

THE MINIMUM WAGE AND ITS DEVELOPMENT IN THE MEMBER STATES OF THE EUROPEAN UNION

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Abstract. The minimum wage is a traditional instrument of economic policy which generate contradictory reactions. All Member States of the European Union have introduced some wage thresholds and most of them use the statutory minimum wage. The development of the minimum wage is very often affected by the state of the labour market. The main aims of this article is to analyse the differences in development of the minimum wage before and during the economic crises which hit the European countries. In this respect, the development of the nominal minimum wage in the period 2005-2013 is considered. The key factor which effects purchasing power of people on the minimum wage is the development of the price level. The development of the real minimum wage in these two time periods is compared. According to established opinions the minimum wage has a negative impact on employment. The influence of the minimum wage on unemployment in the European Union is analysed in the last part of the article.

JEL classification: J31, J64.

Keywords: European Union, labour market, minimum wage, economic crises, unemployment.

Reikšminiai žodžiai: Europos Sąjunga, darbo rinka, minimalus darbo užmokestis, ekonominė krizė, nedarbas.

Introduction

The minimum wage is a traditional instrument of economic policy and its origin can be found at the end of the 19th century in Australia. During the 20th century the minimum wage had spread throughout the world. At present, each Member State of the European Union has introduced some system of wage threshold. Twenty out of the twenty-seven Member States of the European Union have established the statutory minimum wage, which covers all sectors of the economy. In the remaining seven states of the European Union, the minimum wage is not in the form of the statutory national mi-

nimum wage, but it is negotiated through collective bargaining (in collective agreements of a higher order).

The European Union has recently undergone an economic recession and some Member States of the European Union remain in that recession. The main aim of this article is to describe the development of the minimum wage in the European Union and analyze the impact that the economic recession has had. Opinions about minimum wage vary. Most frequently there are debates about how the minimum wage influences unemployment. Opponents of the minimum wage argue that it reduces the flexibility of the labor market and an increase in the minimum wage leads to a rise in unemployment. Supporters of the minimum wage, on the other hand, affirm that reasonable wage increases do not have a negative impact on unemployment. They say that a rise in the minimum wage may even lead to employment growth. According to supporters, the right level of the minimum wage motivates the unemployed to seek employment. A considerable amount of world scientific literature is dedicated to the impact of minimum wages on unemployment. A summary of the different opinions may be found, for example, in two books: "Myth and Measurement – The New Economics of the Minimum Wage" by David Card and Allan B Krueger (Card, Krueger 1995) and "Minimum wage" by David Neumark and William L. Wascher (Neumark, Wascher 2008). From the perspective of microeconomic theory, setting a high minimum wage has a negative impact on employment in neoclassical theory conditions. However, if we consider the existence of monopsony in the labor market, the minimum wage may lead to higher employment. Detailed explanations can be found in advanced microeconomics or labor economics textbooks (eg. Borjas 2010). The other aim of this article is to find out whether the minimum wage really has an impact on the unemployment rate in the European Union.

The first part of the article contains analyses of the changes of the minimum wage in the Member States of the European Union since 2005. It examines whether the policies of the governments were different in the period before and during economic recession. The second part of the article analyzes the influence of price development on the minimum wage. The third part contains comparison of the amounts of the minimum wages in purchasing power standards in the European Union. And finally the last part of the article contains graphical and statistical analyses of the impact of the minimum wage on unemployment in the European Union.

The data on the amount of the minimum wage in the European Union is drawn from Eurostat. The data on the share of minimum wage to the median wage, which is used in the last part of the article, is drawn from the OECD because Eurostat does not publish data for the period in question.

1. The nominal minimum wage in national currencies

All Member States of the European Union have introduced some system of wage threshold. Twenty of them have a statutory minimum wage which means that the amount and the conditions under which the minimum wage is paid is set by law or some other legal regulation. The Table 1 contains Member States of the European Union who have currently introduced the statutory minimum wage with the year in which it was introduced.

Table