/Weinkopf 2006: 1). Table 2 will give a more detailed overview.

Table 2: NMW, January 2006

Country	Minimum Wage (per hour, in €)
Luxembourg	8.69€
France	8.03€
Netherlands	7.96€
Ireland	7.65€
Belgium	7.48€
Great Britain	7.36€
Greece	3.86€
Spain	3.78€
Malta	3.35€
Slovenia	3.03€
Portugal	2.62€
Czechia	1.58€
Poland	1.35€
Hungary	1.32€
Slovakia	1.00€
Estonia	0.99€
Lithuania	0.92€
Latvia	0.67€
Romania	0.52€
Bulgaria	0.47€

(Source: Bosch/Kalina/Weinkopf 2006: 2)

The different levels of national minimum wage reflect the different standard of living in the individual countries.

Seven EU Member States have no national statutory minimum wage: Denmark, Sweden, Finland, Austria, Italy, Cyprus and Germany (Schulten/Watt 2007: 3). They rely only on collective agreements to ensure minimum wage protection. But most of these countries also have functional equivalents that are used indirectly to ensure high coverage of collective

agreements and also a functioning system of collectively agreed minimum wage protection. The only country in Europe which currently has no functional equivalent that provides a political underpinning for the collective bargaining system for low-paid workers is Germany (Schulten/Watt 2007: 3). This is also one of the reasons for the current debate in Germany about a statutory minimum wage.

As most other elements of labour market and industrial relations regulation, minimum wages in EU Member States were established at the national level. Some other aspects have recently been subject from regulations from the European level: For example national working time regimes have to fit under the framework of the Working Time Directive, or other areas which belongs to the Open Method of Co-ordination. Under the European Employment Strategy, Member States should coordinate their employment policies. But a minimum wage is - so far - established at national level.

Of course there are differences of the establishment of NMW in different countries. Some of them will be named in this chapter but in this paper there is not enough room to go into detail of every country and is hold more generally. This applies also for the increasing procedure of the NMW in the countries. In general, the increasing of the NMW is oriented on the following points:

- price development
- development of wages
- general economic developments and national competitiveness

In most cases, minimum wages are set by government unilaterally or following recommendations by a tripartite body (France, Portugal and Spain). Belgium and Greece have hybrid systems. The minimum wage is set through a national agreement between social partners, but is legally binding in all sectors. Belgium, France and Luxembourg use an index method. Besides in Belgium they discuss the level of the NMW every two years together with the social partners (Burgess/Usher 2003: 5). In Greece, Portugal and Spain, both price and wage movements are either explicitly or implicitly taken into account in annual or biennial reviews of the minimum wage (OECD 2002: 54).

In most of the countries there are special regulation for young people and trainees which do not get the whole set of the minimum wage.

An overview of the most important features of most of the countries is given in the annex.

The introduction of a NMW lead in most of the countries to big discussions. Especially the introduction of a NMW in Great Britain in 1999 led to big discussions in the country, even if the discussion about it already went since decades. Opponents of a NMW saw a big decreasing of working places. But this has not been fulfilled. In fact, unemployment rate has decreased from 6.2% in 1998 to 4.7% in 2004. Today the NMW in Great Britain is accepted by all involved actors (Hans - Böckler Stiftung 2005).

In general one can say that the NMW can have different levels and rules, depending of the country of question. Best case is, if the NMW is about the level of social assistance. In this case, it would fit into the social dimension and enable workers to an adequate standard of living without public support.

Experiences with NMW

Every country is different and has concerning the NMW different regulations and measures. Consequence of this is, that experiences with the NMW are also different.

As said before, NMW has different levels in different countries. This is among other things because of different standards of living in the countries. To be able to compare the NMW of different countries, one has to look at the average wage of the country. Here one can define two different groups – countries in which the NMW is more than 45% of the national average wage (Netherlands, Luxembourg etc.) and countries in which the NMW is less than 45% of the national average wage (the eastern countries, Spain) (Bosch/Kalina/Weinkopf 2006: 3).

There are also other differences between the countries. In France, for example, the NMW is differentiated by age and trainees are not included. Also in the Netherlands and in Great Britain the NMW is differentiated by age. In Great Britain there was also a discussion to differentiate the NMW by industry and region, but it turned out that a unitary NMW would be accepted most and would be the most effective way to implement (Bosch/Kalina/Weinkopf 2006: 4).

Most of the countries have a general binding minimum wage. In Spain, for example, collective agreements applies to all workers in the industry they are working in. In most of the countries, the general binding agreement is very important. In other countries it is more seen as a protection for areas in which there are no other agreements. In most of the countries, a NMW already exist for a long time. Every country has their own way to establish the NMW and also different mechanism to increase it. Great Britain for example has the *Low pay Commission* which is also a supervisor body for the NMW (the *Low Pay Commission* will be explained more detailed in chapter 7.3).

If one look at the experiences of countries with a NMW one can conclude the following general things about it:

1. A strong differentiation by region and industry makes a NMW unclear and hindered the implementation of it. An exception could be for Germany because of huge wage differences between east and west Germany.
2. A NMW should not hinder qualification measures. Therefore, trainees should not be included.
3. It is possible to combine NMW and minimum wages for industries. But here one should safeguard that the minimum wage for industry is not less than the NMW.
4. It is important that the industry accept the NMW. So it is important that the implementation of a NMW is effective to secure an equality of competition. In Great Britain, the fiscal authorities control it. Besides in Great Britain they introduced an *Enforcement Office* and a *Low pay Commission* as supervisor bodies.
5. Also the population should be involved in the introduction of a NMW. They need to be informed in a very good way too. Great Britain has spend 5 million pounds for an information campaign. (Bosch/Kalina/Weinkopf 2006: 5).

Opponents of a NMW say, that a NMW will lead to an increasing reduction of jobs and a debasement for low qualified persons. But no scientific study comes to the conclusion that a NMW lead to an increasing reduction of jobs. This goes in line with the fact that there was in the long term no increasing reduction of jobs in countries which introduced the NMW. In Great Britain for example, unemployment rate was even decreasing (Hans - Böckler Stiftung 2005).

If the introduction of a NMW goes hand in hand with an increasing of the productivity, the effect is neutral. If the productivity is increasing more than the minimum wage, the effect is actually positive (Bosch/Kalina/Weinkopf 2006: 5)! Reasons for this can be an increasing motivation of the workers, implementation of new technologies, increasing qualification of workers and less fluctuation. So a negative effect of a NMW cannot be seen. Nevertheless in the beginning it can lead to reduction of jobs, but the long term situation will change and even more jobs will be created.

The social dimension emphasis wage as the main income source for workers, which should enable them to an adequate standard of living – without public support. Besides it can motivate workers and lead to more equality and fairness. As the example Great Britain shows, it does not solve poverty, but as a social instrument it lead to a higher level of satisfactory in the population.

So far, experiences with a NMW are very positive. To avoid negative effects one has to consider some points, as listed up in this chapter. In general, one can say, that the important thing for the implementation is “how to do it” and not “if”.

7. Great Britain

So far we had a look about different theories about the possibilities of learning from each others and the NMW in the economic and social dimension. We also get to know the European framework, which of course influence the national policy work. A first impression about this was already given in chapter 4. We also get an overview about the already existing NMWs in the EU. Now we will have a closer look to one of these countries which already have a NMW and made positive experiences with it – Great Britain. I choose Great Britain because it was one of the first European countries with regulations concerning wages. Nevertheless the discussion about a NMW in Great Britain went for a very long time. In the end, Great Britain got the NMW – and so far, experiences with it are positive as we will see in this chapter.

According to Esping-Andersen (1990) Great Britain is a liberal Welfare State. This means that passive labour market policies predominate, there is only moderate support for those in need, and the dominant theme is a more laissez-fair policy based on the belief that individuals carry the brunt of responsibility for their fate (Golsch 2005: 102).

The chapter will start with a short overview about the long way from the first regulations about wages, until finally the NMW “was borne”. Then the formal structure and institutional framework of the NMW in Great Britain will be explained and the development of it will be shown. This could be helpful if we look at the European level later on to get an overview what might happened and which institutions and political regulations might make sense.

The chapter will also have a look at the possible enforcement of the NMW and the impact of the NMW on companies. With this, I will explain how important it is, to give a NMW a real framework and to show Great Britain way as one way to ensure, that workers get paid at least the NMW. The impact of the NMW on companies is from an economic point of view important to show, how companies deal with the challenge of a NMW. Even if in general the focus is one the social dimension, one cannot ignore the importance of the economic dimension. As we will see in this chapter, goal of the NMW was not mainly to protect wages but to create a social net, which means that if for example only 4% of the workers will get the NMW, this means, that most of the workers are above the NMW level, which would be a good sign.

7.1. History British National Minimum Wage

Great Britain has a long history concerning a NMW. I will not go into detail of this history but will give you a short overview about the long way to today’s NMW in Great Britain.

Already in 1893 the first legal resolution concerning a minimum wage was done – the *Fair Wage Resolution* and in 1909 the Trade Boards Act. The former required employers engaged on government contracts to pay at least the wage level generally recognised by the sector or locality concerned. This resolution was changed many times during the years and has huge influence on the agreement concerning wages of the International Labour Organisation (ILO) in 1949.

Trade Boards were established to regulate the pay in industries notorious for the employment of cheap labour. The Boards were responsible to ensure that workers received a living wage in industries where the bargaining strength of employers greatly outweighed that of employees. In 1945, *Wages Councils* were established where existing voluntary collective bargaining arrangements were considered at risk. A very important element of these *Wages Councils* was their power to settle all aspects of pay, hours and holidays – in contrast to the more restricted scope of *Trade Boards* (Finn 2005: 11). *Wages Councils* consisted of representatives from both side of industry, together with independent members. At their peak in 1953, there were 66 *Wages Councils*, covering about 3.5 million workers (Finn 2005: 12).

During the 1960s and 1970s, attitudes towards the *Wages Councils* changed considerably. A discussion about it started and came to the conclusion, that *Wages Councils* were ineffective in remedying low pay and an obstacle to the development of collective bargaining. Besides they were too complex (Finn 2005: 12). 1969 the Labour Government established an inquiry into the idea of a NMW. A report was published but no legislation was forthcoming (Finn 2005: 12).

1971 the Industrial Relations Act came up and made it easier to abolish *Wages Councils* and encouraged the establishment of collective bargaining machinery. Many *Wages Councils* were abolished, only the one in agriculture was not touched.

The election of the Thatcher Government in 1979 marked a fundamental change in approach. The Conservative Government deregulated much of the British labour market, reduced the powers of trade unions, privatised nationalised industries, and enabled the contracting out of services across much of the public sector. Simultaneously, manufacturing employment declined, service sector grew and more and more part time and temporary jobs came up. The coverage of organised collective bargaining fell from its peak of 73% of British employees in 1973 to 47% by 1990 (Finn 2005: 13).

For more extensive privatisation, the Thatcher Government abolished the Fair Wage Resolution in 1983 (Finn 2005: 13). Number of *Councils* had been reduced to 26, but they still covered 2.75 million employees, which was 11% of the labour force (Finn 2005: 13). 1986 ended *Councils* power to set minimum holiday entitlements, separate pay rates for different occupations and premium rates for unsocial hours of shift work. Consequently, *Wages Councils* were able only to set a minimum hourly basic rate. In 1993, the Trade Union reform and Employment Rights Act that came into force, finally abolished the *Councils* (exception: agriculture) (Finn 2005: 15). After that, there was growing evidence of jobs being offered below the old minimum rate and little evidence of increased employment in the deregulated industries.

Employment level increased, but so did earnings inequality too, leading to a substantial degree of in-work poverty, particularly among families with young children. Consequential the number of persons in dependence on “in-work” social security benefits increased.

Even if all this happened, the call for a NMW never died completely. In the 1960s, an independent Low Pay Unit was created, whose purpose was specifically to campaign for the introduction of a NMW. By the late 1980s the Low Pay Unit had established a Low Pay Forum, bringing together trade unionists, parliamentarians, academics and representatives of the voluntary and business sectors. Aim was, to establish the rate at which a NMW should be set and how it should be implemented. In the 1990s, finally the Labour Party supported the idea and concept of a NMW. First it wanted a NMW which is about 50% of median men’s earning but when the Conservative Party had campaigned strongly against the NMW, Labour reviewed its position. A concrete level for the NMW was no longer mentioned, but it should be a “*fair wage*” (Finn 2005: 17). It also called for intelligent labour market regulation, where a NMW would, amongst others, “*encourage employers to invest in people*” (Finn 2005: 17) and stop low pay being used to subsidise inefficient producers and obsolescent technologies. At the same time, the legislation made also clear, that a NMW “*cannot and does not deal with all the problems associated with low pay, low productivity and associated income*”. Its main aim was to “*alter the balance in the labour market by giving workers the right to a basic minimum level of earnings for employment*” (Finn 2005: 22). In 1997 government changed, and the Labour Party was the new government. The election of Labour government not only brought new attentions towards tackling social exclusion, but also brought a commitment to a process of constitutional reform including the devolution of powers to Scotland, Wales and Northern Ireland. Besides many things were done concerning the OMC. The Social Exclusion Unit (SEU) was established and New Labour has been the pioneer of new modes of governance, particularly in the use of governance by objectives, targets and indicators. A number of structures were put in place to deal with domestic and European policy making. Anti-poverty groups find their change with the OMC to mobilise themselves and others and it emerged an on-going participative process through all different groups. The OMC brought

many positive changes to Great Britain. Unfortunately, this did not solve the sceptical view of Great Britain to the EU.

In 1999 the Labour government introduced the NMW in Great Britain.

But the NMW was not the only thing which was done to make work pay again and to reduce poverty. The New Labour's make work pay strategy was linked with the way in which it interacts with the social security and benefits system. So they established a combination of a minimum wage in conjunction with social security benefits to provide incentives for the non-employed to re-enter the labour market at a wage level which makes it worth to work. One step was that Family Credit was replaced by a new Working Families Tax Credit, which was more generous than Family Credit with a higher earnings threshold. This was also done to prevent child poverty. Besides there were other reductions in income tax and national insurance contributions for low paid workers (Finn 2005: 24).

Amongst other things the combination of a NMW with tax credits has enabled the government to identify guaranteed minimum incomes that apply to particular groups of low paid workers and to use this as a tool with which to individualise "*better off in work calculations*" for unemployed claimants (Finn 2005 25). This would not have been possible without the NMW.

Of course this leads to lots of discussions. Opponents fear that it would lead to a reduction of jobs, that it would be an illegal invention in the tariff autonomy etc. And in fact, also Tony Blair (at that time chairman of the Labour Party) was sceptical when all this arguments against a NMW came up. So he decided to establish a Commission, which had the task to develop a recommendation about the NMW in general and about the level it should have. The final decision should take the government. With the *Low Pay Commission* the employer as well as the employees were included and it turns out that this Commission is accepted by every involved actor.

The introduction of a NMW can be also seen as a consequence to the failure of the instruments and measures in the 80's and 90's.

The environment into which the NMW has been introduced was very important. Since 1999 Great Britain's economy has continued to perform well. Economic growth has ranged between 1.8% and 3.9% of GDP per year (1999–2003). Unemployment rate is now at 4.7% - down from 6.1% in 1999 (Cronin/Thewis 2004: 12). Unemployment rate is low by the standards of the preceding two decades. It is in the overall economic environment within which the effects of the NMW on businesses has to be judged.

7.2. National Minimum Wage in Great Britain

The NMW applies to all workers, including homeworkers, employment agency workers, pieceworkers and commission workers but not for self-employees, employees of foreign countries and British workers, who work only temporary in foreign countries.

Trade associations, unions and other organisations played an important part in preparing businesses and workers for the implementation of the NMW.

As already mentioned the initial level of the NMW was a compromise of the *Low Pay Commission* between the employers and trade unionists. The British NMW started with 3.6£, which seems to be very low. But one do not have to forget that these was a first compromise. Step by step the NMW was increased.

Today there are three NMW levels (since the last increasing in October 2006):

- a level for adults – everybody aged 22 and older and who has finished his or her trainee has the right to get this minimum wage of 5.35£ (2006, equivalent to 7.85€).
- a start level for employees aged between 18 and 22 who finished their trainee and just started a new job – their minimum wage is 4.45£ (2006, equivalent to 6.49€)
- a level for adolescent: workers aged 16–17 gets a NMW since 2004 – it is about 3.3£ (2006, 4.82€)

(Mende 2006)

Costs of living varies among regions; but the NMW is unit for everybody and every region. It was discussed in advance if differentiation is needed between the region; but it turns out that a unit NMW is accepted the best, does not lead to so much bureaucracy and is the most effective. It would be very difficult to divide the regions in a sufficient way and to find adequate solutions for every region. It would also be not very transparent. Last but not least a unit NMW leads to more equality.

7.3. Low Pay Commission

The *Low Pay Commission* is an independent statutory non departmental public body set up under the National Minimum Wage Act 1998, to advise the Government about the NMW.

It is the most important institution concerning the NMW. It includes each three ambassador of the unions and of the employer organisations (TUC, CBI), two scientist and one chairman (which was in the last time always somebody who is close to the employers). Currently Mr. Paul Myners is chairman of the *Low Pay Commission*. Members of the Commission are official nominated from the minister. This is to moderate institutional policy considerations (Burgess 2006: 42).

Members of the Commission call their relationship between each other as good, and the Commission always takes care to be open for the basis. It does so by many surveys and visits companies and include all the information they get there in their reports, which are regular published.

Main task of the *Low Pay Commission* is to recommend everything which concern the NMW – the level of the NMW, the increasing of NMW, to find maybe another regulation for a special group (like the three different levels divided by age) and to report about the experiences and developments of and with the NMW.

Other activities of the *Low Pay Commission* are:

- Extensive research and consultation;
- Commission research projects;
- Analyse relevant data and actively encourage the Office of National Statistics to establish better estimates of the incidence of low pay;
- Carry out surveys of firms in low-paying sectors;
- Consultation with employers, workers and their representatives;
- Take written and oral evidence from a wide range of organisations; and fact-finding visits throughout Great Britain to meet employers, employees and representative organisations.

Another task is to give recommendations about the increasing of the NMW. There is no automatic system of increasing. If the *Low Pay Commission* recommends an increasing and

the government support this idea and level, the NMW will increase – otherwise, nothing will happen.

In making recommendations for any rate changes, the Commission is instructed to “*have regard to the wider social and economic implications; the likely effect on employment levels, especially within low – paying sectors and among disadvantages people in the labour market; the impact on the costs and competitiveness of business; and the potential costs to industry and the Exchequer*” (Finn 2005: 31). So as one can see, the Commission has many things to consider by recommending any possible increase.

The *Low Pay Commission* publish its reports and research on its website, also to enable workers and employers about their rights and duties (www.lowpay.gov.uk).

With this independent Commission, the government has the possibility to push discussions, lobbying and research away from the direct government issues – at least a little bit. On the other hand it enables social partners to have more influence on the NMW. It is also good to have this independent Commission to control the NMW without direct influence of the government and to encompass the NMW from the direct government. So the government cannot use the NMW as an instrument during election campaign, as opponents of a NMW like to claim.

Another very important and interesting point about the *Low Pay Commission* is that within the Commission different sides can discuss with each other and facilitated negotiation – other corporate institutions do not exist in Great Britain (Burgess 2006: 43). So this institution is a very special and important one.

7.4. Development of the National Minimum Wage

The NMW in Great Britain was introduced in 1999 and since then it has been increased five times.

Some countries in the EU do have an automatic system for the rise of the NMW. In Great Britain this is not the case. NMW is increased if the *Low Pay Commission* recommend it and the government does agree (Burgess 2003: 437). So far the NMW has increased faster than average earnings since 2003 (Finn 2005: 10).

As already said the NMW in Great Britain started at a very low level (3.6£, but today it is 5.35£). But to start with a very low level is wise to get more supporters of it in the beginning, and to make sure that also the opponents are able to accept the NMW. Besides it is also good to test the effects of a NMW to the economy. In October 2006, the NMW was about 50% nominal and 30% real increased.

Table 3: Development of the NMW in Great Britain 1999 – 2006

Date	NMW per hour (£) Adult worker aged over 25 years	Worker aged 18 – 21 in £	Worker aged 16 – 17 in £
1. April	3.60	3.00	none
1. October 2000	3.70	3.20	none
1. October 2001	4.10	3.50	none
1. October 2002	4.20	3.60	none
1. October 2003	4.50	3.80	none
1. October 2004	4.85	4.10	3.00
1. October 2005	5.05	4.25	3.00
1. October 2006	5.35	4.45	3.30

(Source: Finn 2005: 9)

Nevertheless the NMW is only about 36.7% of the national average wage (Burgess 2006: 44). This does not fulfil the recommendation of a fair and adequate wage, which the Council of Europe define as a NMW which is at least 50% of the national average wage. Table 4 shows the development of the percental NMW development compared to the national average wage.

Table 4: Development of the NMW in % of the national average BRUTTO wage

NMW in % to the national average wage	1999	2000	2001	2002	2003	2004
National average wage	36.7	35.3	34.2	36.0	35.7	36.7

(In: Burgess 2006: 44, own contribution)

As table 4 shows, the percentage of the NMW to the national average wage does not change significantly during the years. So one can see that even if the NMW is increased regularly, in the percentage it does not have a big effect. Even if one think that Great Britain has such a good NMW system it is also clear, that in reality the NMW does not fulfil the requirement of a fair and adequate wage as it is wanted. This is also true if one look at the number of low wage earner in Great Britain. Low wage is defined as a wage per hour of up to two thirds of the national average wage per hour. Even with the NMW, percentage of low wage earner in Great Britain is high – 21.7% (2005) (Kühnlentz/Marschall 2008). So even the role model Great Britain is not perfect and not ready for a European minimum wage.

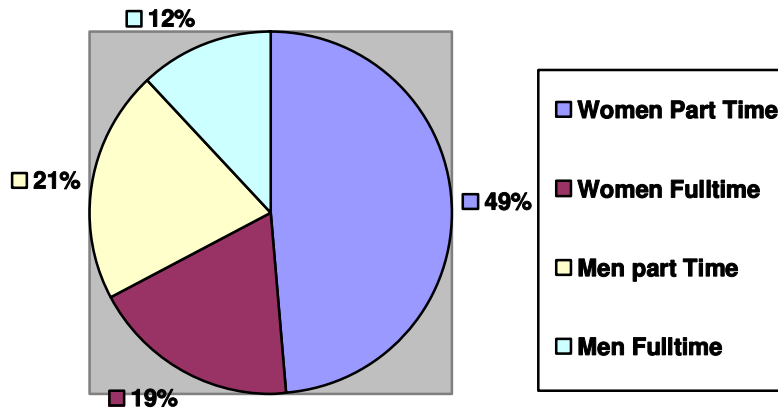
There is no automatic adjustment mechanism for the NMW. The increasing of the NMW is done by recommendation of the *Low Pay Commission* and accomplished by the government. The employers are informed six months before the increasing of the NMW so they have time to prepare themselves.

The *Low Pay Commission* works very carefully on their recommendations. They are obliged to consider special social and economic factors as well as the general social and economic situation of the country. They also have to consider the expected effect of a higher NMW on the employment rate, especially for discriminated groups or minorities. Last but not least they have to look at the possible effects on the inflation, general costs and the competitiveness of the country and the single companies/industries. As one can see, the *Low Pay Commission* has many things to consider and has clear and strong guidelines to deal with.

Some industries call for an index method to increase the NMW, but the TUC (one of the main British unions) does not want it right now. TUC fears that the index method would freeze the NMW at this early stage. Besides the TUC really is in favour of the negotiations between the different actors and the economic benchmark. For the TUC this is the main part of the political process and they do not want to miss it.

Now there is the question who is affected by the NMW? There are different groups within the population, with different situations and conditions on the labour market.

Figure 1: Occupational groups who profited to the increased NMW in 2004



(Source: Low Pay Commission 2005: 17)

As one can see in figure 1, women working in part time are the main beneficiaries of an increased NMW. But in general part time jobs are the ones with the main profit and therefore women. Thinking about gender equality we can guess here that payment for women in general is worse compared to men because women are the main beneficiaries of the NMW. We can also conclude here that the NMW really leads to a harmonisation of the wages between men and women and that it leads therefore to more gender equality.

But there are also other groups who are mainly affected by the NMW, like young people and some ethnic groups.

Industries that are affected the most are for example Cleaning, Catering, Security, Packing, Hospitality, Hairdressing and Retail. Just to make it clear: These sectors provide employment for approximately three million people in Great Britain (Cronin/Thewis 2004: 18).

Generally one can say that the typical characteristic of workers subject to the NMW is disproportionately female, in part time jobs and work in certain industries such as hotels and catering. Nearly 50% of workers affected by the NMW in 2005 were women working in part time (Burgess 2006: 45).

With the introduction of the NMW the wages of 5–6% of all employees improved. The *Low Pay Commission*, however, expected an improvement of 8-9% of all employees. This happens because many employers increase their wages already before the introduction of the NMW and still increase their wages already before the NMW is increased.

With the increasing in October 2006, 1.3 million workers profit, two thirds of them were women (Mende 2006).

The main group affected by the NMW - women - had the main advantages of it. Wages of women increased very soon and today wage differences between men and women are very small (Burgess 2006: 49). So here the NMW has led to more gender equality, even if total gender equality is not reached.

Young people were a special group. Some occupational areas favours young workers because they can pay them the cheaper youth rate. After analysing the trends and related research, the *Low Pay Commission* comes to the conclusion that the changed situation on the youth labour market has been “*primarily driven by the economic cycle, and that the minimum wage has had a most a minor impact on young people’s employment*” (Finn 2005: 36). In general, the impact of the NMW was broadly neutral.

7.5. Poverty in Great Britain

When the NMW started, it was also meant to be a way out of poverty for many people. “*paid work for a fair wage is the most secure route out of poverty*” (Finn 2005: 17).

Also in connection with the OMC, focus on poverty was mainly on child poverty. Since the introduction of the NMW the poverty rate for households with retired persons and households with children is decreasing. The number of children living in poverty is decreased about 800000 – but still three million children are living in poverty (Burgess 2006: 49). The NMW seems to have only little influence on poverty, as also said in the social dimension of NMW. This is because people who do not work and are living in poverty do of course not profit of a NMW. Besides the idea of a NMW is to create more equality and to have fair and adequate wages for everybody and not directly to solve poverty. Nevertheless as we see here it does have some effects on poverty – positive effects.

Unfortunately, distribution of income has **not** change significant, so here inequality stays.

7.6. Companies and the NMW – The Impact of the NMW on Companies

One also have to look at the effects of the NMW on companies. Here one has to distinguish between small, medium and large companies, because they are affected differently. The *Low Pay Commission* has ordered some research about the effect especially for small and medium size companies because experiences had shown, that large companies are having relatively few problems dealing with the NMW or increases to it. I will shortly name some of the main points of a study of Cronin/Thewis (2004).

Main affected industries were Cleaning, Catering, Security, Packing, Hospitality, Hairdressing and Retail.

In general, one has to say that most of the companies support the NMW and are able to absorb the extra costs coming from it (Cronin/Thewis 2004: 12). Even if companies do support the NMW, support for further rises is less supported (Cronin/Thewis 2004: 15). Some companies see the limit of increases already very close.

An interesting point is also, that many entrepreneurs say that is it fair that people receive a “*decent wage*” (Cronin/Thewis 2004: 32), and some also do not distinguish between young and older employees but are paying them the same amount of money because they “*are doing the same job*” (Cronin/Thewis 2004: 35), even if entrepreneurs do have the opportunity to use the extra rate for young employees. Other entrepreneurs also say that the NMW had helped to deal with “*rogue*” employers. So the social idea of a NMW is very well in mind of most of the entrepreneurs and is also supported by them.

But of course there are also some who were critical of the governments intervention in the labour market by setting wage levels. They feel that they should be able to set wages that were commensurate to their employees “*worth*” (Cronin/Thewis 2004: 32). There is also the critic that the NMW does not take into account regional, sub-regional or even sectoral factors and therefore is too inflexible.

Nearly all industries and entrepreneurs are well informed about the NMW and know for example the different rates for young and adult workers. Nevertheless they claim that they had to get their information by themselves. They want to be informed directly and personal by the government or *Low Pay Commission* if there are any changes concerning the NMW (Cronin/Thewis 2004: 35). But in general, employers are happy with the amount of notice they received of planned increases to the minimum wage. It allows them to plan budgets and prices well in advance of the changes in pay rates (Cronin/Thewis 2004: 36).

Companies developed different strategies to cope with the NMW. Some were paying only the NMW rate, others prefer young employees because they are cheaper. Other strategies are to cut the number of hours their staff is working or they increase their prices.

Another interesting and important point is, that employers were unable categorically to state that their actions or ‘coping strategies’ were a direct result of the NMW. They found it

difficult to take the NMW in isolation because in the last five years there were also other legal changes which also had impacted businesses at the same time (entitlement to paid holidays, improved maternity and paternity rights etc.). As a result, employers were not able to say which of the – maybe negative – consequences which affect them, come from the NMW - or if there are also other regulations playing a role (Cronin/Thewis 2004: 39).

Another interesting effect of the NMW in Great Britain is, that many companies do not want to be connected with the NMW. Besides they want to get the image of a real good employer, so they pay wages that are between 10–20% about the NMW level (Burgess 2006: 50).

A further major concern about the impact of the NMW was about its possible impact on prices and inflation. But as the Bank of England stated, the introduction of the NMW had a weaker than expected impact, and that the risk of a more substantial upward effect had been removed. Also the prices did not increase dramatically. Employers had overall adjusted to the NMW by squeezing profits rather than raising prices (Finn 2005: 36).

But the British economy and labour market has continued to grow throughout a recent slowdown (9/11) and employment rate is still increasing. Also the economic prognoses about the economic cycle for the next time are positive (Schrörs/Vontobel 2007).

Today the *Low Pay Commission* thinks that about 5-6% of all employees profit from the increased NMW and from the NMW in general (Burgess 2006: 46). Goal of the *Low Pay Commission* was to reach 8-9% of all employees. Therefore further increasing of the NMW would be needed.

Even if there were lots of discussions in Great Britain today every involved actor agree that the NMW does not lead to a reduction of jobs or other negative effects on the economy. In fact, the NMW lead to an increasing of jobs - unemployment rate was decreasing from 6.2% in 1998 to 4.7% in 2004 (Hans-Böckler Stiftung 2007). Besides the gender pay gap was decreased and also the general pay gap has closed – wage differences are no very high (Burgess 2003: 444). So the NMW had lead to more equality in Great Britain.

7.7. Enforcement of the National Minimum Wage

The enforcement and compliance of the NMW is ensure through the co-operation of institutional control, legal sanctions on public relation work of the government. The *Low Pay Commission* wants the NMW to be self-enforcing. Basic therefore is that everybody knows his or her rights and duties and is able to sue. During the introduction of the NMW the British government spend a lot of money to give information about the NMW – with success. But 2005 a survey showed that especially young people, minorities and homeworkers were not well informed about the NMW (Burgess 2006: 40). This needs to be changed soon.

In Great Britain there are four main possibilities for the enforcement of the NMW:

1. employees are entitled to have the enforceable right of access records
2. Inspection of the HM Revenue and Customs, who is responsible for NMW regulations
3. to bring an action to a Labour Court and/or another court with the goal to get undercharged wages back – the employee is protected against dismissal or other disadvantages
4. other instruments (the employer has the burden of proof; minister is obligated to public the NMW)

(Burgess 2006: 41)

It is a criminal offence to refuse or wilfully neglect to pay the minimum wage.

The *Low Pay Commission* has many instruments to control the compliance of the regulations. It reacts on every complaint and hint. In industries, in which offences are very popular (for example the “market service” and hospitality), random controls are done.

Employers have a legal obligation to keep adequate records to prove that they are paying the NMW. They can be forced through enforcement notice to pay the NMW immediately. The compliance officers do have the right to control a company and to control and to copy documents they need. It is an administrative offence if one hinders this searching. In average there are 5000 inquests each year.

An infringement against the NMW can follow a penalty of up to 5000£ (7300€) (Burgess 2006:41).

Besides employees have the possibility to call the institutions and tell them about offences against the NMW. At the same hotline they can also ask questions about the NMW and get information about it. This possibility is used in a very good way (Burgess 2006: 41).

So the control system works and is used in a very good way. Nevertheless the *Low Pay Commission* has to acknowledge, that there is still an estimated number of unreported cases in which the NMW is not kept. This is especially the case in the informal economic. Home workers fear that they will lose their job if they insist on the NMW. Other studies show that also in the textile industry and in the catering industry the NMW is not paid. There are no figures about how many people do not get the NMW but estimations guess it will be about 170000 people (Burgess 2003).

But even if there are offences against the NMW, there are also possibilities to report those offences. Generally speaking the offences are a relatively small number and could not be avoided because some offences will always be there.

7.8. Conclusion

For a long time, collective agreements were the most influential institution to regulate wages. In 1979 about 70% of the working population in the public sector and 50% of the workers in the private sector were in the scope of collective agreements (Burgess 2006: 33). But even if the acceptance of collective agreements was once so high, until 1999 workers had no right for collective bargaining because of Thatcher's government. This changed in 1999 with the *Employment Relations Act*. It says that the employer has to accept a union for collective bargaining if the workers want it. Since then, bargaining by collective agreement is increasing again. Besides OMC brought many positive changes to Great Britain.

Before the NMW was introduced there were a lot of discussions about it. Especially the level of the NMW was a problem. In general, if the level of the NMW is too high, some industries are existential at risk and with it also places of work, so the unemployment rate will increase. But if the level of NMW is too low, it would not fulfil the wanted effect of a fair and adequate wage and would also not solve poverty. It is also difficult to guess how many companies would be able to pay a NMW to a specific level. To face this problem the British government did different things.

First of all they did a lot of research and of course the *Low Pay Commission* plays an important role and found in the end the compromise and the starting level for the British NMW. To inform the population, workers and employers in a very good way, the government spends about 5 million £ in press, television and radio advertising. Besides Trade associations, unions and other organisations played an important part in preparing businesses and workers for the implementation of the minimum wage (Finn 2005: 30).

According to the *Low Pay Commission* today the total costs for the NMW are 0.35% of the national total base salary (Burgess 2003: 437).

Even if there were a lot of discussion in Great Britain today every involved actor agrees that the NMW does not lead to a reduction of jobs or other negative effects on the economy. In fact, the NMW leads to an increasing of jobs - unemployment rate was decreasing from 6.2% in

1998 to 4.7% in 2004 (Hans-Böckler Stiftung 2007). Besides the gender pay gap was decreased and also the general pay gap has closed – wage differences are no very high (Burgess 2003: 444). So the NMW had lead to more equality in Great Britain. Besides also the training incidence were increasing. The probability of training incidence increased by about 8% to 11% for the affected workers with the NMW (Arulampalam/Booth/Bryan 2003: 22). Great Britain significantly increase the income of poor households with the NMW (Pearson/Scarpetta 2000: 16). Today there are nearly 2.4 million working places more than in 1997, when the NMW was introduced (Mende 2006).

So far, the *Low Pay Commission* did not found any signs that the NMW does have negative consequences/effects to the low wage sector and to the economic in general. It also suggests, that the NMW had not had a direct significant effect on productivity (Finn 2005: 37).

So it seems like Great Britain has reached its goal to improve wages of the low paid and develop their skills with the help of the NMW.

Concerning the EU level and instruments like the OMC, for Great Britain one can say the NAP/incl worked as a kind of external drive on change, who was endogenous already on the way.

The question arise, if Great Britain could be seen as a role model for a European minimum wage. In my opinion, it could. Even if we know that the British NMW does not fulfil the wanted European minimum wage level, it has positive effects at the labour market and does not lead to all the feared negative consequences. So Great Britain must have introduced the NMW in a good way. Especially the institutional framework could serve as a role model. The idea of an independent Commission as a responsible institution should be transferred to the European level, as well as mechanism to control the minimum wage. Employees also need to have the possibility to complain or inform themselves about the minimum wage. So the institutional framework should serve as a role model for the European minimum wage. Chapter 9.4 will go into detail with this idea.

8. A National Minimum Wage in Germany?

So far Germany has no NMW. But for different reasons the debate about a NMW for Germany is today more prevailing than ever. The feeling of social inequality and social unfairness is growing in the last years. Citizens are unsatisfied and open for new ideas, as long as they seems to be fair and social.

Germany is – according to Esping–Andersen - a conservative Welfare State. Typical for conservative Welfare States are a strong influence of the church, the principle of subsidiarity, no real redistribution and differentiated social benefits, depending on status. So it is strongly transfer oriented, and social policies are made in order to decommodify economically inactive individuals and it promotes the traditional division of labour in the family (women take care of household and child–caring, men earns the family income).

This chapter will have a closer look at the current situation on the German labour market, introduce the different measures Germany is doing against unemployment and shows a calculation of a possible NMW. The chapter will also have a closer look at the current debate about a minimum wage in the Post sector because this debate activate the debate about a NMW in Germany.

8.1. Current Situation on the German Labour Market

The only country in Europe which currently has no functional equivalent that provides a political underpinning for the collective bargaining system for low–paid workers is Germany (Schulten/Watt 2007: 3). Wages are agreed with the support of unions. Unions are widespread and organised in industry–specific umbrella associations. In collective bargaining rounds basic labour agreements are laid down for regions and industries (Golsch 2005: 84). This leads to a high degree of intersectoral distinctions and the bargaining system can be described as moderately centralised. Due to the unions great influence and collective bargaining, negotiations of wages are more than a matter of rules but are clearly fixed tariff agreements (*Flächentarifverträge*). They are mandatory for all employers associated with an employers associations. This system gives only little leeway to introduce wage flexibility (Golsch 2005: 85). With the globalisation of markets and increasing unemployment, the highly regulated employment system appeared more and more outdated, so the government introduced various deregulation measures. The most important measures were the opening clauses (*Öffnungsklausel*) in collective agreements and the Employment Promotion Act (*Beschäftigungsförderungsgesetz*). The opening clauses (since 1993) allows for tariff agreements for specific business with serious economic difficulties (*Härteklausel*), hence more wage dispersion. The Employment Promotion Act (since 1985) allows employers to contract new employees on a fixed–term contract for up to 18 months (Golsch 2005: 86). In 1996, the maximum length of fixed–term contracts has been prolonged up to two years. Besides in 1998, the Alliance for Jobs (*Bündnis für Arbeit*) and 1999, the Hartz concept, Mini–Jobs and employment–creations measures were introduced (Golsch 2005: 87).

Unfortunately, non of these instruments brought a real change in the unemployment rate.

Especially the EU east enlargement in 2004 put the wages and the German labour market under pressure. This was unexpected because Germany had joined most of the other Member States in using the transitory arrangement. Apart from some exemptions, workers from other Member States (especially from the east) can come in temporarily under the freedom of services arrangement (one year) and replace German workers and receive the wages of their home country, given that there is no general minimum wage. Of course this had negative consequences for the German labour market. The unions spoke of 26.000 job losses, being replaced be East Europeans (Nicolaidis/Schmidt 2007: 724). Besides to other reforms at the German labour market (removal of the master craftsman's diploma, “*Meisterbrief*”) it was easier for east Europeans to settle down their business in Germany.

Interaction with the European level are not very good. OMC respectively NAP/incl are seen as some extra work and do not find the attention they should get. Therefore interaction between different national levels is good. Germany still has to learn in the OMC process and to get used to the new instruments like benchmarking.

In January 2008 the unemployment rate for whole Germany was 8.7% (Bunzenthal 2008). West Germany had an unemployment rate of 7.1%, east Germany 14.9% (Bunzenthal 2008). Long-term unemployment rate was 2006 4.7% (National Reform Programme Germany 2007: 84). Old workers (+ 55) are at the highest risk to become unemployed, together with foreigners and persons without a professional training.

More and more fulltime jobs get lost. At the same time, number of non-regular jobs or precarious jobs is increasing. 4.8 million people (17.5%) work in part time jobs. Most of them are women (84%). Also temporary work is increasing – 1270000 people work as temporary workers. Besides more and more people needs additional to their wage “Hartz IV” – 2.7%. Two million workers have a second job (Bunzenthal 2008 a).

It is also no longer true that only low qualified people work in the low wage sector. About three-fourths of workers in the low wage sector in Germany do have a qualified apprenticeship or a academic degree (Sperber 2008). In Germany it is especially hard once one is in the low wage sector to come back to regular and better paid work. 2006 6.5 million people (22%) work in the low wage sector (Sperber 2008).

In 2000, poverty rate was 11.1% (Sosalla 2008). At the highest risk to become poor are single parents and foreigners.

Opinions possible NMW

The different parties in Germany do have different opinions about a NMW. In favour of a NMW are especially the SPD (Social Democratic Party), the Green Party and the Linkspartei. More sceptical are the CDU (Christian Democratic Party) and the FDP (liberal). The CDU thinks that a NMW does not consider all the differences between regions and industries and in general is a danger, for the economic and for employment.

The Linkspartei wants a unit, all over the country and legal NMW of 8€ - in their opinion this is the only way to guarantee the subsistence level (rtr/dpa 2007). The SPD, as said before, is absolutely in favour of a NMW and sees Germany ready for it. They want to learn from other European countries which have already made positive experiences with a NMW. The German secretary of labour, Olaf Scholz (SPD) welcome the fact that more and more industries want a minimum wage and believes in a NMW for Germany. For him it is a possibility to protect workers for wage dumping.

Unions in Germany do not really want a NMW – they see a NMW more as the second-best-solution for the case if unions are without any power. In fact, they fear a NMW because they think they will lose power and become needless. Unions favour minimum wages for single industries but not a national minimum wage. They fear that many industries will leave the unions if a NMW exist. Collective agreements would be much better to reach adequate results than a NMW and with a NMW it will be even harder to reach adequate results.

Also the German Federal President is sceptical about a NMW. He does not ignore the positive experiences of other countries with a NMW but sees the danger that a NMW, which cannot be paid by employers in the competition, will cut jobs. Nevertheless he signed the amendment for the Post minimum wage (rtr/dpa 2007).

The medium-sized businesses do not have a clear opinion. A survey in North Rhine-Westphalia shows, that 39% of the medium-sized businesses are against a NMW – but 41% are in favour of a NMW. 75% of medium-sized businesses do like minimum wages for single industries but only 25% do want one single minimum wage for all industries. Every second entrepreneur do think a minimum wage of 7.5€ is an adequate wage level. A quarter do think this will lead to a reduction of profit and also a quarter do think that they will have to dismiss workers if there is a NMW. Interesting is, that only 2 of 100 entrepreneurs would think about

changing their location into another country. 15% of the medium-sized businesses could also imagine a higher level than 7.5€ for the NMW. Also about possible influence of a NMW on the economic situation the medium-sized businesses has no clear opinion. 42% do think a NMW would have negative consequences for the economic cycle, and 47% believes that a NMW would not stop the current boom in Germany (WGZ-Bank 2008).

So as one can see, there are many different opinions about a NMW in Germany, but the basic is in favour of a NMW. In fact, for many the current discussion about a NMW is not surprising but just a consequence of a failed wage policy.

There are some industries in Germany who already have a minimum wage. These are construction service (skilled worker east: 9.8€, west: 12.5€), electro industry, painter and varnisher (skilled worker east: 9.37€, west: 10.73€); roofer (skilled worker east and west: 10€); building cleaning (east: 6.36€, west: 7.87€) and discontinuance services (skilled worker east: 9.8€, west: 11.6€) (Sievers 2007).

Especially the construction service has its minimum wage already for a long time, since 1997, and has, so far, mainly positive experiences with it. The current amount of the minimum wage is for a skilled worker 9.8€ in east Germany and 12.5€ in west Germany (Sievers 2007). Also here there were many discussions about it. After the introduction in 1997 one found out, that this minimum wage lead to a decreasing of jobs in east Germany, but there was nearly no decreasing of jobs in the west. Reasons for this phenomenon are, that the minimum wage in former times was 80% of the national average wage in the east, but only 60% of the national average wage in the west. So it was obviously that companies in the east got problems to pay the minimum wage (Interview Joachim Müller, head of the *Institut für Arbeitsmarkt und Berufsforschung* 2007). Today, the only problem is to control if the minimum wage is paid. There are controllers, but far to less to have an effective control. Unfortunately there are some entrepreneurs who are not willing to pay the minimum wage or do not pay it for workers who do not know about their rights. Even if this is a small number, it is a problem which needs to be solved.

During this current debate in Germany about a NMW, some industries do now also want a minimum wage for themselves. In December 2007, 10 industries already do want a minimum wage for themselves (Rademaker 2007a), so the SPD sees itself on the right way.

One of these 10 industries are temporary workers, who want a minimum wage of 6.36€ in east Germany and 7.31€ in west Germany (Sievers 2008). An appropriate motion is already done. Also the Security industry wants a minimum wage of 5.75€ in east Germany. This would already be a wage increasing of 37.5%. But VERDI is against it. They do not want minimum wages which are under the level of 7.5€. In their opinion, a lower level of minimum wage will have no effect – it will contrary lead to a justifying of low wages if even minimum wages are low. Besides workers who get the NMW should not need additional state-aid (Sievers 2008a). Other industries are retail, waste management; meat workers, hair dresser, catering, security, forestry, hotel industry and gardening and landscaping companies (Rademaker 2007a). Also the industrial laundry services do think about a minimum wage. But so far only the temporary worker industry has made a motion.

8.2. German Instruments Against Unemployment

Some scientists see three main problems on the German labour market: level, performance and structure. The main causes for the crisis in the labour market are continuously slack economic growth, a lack of dynamism in employment and the ongoing persistence of unemployment. Other problems are weak consumption, low rises in net wages, growing unemployment and massive worry about the increasing burden of social-security contributes. Besides Germany does not invest enough in education.

Another important thing is, that the reunification have been a serious encumbrance for Germany – the attempt to bring east German wages quickly into line with west German wages have made the starting conditions for the new federal states anything but favourable (Dreger/Galler/Walwei 2006: 9).

To counteract the labour market crisis in Germany and especially to break up persistent long-term unemployment, the introduction of the „Agenda 2010“ in spring 2002 brought the initiative of extensive reforms to the labour market. It has different lines of actions:

It shall encourage an improved environment for employment, to make the labour market more flexible by deregulating labour law and to improve conditions for creating new jobs (mini jobs).

The „Agenda 2010“ also wanted to reorient labour market programmes which will rely much more heavily on a systematic „activation“ of job-seeker. This means, that unemployment benefits will be tied to active labour market policy measures – so although support will be provided, the individual will also be expected to do his or her own share („*Fordern und Fördern*“) (Dreger/Galler/Walwei 2006: 17).

Some scientist say, that unemployment is not the problem of missing job placement but result of missing incentives to work and missing demand for low qualified workers (Jahn/Wiedermann 2003: 16).

Germany already has some instruments to bring long term unemployed people back into the labour market and to give incentives for companies to employ those people and maybe more workers than before. I will shortly mention the most famous and important ones to show that Germany is doing something to improve the situation on the German labour market.

The „Agenda 2010“ include measures in the areas of taxes, finances, economy and labour (combination of social assistance/unemployment assistance, protection against unfair dismissal, Hours of Work Act, reorganisation of the Federal Employment Office and reform of social assistance).

One of this measures is „Hartz IV“, to solve long term unemployment. The core of „Hartz IV“ is the combination of unemployment assistance and social welfare benefits to the new „Arbeitslosengeld II“ (second-level unemployment benefit).

„Hartz IV“ level is 347€ per month for singles without children. Additional there are surcharges for rent and heating so this person will get 664€. Single parents with one child get 555€ plus surcharges (all in all 969€), parents with two children get 1318€ (1925€), just to name some examples (Bunzenthall 2007). All five years this rate is checked and adjusted. It is also to support low wage workers to reach their subsistence level. In 2005, 1.3 million workers in Germany needed „Hartz IV“ as additional support to their wage (Bunzenthall 2007). The *Institut für Arbeitsmarkt und Berufsforschung* says that most of these workers are low qualified workers.

Objectives of „Hartz IV“ is to ensure that work always pays off relative to non-employment and to a better monitoring of unemployed persons on eligibility criteria. Besides it should lead to savings of the public budget, because it is not connected to the level of the last income but only to secure the subsistence level. But unfortunately, also here some problems occur. The main problem is that the costs for „Hartz IV“ are much higher than expected because there are much more „Hartz IV“ recipient than calculated (Buscher/Dreger/Walwei 2006: 220).

The German Business Institute (IW) (close to the employers) does not believe that a NMW of 7.5€ would decrease the number of transfer recipients. A head of family with two children has to earn at least 11.80€ to lose the right to social benefits, and a single parent with one child has to earn at least 10.60€ (IW 2008).

If one is taken a „Mini-Job“ one will get a salary of 400€ per month. For the employee these jobs are tax-exempt and without social security tax, the employer is only paying a tax lump-

sum of 30%. In 2005, about 5 million people has a “Mini-Job” (Kühnlenz/Marschall 2008). These jobs can also be taken as a second-job, which is done by many of the „mini jobber“, but it cannot generate enough income to live from.

There is also the possibility for unemployed people to take “1-Euro-Jobs”. They were introduced in 2005 and in 2007, 750000 unemployed people were in an “1-Euro-Job”. Therefore it is numerical the most important instrument at the labour market. Aim is, to integrate low skilled workers back to the labour market. At the same time they are also kind of a test to see if unemployed people are willing to work. Many “Hartz IV” recipient do like these jobs because they are often paid a little bit more and enables them to earn additional 240€ (Rademaker 2008). “1-Euro-Jobs” lead to a lot of discussion because they are suspected to displace regular working places. It turns out, that these kind of jobs do not help unemployed people to get a regular job again. Reasons for this are among others, that “1-Euro-workers” do not have time to look for other jobs and that they take this kind of job already as an alternative to regular work. Another problem is, that if the “1-Euro-worker” get a regular job in the end, in most of the cases they still needs “Hartz IV” because they only get low paid jobs.

Another instruments is the so called “Kombilohn” (combined wages). It includes a wage addition, paid by public finances to motivate long term unemployed people to take a low wage job. The idea of a “Kombilohn” already exist since 1992 (Jahn/Wiedmann 2003: 91). A “Kombilohn” is attached to the exertion of a particular employment public transfer to employees. With it, especially persons with a low income potential should be motivated to a dependent employment.

The following theses are mainly behind the idea of a „Kombilohn“:

- this person subgroup needs a special motivation, because the gap/different between social welfare benefits and the real income in work is low
- appropriate employment for this person subgroup exist at least latent, but because they want wages which are above the productivity rate, these activities are not performed

(Jahn/Wiedemann 2003: 81)

A “Kombilohn” should help these persons.

Before the introduction of the “Kombilohn”, taken a job in the low wage sector do not bring extra money for long term unemployed people. In fact they often had the same amount of money than before with the unemployment assistance (Ziller 1998). The “Kombilohn” should solve this problem. Besides entrepreneurs could fell enable to create more working places in the low wage sector.

Unfortunately, in reality this concept does not really work and does not bring notable effects. In fact, it creates some problems because of arbitrage effects.

Interesting to see here is, that already during the introduction of the “Kombilohn” politicians, especially from the Green Party and the FDP, called for a NMW, which would be better than the concept of “Kombilohn” (Ziller 1998).

Besides the Federal Employment Agency (*Bundesagentur für Arbeit*) was reformed, to provide more intensive support for the unemployed by reducing the case load on individual job placement officers.

As one can see there are already many instruments at the German labour market to reduce unemployment. But unfortunately it also turns out, that non of these instruments really seems to work and non of them do have a notable positive effect.

8.3. Calculation About a Possible NWM in Germany

The German “Institut Arbeit und Technik” has made a model calculation for a NMW between 5€ and 7.5€. We will have a short look at this calculation.

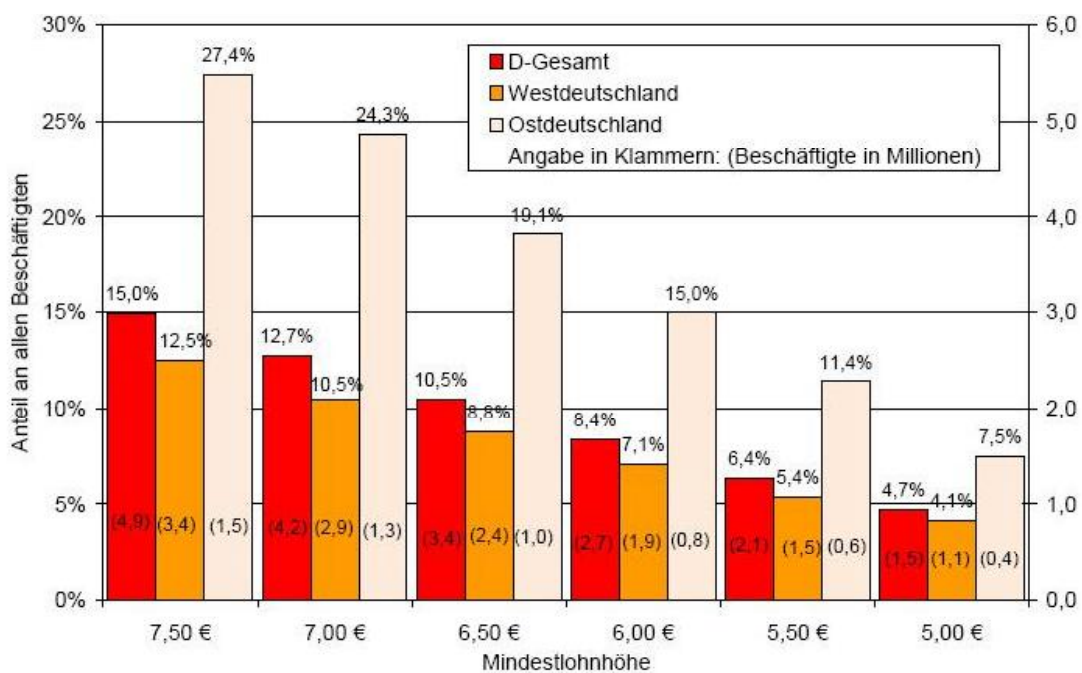
One argument for a NMW is, that the low-wage sector is increasing very soon. About 22% of the working population in Germany work in the low wage sector (Kalina/Weinkopf 2006: 2). At this background the union Nahrung–Genuss–Gaststätten (NGG) and the union VERDI have started a campaign for whole Germany, in which they claim for a statutory minimum wage of 7.50€. The left-wing party in Germany wants even a minimum wage of 8€. More sceptic people want a minimum wage of only 4.5€, which is oriented on the level of the second-level unemployment benefit (see above) (Kalina/Weinkopf 2006: 2). One do not have to forget that the already existing minimum wages for single industries are above 7.5€!

Opponents of a NMW say that a NMW would lead to a massive reduction of jobs and to a decline of employment opportunities for insufficiently qualified workers. But according to empirical studies there are no evidence that a NMW leads automatically to a reduction of jobs. One typical example for this is the introduction of a NMW in Great Britain: Opponents of the NMW also warned for an massive reduction of jobs – but in fact, the employment increased at 25% (Kalina/Weinkopf 2006: 2).

But to come back to the model of the German institute “Institut Arbeit und Technik”. It is about a model calculation for a NMW between 5€ and 7.5€. Basis for this calculation is the year 2004, so it is not very new but still prevailing.

A NMW of 7.5€ would affect 4.9 million workers – this would be 15% of the employment relationships. A NMW of 5€ would affect only 1.5 million jobs – 5% of the employment relationships (Kalina/Weinkopf 2006: 2). There would be huge differences between east and west Germany. A NMW of 7.5€ would affect 12.5% of the employment relationships in west Germany and 27.4% in east Germany. To clarify the differences, figure 2 shows the differences in east and west Germany by different minimum wages.

Figure 2. proportion minimum wage employments at all employment relationships



(Source: Sozio – ökonomisches Panel (SOEP), 2004. In: Kalina/Weinkopf 2006: 3)

Unfortunately this figure is in German so I want to explain it here a little bit more. On the x-axis you find the level of the minimum wage, the y-axis shows the proportion of employment relationships. The red bar stands for whole Germany, orange for west Germany and the "white" bar stands for east Germany. The numbers in brackets are the numbers of employees in million. As one can easily see a NMW would affect in every case employees in east Germany to a greater extent than west Germany. This is because general lower wages in east Germany and different labour market situation between east and west Germany.

A NMW of 7.5€ would be in line with comparable European countries like the Netherlands (7.96€), Great Britain (7.36€) or France (8.03€).

As one see that a NMW of 7.5€ would affect 4.9 million employees (15% of all employees). The question comes up on the macroeconomic spread/volume of the wage rise and the result from it for the additional receipts in the social insurance. If we assume that a NMW does not have any consequences for the employment, a NMW of 7.5€ would result in a wage rise of 12 billion € per year. 11 billion of this wage rise would fall upon full time jobs and only one billion on side jobs (Kalina/Weinkopf 2006: 3). This is because of a less number of side jobs and shorter work time in side jobs. A NMW of 5€ would result to a wage rise of 2.2 billion € (Kalina/Weinkopf 2006: 3).

A wage rise of 12 billion € would have the consequence of massive additional receipts for the social insurance. For an estimation of this additional receipts Kalina/Weinkopf assume for the full time employees and liable for social insurance workers in part time an average premium rate of 42% (employees - and employers contribution) and for "mini jobs" a premium rate of 23% (charges of the concern minus lump-sum tax). Special regulations for mini jobs could not be considered.

For the social insurance this would bring additional receipts of 4.2 billion € (Kalina/Weinkopf 2006: 4). Of course, the lower the minimum wage the lower the additional receipts – if we assume a NMW of 5€, social insurance would get 664 million € (Kalina/Weinkopf 2006: 4).

Social insurance is not the only one who could profit from a NMW. A NMW would also lead to more receipts for the income tax or social insurance contributions. Here it is difficult to name some numbers because it depends on the individual marginal rate of tax.

A NMW would lead generally to more tax receipts because of increasing consumption (value added tax).

According to Kalina and Weinkopf there are three important numbers for an adequate level of the NMW in a macroeconomic context.

1. number of NMW recipients
2. relation level NMW to national average wage
3. increasing of the macroeconomic sum of salaries through the introduction of a NMW

(Kalina/Weinkopf 2006: 5)

Table 5 will give an overview how many people would be affected by different NMW levels. It also distinguished between east and west Germany and shows the relation of the NMW in question to the national average wage.

Table 5: Different levels of possible German NMW and who will be affected

	Region	Level of NMW					
		7.50€	7.00€	6.50€	6.00€	5.50€	5.00€
Number NMW recipients	Whole Germany	15%	12.7%	10.5%	8.4%	6.4%	4.7%
	West Germany	12.5%	10.5%	8.8%	7.1%	5.4%	4.1%
	East Germany	27.4%	24.3%	19.1%	15%	11.4%	7.5%
	Whole Germany, fulltime only	8.2%	6.1%	4.2%	3.3%	2.2%	1.3%
Relation NMW to national average wage	Whole Germany	49.4%	46.1%	42.8%	39.5%	36.2%	32.9%
	West Germany	47.1%	43.9%	40.8%	37.7%	34.5%	31.4%
	East Germany	64.4%	60.1%	55.8%	51.5%	47.2%	42.9%
Increasing of sum of salaries	Whole Germany	1.3%	1%	0.7%	0.5%	0.4%	0.2%

(Source: Kalina/Weinkopf 2006: 5, own translation)

This table shows in a very nice way also the differences between east and west Germany. As one can see, east Germany would be much more effected by a NMW.

It is also interesting to see, that a NMW of 7.5€ would be nearly 50% of the national average wage – and therefore close to the wanted European minimum wage (see chapter 9). But even a NMW of 7.5€ would not reach the wanted European minimum wage level. Nevertheless, here again there are big differences between east and west Germany – in east Germany, a NMW of 7.5% would be 64.4% of the average wage. Because of the big differences between east and west Germany it might be wise to differentiated the NMW between east and west.

An important point is also the level of increasing of the sum of salaries. A NMW of 7.5€ would lead to an increasing of 1.3% - a NMW of 5€ would lead to an increasing of 0.2%, which is nearly nothing. In general a NMW of 5€ does not seem to be really effective because in whole Germany less than 5% of workers would be affected, and only 1.3% of the fulltime workers. This does not seems to have a real effect and is even less than people affected in the USA (1.4%) (Kalina/Weinkopf 2006: 8). Besides it would be very low compared to the national average wage (32.9%).

Compared to other European countries, with a NMW of 7.5€, Germany would be in table 2 (page 23) on place 5 (Kalina/Weinkopf 2006: 6).

A NMW of 7.5€ per hour (1250€ per month, full time work) would not help to solve the wage poverty completely. A NMW which would solve the wage poverty completely has to be at 1442€ or 50% of the national average wage (2003: 2884€) (Bispinck/Schäfer/Schulten 2004: 577). This would – maybe – happen with a European minimum wage, as we will see in chapter 9.

8.4. Current Debate Post Minimum Wage

Let's have a short look at the current discussion in Germany about a minimum wage for the post sector because the discussion about an industry minimum wage was the birth of the discussion about a NMW in Germany.

It all started in late summer 2007, when the German Post made a motion to get a minimum wage to the 1. January 2008. It was planned to get admitted in the Foreign Employee Law (*Arbeitnehmer-Entsendegesetz*). This had to be done to pave the way for collective bargained minimum wages in the industry. Aim of the Foreign Employee Law is, that employees from companies of foreign countries have to be paid equal to the German employees. This should avoid wage dumping. Condition for the Foreign Employee Law is, that first of all a minimum wage for all German employees of this industry exist. If tariff partner agree on a minimum wage, everything is without problems. But problems can occur where there are concurrent contracts. The German Post and VERDI (a German multi-service trade union) agreed on collective labour agreements for a minimum wage in the Post sector, which they wanted to get generally binding. The wanted minimum wage level was between 8€ and 9.8€ per hour (Marschall, 2007). The competitive companies, like the Dutch TNT and the German PIN Group complained that this minimum wage would be too high. The CDU supports this complaining, whereas the SPD supports the German Post.

The CDU and the competitive companies argue, that the motion of the German Post does not fulfil the needed conditions: To get a general binding collective labour agreement, it has to concern more as 50% of the workers in the industry in question. This was a problem, because different institutions came to different results: The employer association *Postdienste* said, it has 200000 employees. Because the German Post is still the biggest service provider in the letter area, more than 50% of the postmen are affected. Additional there are employees of the competition, which will get the minimum wage too. The Federal Employment Agency did also count – and came to another result. There are 311900 people working in the sector, but not all of them are postmen. Another statistic, also from the Federal Employment Agency counts 328957, but 101390 are newspaper delivery persons. The German Federal Statistical Office says that 313597 people work in the sector, but again not all of them are postmen. The German Federal Network Agency found 414600 people working in the sector, but only 173000 working as a postmen – if one ignore the official, this are 33% (Rademaker 2007). So, for a long time, it was not clear if the 50% condition was fulfilled.

The discussion about it took several weeks, but in November 2007 the minimum wage for the Post sector seemed to be secured. Now it applies not to everybody who delivers letters but to everybody who delivers mainly letters. By doing so there were of course many gaps created which allowed companies to avoid the minimum wage. But as VERDI said, for them it was mainly the question to fail with the whole project of minimum wage or to find a compromise. So they found this compromise, which also makes wage dumping more difficult from their point of view (Hicken 2007).

The agreement on the minimum wage had many consequences. The competitive company PIN dismissed one fourth (about 2770 people) of their employees (Knappmann/Brychcy 2008). Besides they used the compromise and used more newspaper delivery persons and regional mailmen, to avoid the minimum wage. PIN sees itself not able to pay the minimum wage, also because it makes huge losings in the last year and had to announce insolvency in December 2007.

Also other little private letter services had to announce insolvency because they were not able to pay the minimum wage. The main problem for these kinds of companies is, that they have the whole costs at once – without the corresponding business volume. A solution for this problem could have been a transition period, but this was not done. For that reason, these little companies get together and applied for a own minimum wage, which is less than the minimum wage of the Post and goes to a maximal level of 7.5€ (Hicken 2008). VERDI and

labour law specialist have doubts if this is legal and sue at the labour court. PIN fears a possible failure of the own minimum wage for little companies and decided to pay the Post minimum wage of 8€ and 9.8€.

The Dutch competitor TNT do not want to pay the German minimum wage. They say, this minimum wage would mean 25% additional costs which they are not willing to pay (Rademaker/Brychcy 2008). So the German government threat TNT: If a company is paying less than the legal minimum wage, it could get a penalty up to 500000€. But therefore the customs has to find misdemeanour or workers have to take court action (Marschall/Brychcy 2008).

Besides all this protests of the competitors, the Post minimum wage seems to be alright and came in force on the 1. January 2008. But in March 2008, the administrative court of Berlin sayed, that the use of this minimum wage to the whole industry of letter services is contrary to law. With this judgment, the court granting the sue of some competitors of the German Post, which saw their existence in danger. The *Bundesministerium für Arbeit und Soziales* appeal against the judgment. The court constitute its decision that the “*Allgemeingültigkeits-Verordnung*” of the *Bundesministerium* is not covered by the Foreign Employee Law. The German Secretary of Labour, Olaf Scholz (SPD) has “*die gesetzliche Ermächtigung überschritten, die nur Verordnungen erlaubt, die überhaupt nicht tarifgebundene Arbeitgeber und Arbeitnehmer betreffen*” (Rademaker/Brychcy 2008). The competitor of the German Post had with the new union GNBZ (Gewerkschaft der neuen Brief- und Zustelldienste) on a minimum wage of 7.5€ (west Germany) and 6.5€ (east Germany) agreed. The union VERDI was surprised about the judgment of the court. They see it as a try to debase the Foreign Employee Law with the help of a court. The GNBZ of course welcome the decision of the court. Also PIN was very happy about it – it supports them by the search for new investors (Rademaker/Brychcy 2008).

Even if the Minister for Economic Affairs Michael Glos (CDU) welcomes the decision of the court, his party, CDU, stays to the Post minimum wage and think that the administrative court will annul the judgment. Nevertheless the economic wing of the CDU is not in favour of a NMW in general.

The decision of the administrative court was a big reversal for the SPD and all supporters of a NMW and support the opponents of a NMW. Nevertheless the supporters did not give up. Besides the decision of the court do not have consequence for the minimum wage motion of other industries. Labour market experts like Ulrich Zachert do also think that the court has to annul the judgment because it does not orientate itself on the whole purpose of the Foreign Employee Law (Schüddemage/Berius 2008).

Sharp tongue says, the Post only wants a minimum wage to stop their competitors because the Post is no longer protected since the opening of the Post market on the 1. January 2008. For example the FDP politician Heinrich Kolb thinks, that the Post minimum wage is just a new instrument to secure the Post monopol (ddp 2008).

To protect the German Post, the government in general support the minimum wage for this sector. Also Wolfgang Franz, President of the ZEW says, that the Post minimum wage is just another instrument to secure the Post monopol by the backside (Franz 2008).

The EU wants a liberalization of letters up to 50g in 2011 in the whole EU (Mai/Marschall/Brychcy 2007), which would also have consequences for the German Post. Currently, TNT is the biggest competitor of the German Post.

The EU Commission criticise the minimum wage for the German Post. In the opinion of the Commission, this minimum wage wants to eliminate competition and is not in line with the wanted liberalisation of the European Post market (dpa 2008).

There were many discussions about the Post minimum wage between the parties. The CDU believes a minimum wage would lead to a decreasing of working places and a bad economic situation concerning competition –and says once one starts with a minimum wage, its level will increase dramatically. The SPD supports the idea of a minimum wage and wants to make the topic of a NMW as a main election campaign during the next elections.

In the end the German Bundestag agreed on the minimum wage for the Post sector – 89% vote in favour of it (Sievers 2007a). Since January 2008 there is a minimum wage in the Post sector of 8€ per hour in east and 9.8€ in west Germany (just to compare, the normal wage for post men is 11.43€ for beginner and 16.63€ for older post men (Goldschmitt 2007).

8.5. Conclusion

German economic has been described as flexibly co-ordinated. Significant importance is attached to long-term cooperative employment relationship based on trust. Employer organisations, work councils and unions are agents in the German vocational training system that safeguards a clear-cut match of school, training and work; through their involvement in workers' councils, employees gain rights of codetermination, are much more committed to firm decisions and establish co-operative relations with the employer (Golsch 2005: 84). A NMW would support this more strongly.

After the introduction in 1997 of a minimum wage in the construction service, one found out, that it lead to a decreasing of jobs in east Germany, but nearly to no decreasing of jobs in the west. Reasons for this phenomenon are, that the former minimum wage was 80% of the national average wage in the east, but only 60% of the national average wage in the west. So it was obviously that companies in the east got problems to pay the minimum wage (Interview Joachim Müller, 2007).

Germany has to suffer under the EU east enlargement. This would not have happened so strongly if Germany had a NMW to that time.

The problem in Germany is, that the trust in the neoliberal market model is very deep – which is hard to change

Germany could use the OMC to learn from Great Britain and to have a closer look at the way Great Britain introduced the NMW. We already saw that this will not be easy but this does not mean that it is not possible. Economic situation in Germany today is similar to the economic situation in Great Britain in the 90s. So situation is similar, even if one has to consider the different Welfare State system and the therefore possible obstacles that can occur.

Only 2% entrepreneur of the medium-sized businesses would go into a foreign country if Germany would get a NMW (WGZ-Bank 2008). This is a very small number, which nearly can be ignored.

Non of the entrepreneurs in the study of Cronin/Thewis (2004) (see chapter 7) was able to displace its business into cheaper countries or countries without a NMW. All of them needed to be close by their customers. This shows, that also the fear in Germany is causeless because many low wage industries can simply not move.

A NMW of 7.5€ would be in line with comparable European countries like the Netherlands (7.96€), Great Britain (7.36€) or France (8.03€).

In Germany, a NMW of 7.5€ would affect 4.9 million employees (15% of all employees), in Great Britain it affected 1.1 million workers (4% of all employees), in the Netherlands 2.2%, Spain and Ireland. In Portugal, 6.2% of employees are on the minimum wage, in France 13.6% and in Luxembourg 15.5% (OECD 2002: 54). Therefore the German NMW would affect much more people than in other European countries, even if the amount of it is close to other European NMWs (Rademaker 2007a).

By having a look at the European level, the Council of the European Union says, that Germany is making good progress in general in the field of labour market policy and especially on the macro-and micro-economic key challenges and priority action. But it also says that Germany is making little progress in the case of employment (Council of the

European Union 2007: 10). A NMW would be of course no panacea, but maybe it is one step forward in the right direction.

In Germany, there are endogenous and exogenous causes for a NMW. Endogenous, different political parties (especially SPD and Linkspartei) as well as parts of the citizens do push the idea of a NMW forward. Exogenous, Germany has-like other Member States-to deal with new challenges because of the globalisation, the EU enlargement and the rise of low wage economies. Both, endogenous and exogenous causes could lead to a NMW for Germany.

Germany should look at the other European Member States and follow their way to a NMW. It should use the opportunity to learn from the other Member States and their experiences with a NMW. The current debate about the Post minimum wage had reached much in the general NMW discussion and it seems like Germany slowly get ready for it.

9. European Minimum Wage

So far we already got an overview about the different regulations and experiences with a NMW in different EU Member States. We also had a closer view to Great Britain, one of the countries with positive experiences with a NMW and Germany, a country without a NMW. We will now have a closer look at the European level and try to answer the question if there is a need for a European minimum wage. If we look back to Great Britain we might see no need for it. But by looking back to Germany, which does not have a NMW, and remembering countries like Spain, where the NMW is only 30% of the national average wage, which is in no way enough to live, there might be a need for a European regulation and a European minimum wage. As this chapter will show, this is not a new idea.

Before I start with the idea of a European minimum wage I will shortly introduce the European employment policy and its development during the years. Then I will explain the European Employment Strategy before I come to the idea of a European minimum wage. I will do this to give a broader background to what was and is already done at the European level and to show how far a European minimum wage would be in line with the European context.

9.1. Current Situation on the “European Labour Market”

2006 in the EU nearly 4 million new jobs were created and unemployment has reached the lowest levels in years (8.2%) (Commission Draft of the Joint Employment Report 2007/8: 4). Part of this is cyclical but there are good reasons to believe that the European Employment Strategy is showing results and that structural reforms are starting to pay off. Unfortunately, youth unemployment continues and structural unemployment still remains too high. More needs to be done within comprehensive flexicurity approaches to improve the functioning of “European labour markets” and to facilitate transitions with the aim of eliminating barriers to employment. Labour market segmentation remains a significant problem in many Member States. Europe must continue labour market reforms for more and better jobs (Commission Draft of the Joint Employment Report 2007/8: 3). Overall employment rate was 2006 64.3% (Commission Draft of the Joint Employment Report 2007/8: 4). But despite the positive performance in 2006 Europe remains short of the 2010 employment targets.

In-work poverty affects 8% of workers in the EU (Commission Draft of the Joint Employment Report 2007/8: 6). Gender pay gap in the EU is 15% (Commission Draft of the Joint Employment Report 2007/8: 8). 14.1% of workers have temporary contracts and 18.1% work in part time (Commission Draft of the Joint Employment Report 2007/8: 11).

9.2. European Employment Policy

European employment policy is not a new policy area. It was already in the early years of the EU on the agenda, first only as a sub-topic, later on as an own and currently as one of the main topics. It was a long process, which I want to sum up in a very short way, to show, that it is becoming more and more important.

First of all: There is no where in the Treaty the goal of full employment. The Treaty is more realistically and is using the words of „high level of employment“ (Art. 2, Art. 127 Abs. 1 and 2, Art. 136 Abs. 1 EGV) (Steinle 2001: 36). But it is interesting to see that we find the goal of full employment in the Employment Guidelines.

Unemployment in the EU is mainly structural unemployment. Growth policy measures are often seen as the main measures in employment policy.

Employment and labour market policies did not get very much attention in the beginning of the European Union. In the Treaty it was only mentioned as an area of co-operation between the Member States in social questions (Art. 118 EWGV). But a high level of employment was also a goal of economic policy that Member States had to consider (Art. 104 EWGV). Responsible and cognisant were the Member States itself. The European Union started as an economical union so employment and labour policies were just a part of it. More important it was seen to remove obstacles for mobility to create a European labour market and to be competitive. Therefore the freedom of movement was very important. This guaranteed the employees of Member States the free access without any discrimination to the labour market of other Member States. Besides the SEDOC system (European system for the international clearing of vacancies and applications for employment) was introduced, which was replaced 1993 by EURES (European Employment Services). 1970 the StAB was introduced, which has the main task to encourage a convergence of the national employment policy. Unfortunately the StAB never works satisfactory, but finally in 1999 it was reformed completely.

As said before, in the beginning of the EU employment policy was only a little part and did not get much attention. But with increasing of unemployment rate in the 70s, the necessarily to hold a high level of employment becomes more and more important (Steinle 2001: 101).

In 1972 for the first time ever, the idea of a “social union” was born at the summit conference in Paris. Up to today this is seen as the birth of European social- and employment policy (Steinle 2001:102). Another reason for this “birth” was that it was that one tried to prevent that Member States go in different directions in difficult times and create contradictory measures. This would lead to more disequilibrium, which was of course not wanted. So a European social- and employment policy was seen as a possible solution.

More and more measures, laws and guidelines were created. Also new organisations were created, like for example the CEDEFOP (European Centre for the Development of Vocational Training). In general many of these measures strengthen the rights of the employees. But as in the years before, main priority was to create equal competitive conditions at the common market (Steinle 2001: 105).

Also in the following years more and more measures were done in European employment policy. Important here is, that even if many guidelines and so on came from the EU, the EU only tries to coordinate – the responsibility for employment policy stays at the national level. Up to today Member States are very careful by transferring responsibilities in employment policy at European level.

Another import step was the establishment of the free movement of workers. Politicians hope to create two Mio. additional working places (Steinle 2001: 109).

Besides one starts with special measures for problem groups at the labour market – women, young and old people, handicapped persons and people of an ethnic minority/ethnic background (for example the initiative ADAPT, with special programmes for each of this problem groups) (Steinle 2001: 127).

The Community Charta of fundamental social rights for workers of 1989 should remove the missing social dimension of the domestic market and wants an adequate reunification of workers. The Charta includes only not binding targets but can be used in front of the EuGH as a guideline (Steinle 2001: 113).

In the Treaty of Maastricht (1993) it was the first time “*a high level of employment*” as a goal mentioned and additional an extra “*Sozialabkommen*” was written down (again without Great Britain). Here the area of reunification was explicit out of the responsibility of the EU but on the level of nation states (Art. 2 Abs. 6) (Steinle 2001: 116). Unfortunately one has to say that the “*Sozialabkommen*” has only little practical meaning, but it was a new and further try for a European co-ordinated employment policy. Furthermore the “*Essener Strategie*” (1994) is to mention, which was a common employment strategy with five key areas (training, decreasing

of labour costs special measures for problem groups at the labour market etc.), which came in modified kind into the Treaty of Amsterdam (Steinle 2001: 121).

In 1995 the European Commission still thought that a European harmonisation of social policy is not necessary. But they found that concrete goal setting would be a good idea. Creating new working places was the main priority.

1996 the posting of workers directive (Directive 96/71/EG) came into force. Already 1996 it should have given a protection against wage dumping. If one was working for more than one month in another country one had to work under the condition of this country and no longer under the condition of the home country.

Besides the Employment Title in the Amsterdam Treaty established employment policy as a joint responsibility of the Member States. With the Treaty of Amsterdam, a new area was born. The already mentioned “Essener Strategie” was included into the Treaty. But there were many discussions about the Treaty. Especially France, Germany and Great Britain had problems with the extra regulations in the area of employment. The British Prime Minister Major wanted more deregulation and strengthen of the competitiveness as goals for the EU, as well as more flexibility and less bureaucracy, which hinders entrepreneurship. Germany supports Great Britain and also fears high costs because of this extra regulations. But even if there was this resistance, in one thing there was a consensus among all Member States: that employment policy should stay in the responsibility of the Member States and the EU is just coordinating (Steinle 2001: 145). After the change of government in Great Britain 1997, were Blair became Prime Minister (he introduced the NMWW in Great Britain in 1999), Great Britain does no longer blockade the Treaty changes, even if for Blair also competition and deregulation were very important. So the Treaty of Amsterdam came into force.

In the year 2000, OMC were established, which already is explained in chapter 4.

In 2006 the European Parliament passed the “service” directive in order to create a real internal service market by 2010 (2006/123/EC). One very important point of this directive is that there is no longer the country of origin principle. This means that now the law of the country in question applies, for example services done in Germany follows the German law and therefore also the payment. On the other hand the directive does not include a coverage for low wages of foreign companies which can come into the German market now. But this is a problem which occurs in Germany and not in the whole of EU. Other countries, like Sweden and Italy have regulations which covers the employees for low wages of foreign companies (Kleiner/Felsterl 2006).

In 2007, PROGRESS were established to support the OMC. This was done because for Europe it is important that all European citizens play an active part in the community. This is important for the citizens to get closer to Europe and do no longer see it as an abstract thing which has nothing to do with them.

As one can see, there were already many things done at the European level in the area of employment policy, and I only mentioned a few measurements. But it shows that employment policy at European level is nothing new and is a stable point in European policy. Nevertheless it was always more a communication topic – responsibilities stayed at the national level. Steinle identified European employment policy as “*not binding European coordinated national employment policy*” (Steinle 2001: 129). Besides it is very unclear because of many responsible institutions and common activities at the national and European level. Nevertheless, a huge number of regulations, laws and directives do exist at the European level.

9.3. Development of the Idea of a European Minimum Wage

As we have seen European employment policy already has a long history. Nevertheless if I am talking about the “European labour market” I put it in brackets because up to today there is no real “European labour market”. We are still on the way.

As most other elements of labour market and industrial relations regulation, minimum wages in EU Member States were established at the national level. Some other aspects have more recently been subject from regulations from the European level: For example National working time regimes have to fit under the framework of the Working Time Directive, or other areas which belongs to the Open Method of Coordination. But a minimum wage is - so far – established at national level. The question is what justifications are there for European involvement and what form might it take? The next chapters will give an overview about the idea of a European minimum wage, how it developed, and how it could be established.

As already mentioned the right of a fair wage is included in many agreements. One formal basis for a European minimum wage policy could be the Community Charter of the Fundamental Social Rights of Workers (1989) which states that “*all employment shall be fairly remunerated*”. The EU states are required to ensure that “*in accordance with arrangements applying in each country workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living.*” (Title 1 paragraph 5).

In order to translate the right to a fair wage into practice, in the beginning of 1990s the European Commission and the European Parliament put forward a series of proposals which favoured a minimum wage policy, coordinated at EU level. In 1993, a report from the European Parliament’s Social Affairs Committee encouraged all Member States to introduce mechanisms to establish a minimum wage in line with the national average wage (Schulten/Watt 2007: 6). Besides in 1990 the European Trade Union Confederation (ETUC) Executive Committee Resolution demanded that “*every worker must have the right to a guaranteed minimum wage which is underpinned either by legislation or by collective agreement*”. Furthermore the resolution continued “*this principle must be the subject of Community legislation*” (Schulten/Watt 2007: 6). In 1993 the European Commission published a report, in which the Commission call upon the Member States to take adequate measures to coverage the right of an adequate wage. This was done because one noticed that the increasing low wage sector becomes a problem for the whole EU (Schulten 2007).

On the other hand, as said before, there were a number of Member States whose explicit aim was **not** to limit, **but** to foster the low- pay sector and the precarious conditions of employment.

In 1993, when the Commission wanted the Member States to take action to cover an adequate remuneration , the European Parliament called for the introduction of a Europe wide minimum wage. But this idea fail on the resistance of the Member States. In the 90’s, the transition to a flexible working market was in coming and the low wage sector started to increase very soon. This development happens in favour of a neoliberal economic policy, which wants a liberalization of the market and the deregulation of labour and social law.

The European Federation of Public Service Unions (EPSU) has started a campaign against low pay in Europe. First steps of this campaign was to circulate low pay policy document to all affiliates, to update and extend information from affiliates on existing initiatives to tackle low pay, to contact anti-poverty groups and MEPs to see if they will support this campaign and to send low pay policy document to ETUC Collective Bargaining Committee and to see if the ETUC will develop a policy on low pay (Schulten/Watt 2007: 6).

But in general, a European minimum wage is not a specific demand of the ETUC. They call more generally for upward harmonisation of living standards and greater social cohesion.

Nevertheless the idea of a European minimum wage is also currently very much discussed at the ETUC.

Against the background of an increasing low-wage sector, the liberalization of the service market pushed through by the EU and wage competition resulting both from the rise of low-wage economics such as China and labour migration within the EU, the demand for a European minimum wage policy has been taken up again. Besides the EU eastern enlargement had the consequence that the wage differentials were increasing. National tariff system came more and more under pressure.

In 2006 the European Parliament passed the “service” directive in order to create a real internal service market by 2010 (2006/123/EC). One very important point of this directive is that there is no longer the country of origin principle. This means that now the law of the country in question applies, for example services done in Germany follows the German law and therefore also the payment. On the other hand the directive does not include a coverage for low wages of foreign companies which can come into the German market now. But this is a problem which occurs in Germany and not in the whole EU. Other countries, like Sweden and Italy have regulations which cover the employees for low wages of foreign companies (Kleiner/Felsterl 2006).

Also in 2006 the Prime Minister of Luxembourg and the President-in office of the European Council, Jean-Claude Juncker, expressed support for a European minimum wage. According to Juncker, this would enshrine that every working person should be entitled to a decent wage. Also the former European Commission President Jacques Delors supported this idea. He wanted to discuss a European minimum wage in the context of the social dialogue. In his view, a minimum wage should be established in every EU Member State in accordance with the current state of development of the country in question (Schulten/Watt 2007: 1).

In January 2007 the German EU Presidency published a concluding document of an informal meeting of the EU Ministers for Employment and Social Affairs according to which “*Member States and the social partners are called upon to ensure that wages are set in a fair and adequate manner*” (Schulten/Watt 2007: 1).

Behind this initiatives lies more or less the search for political projects that could help to reverse the increasing loss of trust and legitimacy in the EU among growing sections of European labour. A minimum wage which guarantee every working person a fair and adequate wage should support the idea of a social Europe. Today more than 15 % of all employees in the old EU work in the low-paid sector (Schulten/Watt 2007: 1). There is a widespread perception that the EU is doing to little in this section. Now the European trade unions are called upon to enter the current debate again and to come up with their own proposals for ways to implement the idea of a European minimum wage policy.

9.4. A Possible European Minimum Wage

In general terms regulation has tend to be at the level of the nation state because historically that was the main boundary of the market. Economic integration since the establishment of the EEC in 1957 has led to an increasing need to regulate at the new “boundary” of the market, i.e. the European level. This includes to facilitate the movement of factors of production within the market and also to prevent factor mobility from undermining national regulation. This would justify harmonised regulations and, at least, European minimum standards. But does this apply to the minimum wage? According to Schulten/Watt (2007: 4) it does, at least to a limited extent. There is a single “European labour market” and the principle of the free movement of labour applies between the Member States. The extent of actual migration is still quantitatively limited but is expected to increase. There is a dispute about whether the pay and other conditions in the country of origin, or the country in which the work is performed should apply. Generally, countries facing unemployment but lacking the means to create additional demand using monetary or fiscal policy and have an incentive to depress wage increases below the rate of productivity growth. One way for a country to do this can be to put a brake on the rate of increase of the national minimum wage, and/or to introduce policies that put pressure on the unions and workers at the bottom of the labour market. Such a strategy cannot be desirable from a European perspective; and also economically it is at best a zero-sum game. European coordination of national minimum wages around an agreed norm would be one way to avoid a potential “race to the bottom” or beggar-the-neighbour approach in this area.

There are evidence that national minimum wage systems are coming under competitive pressure. In some countries (like Great Britain) recent increases in the minimum wage were clearly a political reaction to widespread concern and indeed anger about the widening gap between to lowest-paid and those on average earnings.

All in all it seems that the national minimum wage could usefully be considered – in economic terms – a matter of common concern at EU level, also considering the Open Method of Coordination.

According to Schulten/Watt (2007: 5) a European minimum wage can be seen as a political “*quid pro quo*” for public acceptance of open markets, the free movement of labour and economic integration more generally, which do hit specific occupational groups, and typically the low-skilled and low-paid. A European minimum wage framework can be sold as a sign of European solidarity with those struggling to cope with the pressures of globalisation and Europeanisation.

But what should a European minimum wage look like and how to implement it? It is important to note that, concerning a European minimum wage policy, it is not the aim to achieve a single European minimum wage in absolute terms, but a Europe-wide standard that would define criteria for a NMW level in relation to each country’s economic potential and performance. This could mean, for example, that all countries of the EU should gradually raise their minimum wage to a level corresponding in the first instance to 50%, and subsequently rising to 60% of the national average wage (Schulten/Watt 2007: 7).

For the implementation of a European minimum wage policy it would be possible to combine two strategic approaches. One possible approach could be the Open Method of Coordination (OMC). Here specific goals and deadlines are set at European level which can then be implemented in the national frameworks. Depending on national tradition it is possible to use statutory minimum wages, generally binding collective agreements or a combination of both. The European level would do a comprehensive monitoring of the national minimum wage policies and wage outcomes.

Member States could reach the goal in their own framework and within their own institutions but all have to come up with the same result – a minimum wage of 50% or 60% of the national average wage - in the end. A problem here could be that the OMC is very “open” and that there are no sanctions if one country does not fulfil the goal. On the other hand because of the resistance of some Member States and the delicate topic of wage policy it would be the

best to let the Member States their own way and time to implement the minimum wage. By doing so Member States do not have to change their different mechanism of minimum wage so it will be easier for them to reach a European minimum wage. Besides the EU is able to control the implementation of the minimum wage. Additional to the “soft” pressure of the OMC, peer pressure from the Member States might be “hard” enough to force Member States without or with a low minimum wage, to adapt to the European standard.

The second approach would be to make minimum wages a part of European Trade Union policy towards a coordination of collective bargaining. Here the European unions could set their own targets regarding the lowest collectively agreed wages and could - if wanted/needed organise campaign against low pay, as the EPSU is already doing (Schulten/Watt 2007: 8). A problem here could be that the European trade union are not very strong and influential at the national level. They are also bad coordinated.

Both approaches are not perfect but as always there is no silver bullet. In my point of view, a combination of both approaches would be the best. The OMC let the Member States enough freedom to choose their own ways to reach a European minimum wage. One point which makes the OMC something special is the involvement of social partners. So the European trade unions are in a way already included and play also an important part in the introduction of a European minimum wage. If they coordinate each other more intensive and also with the national peak unions they can have more influence on the introduction and put it forward.

Besides an independent Commission, responsible for all matters concerning NMW like the British *Low Pay Commission* would be needed at the European level. Members should come from different Member States, with economic and non-economic background and some scientists. There should be a special Ombudsman only for matters concerning wages, were employees could claim or/and inform themselves about the minimum wage. In Great Britain, *Low Pay Commission* is responsible to control if the NMW is paid, but I think the “Minimum Wage Commission” on a European level is not able to do this. Therefore, control of the minimum wage should be the responsibility of Member States. Also every Member State needs to have its own institution were citizens can complain or inform themselves. The already named European Ombudsman is the one who coordinate the different claims and needs of the employees.

Coming back to the theoretical background. If we remember the convergence and divergence theory, a European minimum wage would of course lead to more convergence. It would show, that under the influence of common demographic, economic and technical development as well as similar social, political and financial problems, Welfare States become more and more similar. But if we look at the resistance of some Member States (not only in case of European minimum wage) against EU regulations, divergence theory seems to be right – Member States want to hold their diversity. In my opinion, main problem here is that it would be kind of forced convergence and not convergence that come “on its own”.

As we already know, it is easier to learn from small countries because most of the time they have good working networks. It is also easier to learn from a country which has a similar Welfare State system because then it is easier to adapt a new program into the own system without changing the whole system. Besides it is important to have a closer look at which kind and level the transfer should happen – does it affects broad political discourses and role models or does it affects single instruments? This is from central meaning, as well as the differentiation between global problem definitions and solution strategies and specific programmes and instruments. We already get an overview in table 1.

Table 1: Possibilities and borders of transfer of successful politics

Content of politics	Similar conditions	Different conditions
Global Problem definition and solution strategies	(1) Possibility of transfer and learning is high	(2) deficit of consensus
Specific programmes and instruments	(4) deficit of efficiency (technical compatibility problems)	(3) chance of a diffusion is low

(Source: Schmid 1999: 10)

To explain it once again: Field (1) and (3) are clear, but in the main cases, field (2) and (4) more problems occurs. In these cases, the compatibility have to be increased – either technical or in the political – institutional area. If one for example want to transfer the model of part-time work, the social right conditions needs to be renewed, for example through a collective bargaining agreement to secure the low wage earners (minimum wages would be one possibility) – Field (4) (Schmid 1999: 10). But here it is possible to learn from other, similar countries to find a solution. Field (2) is more complicated. Here we find only slow and non-controllable changes of the institutions and the political culture, which makes it hard to lead to an change of policy (Schmid 1999: 10).

What does this mean for a European minimum wage? At the EU level we find only slow and non-controllable changes of the institutions, as well as in the Member States. Besides, Member States are very different and have different conditions and situations in their countries. So for a European minimum wage, we will not only have the problem of finding a consensus, but we might also have technical compatibility problems.

If one consider all this, one can come to the conclusion, that a EU minimum wage is impossible – theoretically. Practical I think it is possible: Of course we will have the problem of consensus finding and difficulties because of different conditions between the Member States. But as we take the Lisbon Agenda: Here Member States were also able to agree on special numbers concerning employment rate for example. Sooner or later, Member States will be also able to agree on a common level for a EU minimum wage, especially if they are free to choose their own way (OMC) and if they agree on a long-term-period. If all countries will reach this level is another question.

9.5. Conclusion

To sum up: European employment policy exist already for a long time and becomes more and more important during the years. Especially because of the high unemployment rate in the 70s and the enlargement of the EU a common employment policy was on the agenda and stays there up to today. A very important point for the European employment policy was the establishment of the OMC. With it, Member States are lead to co-ordinate national employment policies and to learn from each other.

As we also saw the idea of a European minimum wage is not a new idea and came up already in the 90s. The European Commission, the European Parliament and European trade unions called for it. To that time, the idea failed. But economic situation at national and EU level changed during the years and wages become more and more under pressure because of the rise of low wage economics like China, weak unions, high unemployment and an increasing low wage sector. Besides the EU enlargement (especially the EU east enlargement in 2004) put the wages in the EU under pressure. This is especially true for Germany, but also for all other countries. The bad economic situation lead to the debate about social protection. Today the EU is no longer only an economic community, but also a social one. The EU itself wants to be social and to create equality for EU citizens. Like every regulation and idea – even if they are good – it is difficult to reach them. All Member States have to support it, and of

course each wants it another way. But little by little, Member States come closer and at the same time EU becomes stronger, so even for Member States who do not support a special idea find it hard to avoid it. The same will be true for a European minimum wage. As said before, discussion about it went already for a long time, and a European minimum wage will not come next year. But during this discussion, many involved actors changed their opinion and more and more sees the need for a more social Europe and therefore for a European minimum wage, even if they find it hard to say it.

A European minimum wage of 50% or 60% of the national average wage could be a possibility to solve the pressure of the wages. Unfortunately, if one look at the theoretical background, a EU minimum wage seems to be impossible. There are many obstacles on the way. Nevertheless it can be possible, as pointed out above. The OMC for example could be a possible instrument to introduce it, involving all actors and giving the Member States room to implement it the way which is the best for each country. With a European minimum wage, EU would come closer to be a real social Europe.

10. Conclusion

The EU has a main role to play in building a social Europe. To achieve this, it can:

- Adopt legislation – The EU can set minimum standards in labour law, working conditions, health and safety, non-discrimination and gender equality to ensure individuals throughout the EU enjoy a common level of protection.
- Agree with Member States common EU objectives to create jobs, combat unemployment, discrimination and poverty, supervise how they converge towards these objectives against commonly agreed indicators and benchmarks, and foster the transfer of best practice.
- Provide additional financial support for employment and inclusion policies through, for example, the European Social Fund (ESF) and other interventions.
- Facilitate cooperation and dialogue with key actors, including social partners and organisations representing civil society.

Against the background of an increasing low-wage sector, the liberalization of the service market pushed through by the EU and wage competition resulting both from the rise of low-wage economics such as China and labour migration within the EU, the demand for a European minimum wage policy has been taken up again.

The effect of a NMW is still a discussion point. Supporters of NMW underline the positive effects for the labour market while opponents warn for negative effects or argue that a NMW would have no effect. But opinions can change over time. In 1990, 63% of the US-economic professors thought a NMW would increase the unemployment rate for the youth. In 2000, only 46% had this opinion (Schulten 2006: 20).

Even some of the German Christian Democrats start slowly to change their opinion about a NMW, even if they do not like to say it loud (Sievers, 2007b).

But approximately four fifth of all German economist are against a NMW (Interview Joachim Müller 2007).

The scientist are also discussing about the effect of NMW. David Card and Alan B. Krueger for example, said 1995 that there is no systematically connection between NMW and employment (Schulten 2006: 20).

Also other studies about NMW came to this conclusion. But NMW can have – depending on the economic situation and depending on the industry – different effects – but macroeconomically the negative effect is very small (Schulten 2006: 21). Besides it seems like the NMW is an effective instrument to combat wage discrimination by women and ethical minorities. But one have to say that as an instrument to combat poverty a minimum wage is not really effective because it is of course concentrate on workers.

It is important to know that a NMW has nearly no negative effects on the employment and if, they are only temporary. So far countries with a NMW have made only positive experiences with it.

But even if one think that Great Britain has such a good NMW system it becomes also clear, that in reality the NMW does not fulfil the requirement of a fair and adequate wage as it is wanted, because it is only 36.7% of the national average wage. This is also true if one look at the number of low wage earners in Great Britain, which is 21.7% (in Germany, number of low wage earner is 22%!). So even the role model Great Britain is not perfect and not ready for a European minimum wage. But nevertheless, conditions in Great Britain are better than for example in Germany, because the basic already exist. Very important is also the fact, that the NMW in Great Britain is already accepted by the industry and the population. So, even if it is not perfect, it is still much more prepared for a European minimum wage than Germany.

But from this example we can also come to the conclusion, that a European minimum wage has to be at least 50% of the national average wage – much more better and effective would be 60%. Discussions about a minimum wage which is less than this, are useless because such

a minimum wage would have no effect or maybe a negative effect because wages will decrease to that level.

But one also has to say that the implementation of a minimum wage is always something new with unknown reactions. To make sure that it is accepted and most effective one has to consider different things as it is point out in the paper. Besides it is wise to start at a low level and increase the minimum wage afterwards step by step as it was done in Great Britain. This would be important to note for countries which do not have a NMW so far. For a European minimum wage would say it is not needed if Member States are flexible enough to introduce it step by step by themselves.

But as also pointed out in the beginning of the paper, it will not be easy to introduce it. According to the divergence theory, Member States want to hold their diversity, even if they are confronted with similar problems. But at the same time, Member States become more and more converge. If we have a very close look, concerning a NMW Member States follow the convergence theory because most of them have it. Problem with the European minimum wage is that it is – like all EU regulations – a forced convergence. But looking at the EU and its history: There was always a lot of resistance. Member State do want their diversity in some points. But at the same time, they cannot avoid to become more similar, if they are aware of it or not. So, if a European minimum wage would come, it would be in line with the convergence theory.

But there is also another theoretical (and practical?) obstacle. As Schmidts table (table 1, page 9 and 57) shows, for a European minimum wage all possible difficulties will occur. So for a European minimum wage, we will not only have the problem of finding a consensus, we might also have technical compatibility problems. But as also pointed out, this theoretical obstacles does not mean that a EU minimum wage is impossible. As described in chapter 9.4, OMC for example could be a possible instrument to introduce it, involving all actors and giving the Member States room to implement it the way which is the best for each country.

For many – already named – reasons, situation for the whole EU has changed. One important factor was the step of the economic and monetary union. With this, the Member States lost the control of monetary policy and they have limited their autonomy in fiscal and budgetary policy by the Growth and Stability Pact. The need for adaptability and flexibility in labour market policy and social security systems has therefore increased.

The implementation of a European minimum wage would of course lead to much discussion. But considering the fact that nearly all Member States already have a NMW, it is again not the question of “how”, not “if”. One possible way to do it – and in my point of view the best way – is to use the Open Method of Coordination. By doing so, Member States are still free in the way they want to increase or to introduce the minimum wage so they can set the pace by themselves and can maintain their own mechanism and institutions they already created for their NMW. Most important elements in the voluntary system of governance developing seems to be the exchange of information and communication between relevant parties, including the institutional set-up for facilitating this. Nevertheless in the end every Member State has to come up with the same result – a minimum wage which is equivalent to 50 or 60% of the national average wage. Additional to the “soft” pressure of the OMC, peer pressure from the Member States might be “hard” enough to force Member States without or with a low minimum wage, to adapt to the European standard.

As the convergence theory says, Welfare States are becoming more and more similar, not only in their systems but also in the way they legitimate them. This would make it easier for a European minimum wage to be established.

In my point of view, a European minimum wage (as described above) is needed to solve the increasing inequality of distribution of income and is just a logical consequence: 20 out of 27

EU Member States already have a NMW. In order to create a real Europe and to create equality for workers, a unitary minimum wage is just a logical consequence for me, also within the scope of the free movement of workers. A “European labour market” is created which needs new regulations to protect workers for wage dumping. A European minimum wage can avoid the increasing of “working poor”. There will be no wage, which develops itself free and fair at the labour market and solve unemployment, so public regulations are needed. European integration has reached a phase where the core areas of the Welfare State are directly affected. Aim is to reach a voluntary co-ordination and adaptation of Member State policy. Key word is policy convergence, not harmonisation. Harmonisation of social polices is considered a sensitive matter but would also be difficult, due to the complexity and differences in national welfare systems, so aim is convergence of goals. (Jacobsson 2001: 1). Besides, as also said in this paper, the idea of a European minimum wage is not a new one. Already in the 90s the European Parliament call for it. Now the situation in the EU changed and the labour market is becoming more and more under pressure than it was in the 90s so now it is really time for a Europe wide minimum wage.

This would be in favour of the idea of a social Europe and could lead to more trust of the population in the EU. It also would fulfil the Community Charta of fundamental social rights for workers of 1989 which wants an adequate remuneration of workers. Besides it would reduce the unequal distribution of income and therefore lead to more equality and fair treatment for everybody. Social rights permit people to make ends meet without relying on the labour market. This is a fact which cannot be ignored.

To make it clear: In my opinion a European minimum wage is needed as explained above. But if it will come – and how – is another question. As also mentioned, theoretically there are many obstacles and also practically it would be a big and complex step. As history shows, the call for it exist already since a long time, got lost, and is now coming up again. Even if it get lost again because it seems to hard to implement, this does not change the fact that it would be needed.

Member States do have the main responsibility in employment and social policy. Task of the EU is to solve as a kind of catalyst for changes and modernisations. The EU shall support, accompanies and coordinate governments. This is a main task of the EU and important if Member States have to change and adapt their socio-economic model because of new challenges.

It is in the overall economic environment within which the effects of the NMW on businesses has to be judged.

We still have 20 Million unemployed people in the EU – is this the social Europe we once wanted?

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Annex 1

The Case For and Against the National Minimum Wage

This table shall give a short overview about the main argument for and against a NMW respectively a European Minimum Wage

National Minimum Wage

Pro	Contra
Can create more jobs (see for example Great Britain)	It would lead to job losses, both directly among those paid less than the minimum and indirectly through knock – on effects on the higher paid
A NMW could encourage the efficient use of labour through additional training and productivity measures. Employers would have to compete on the quality not the price of their labour force. Employees would be more committed if they were paid and valued more	It would lead to an erosion of differentials and so to incentives to acquire new skills
A unit NMW solve bureaucracy	It takes no account of the circumstances of individual workers, employers or industries
It would help tackle poverty, reduce dependence on social security and increase Government revenue from tax and national insurance contributions.	Companies needs flexibility in their pay structures
A full time worker should get a fair and adequate wage which provides a basic standard of living	It would not help the poorest groups as most of them are unemployed, retired, disabled or young
It can increase consumer purchasing power through raising the income of low wage workers who spend their income more rapidly in the purchase of goods which are produced by traditional low wage industries	Many of those who benefit would be part – time married women workers or young casual workers (such as students) in relatively well off two earner households
Protection of vulnerable workers from exploitation by employers hoping to undercut competitors	It would increase inflationary pressures as higher labour costs feed through into prices
Low pay often reflects an undervaluation of employees' skills. A NMW would help low – paid women workers, particularly in occupations such as cleaning, catering and caring where their skills are unrecognised and paid below their marginal value	Situations for low qualified workers will get worse
Protect workers against wage dumping	NMW will lead to an increasing of illegal employment
Would increase consumption rate	NMW is too general and ignores special needs for single regions, industries or companies
Labour market does not work like an ideal	NMW is an illegal intervention in the free

Pro	Contra
market – it needs interventions	pricing at labour market
Could help to stabilize the wages, which are becoming more and more under pressure	Labour market needs flexibility
Solve bureaucracy because many occupational groups could be put together in one group	NMW would lead to more bureaucracy
An independent Commission could take care that the NMW is not used as a political argument	NMW could be used as a political instrument during election campaign
NMW could be helpful if unions are weak and/or if there are no collective agreements for single industries	No need for NMW because workers will not work under a wage level which is not enough to live from
International agreements claim for “fair and adequate wages”	If wage is too low, <i>state can help</i>
Unions are becoming more and more under pressure and need support	
It is wrong in principle that a full time worker does not earn enough from his work to provide a reasonable basic standard of living	

European Minimum Wage

Pro	Contra
Wage decide about living standard and is very important for population	Would counteract two central conditions for an employment oriented wage policy in the monetary union: the differentiation of wages and the flexibility of wage structure
Wage differentials are enormous increasing during the last years – rich people get more, poor people get less	Decentral wage systems are necessary to avoid unemployment because cost of labour develop through national and regional differences as well as through qualification- and sectoral differences
A “European Labour Market” should protect its workers against wage dumping	Fear for wage dumping is not necessary
Low wage sector is dramatically increasing	Labour market needs to be flexible
A EU wide minimum wage would create equal competitiveness conditions for all EU Member States	It would undermine international competitiveness
Could solve gender inequality	
Discontentedness in the population is increasing, danger of populist groups coming up – minimum wage may avoid it	
Wages are becoming more and more under pressure – regulations are needed to stop a wage spirale downwards	

Pro	Contra
NMW in single countries is not enough to live from – improvement through a European minimum wage as a support for NMW	
Because it should be just a minimum wage norm, countries will be able to adapt it	
Could support the social component of European policy	
May lead to more trust and public acknowledgement of the population for the EU	
Would be in line with the idea of a social Europe	
Would create more equal competitive conditions at the “European Labour Market” because it would affect all Member States	
Stabilized the income of low income earner and protect for social dumping	
May lead to an increasing consumption rate	

Annex 2

Summary metadata for minimum wage rate

Country (year of introduction)	Minimum wage rate per hour	Age cut – off	Features
Austria			There is no legislated NMW
Belgium (1975)	7.48€	Over 21	The wage is set by bi –national agreements and final agreements are signed in the National Labour Council
Czechia	1.58€		
Denmark			No NMW is mandated legally
Finland			There is no legislated minimum wage, but the law requires all employers to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector
France (1950, 1970 in current form)	8.03€	Over 18	The administrative determined minimum wage is revised whenever the cost – of – living index rises 2%
Germany			So far, there is no legislated or administrative determined minimum wage
Greece (1953, 1970 in current form)	3.86€		Collective agreed rate. The Ministry of Labour routinely ratifies the minimum wage
Hungary (1977, 1992 in current form)	1.32€		The minimum wage is about 42% of the average wage
Ireland (2000)	7.65€	Experienced adult employees over 18	A NMW went into effect on 1. April 2000
Italy			Minimum wages are not set by law but by collective bargaining agreements
Luxembourg (1944)	8.69€	Over 18	The law provides for minimum wage rates that vary according to the worker's age and number of dependants
Netherlands (1968)	7.96€	Over 23	
Poland (1990)	1.35€		The Ministry of Labour, the unions and employers organisations negotiate a revised NMW every 3 months
Portugal (1974)	2.62€	Over 18	The percentage of employees on the minimum wage is 6.2% of total wage earners in 2000. Final decision is made by the National Assembly
Spain	3.78€	Over 18	The rate is updated annually according to government forecasts of inflation.

Country (year of introduction)	Minimum wage rate per hour	Age cut – off	Features
Slovakia	1.00€		
Sweden			There is no NMW
Great Britain (1999)	7.36€	Differentiated by age	

(Source: u.a. OECD 2002: 127-129, Burgess 2003: 443 etc., own contribution)

Annex 3

Country	NMW	NMW in % to the national average wage	Employees affected by the NMW
Ireland	7.65€	60%	2.2% (13.5% Burgess 03)
Spain	3.78€	30%	2.2%
France	8.03€	60%	13.6%
Great Britain	7.36€	36.7%	4%
Hungary	1.32€	42%	
Portugal	2.62€		6.2%
Luxembourg	8.69€		15.5%
Netherlands	7.96€	44%	2.2% (4% Burgess 03)
Germany	7.5€	49.4%	15%

(own contribution)

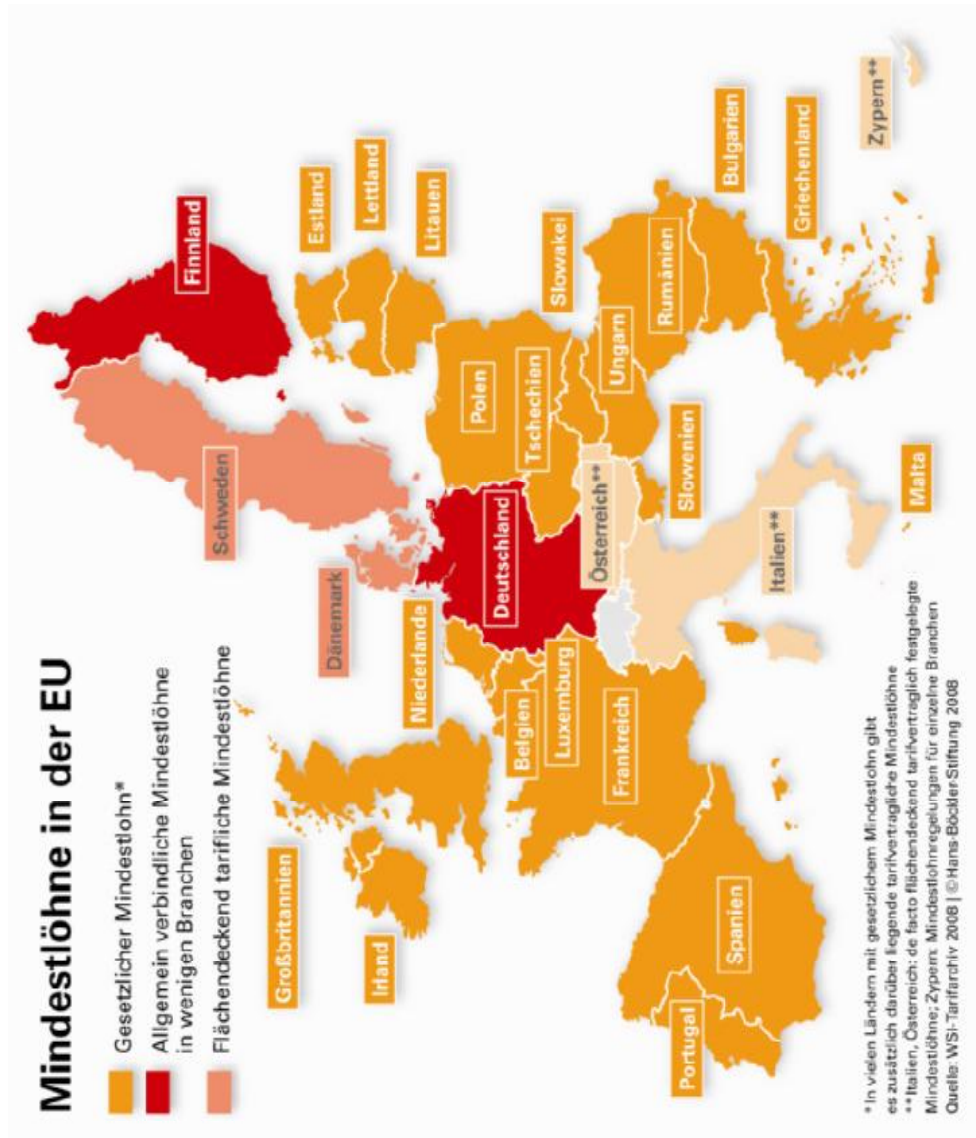
Annex 4

Unemployment rate EU

Country	Unemployed rate 2008, in %
Poland	7.3%
Slovakia	10.5%
Germany	7.3%
France	7.5%
Latvia	5.7%
Spain	10.7%
Belgium	6.8%
Finland	6.3%
Malta	5.8%
Portugal	7.4%
Hungary	7.6%
Lithuania	4.3%
Estonia	4.1%
Cyprus	3.6%
Slovenia	4.2%
Luxembourg	4.1%
Austria	4.1%
Netherlands	2.8%
Denmark	2.6%
Ireland	5.7%
Greece	7.8%
Romania	6.0%
Bulgaria	5.7%
Great Britain	5.1%
Italy	6.5%
Czech Republic	4.3%
Sweden	5.1%
EU 27	6.8%

(Source: eurostat 2008: euroindikatoren, 31. July 2008, numbers seasonally adjusted)

Annex 5



Annex 6

Development of employment in Great Britain after the introduction of the NMW (1999-2006)

Security	+23.4%
Hair dressers	+14.3%
Social services	+ 13.2%
Hotel and catering	+12%
Retail	+11.6%
Laundry	-0.2%
Agriculture	-24.7%
Textil industry	-58.5%

Low wage sector total	+6.1%
Total economic	+7.1%

(Source: Bundesministerium für Arbeit und Soziales, April 2008, own contribution)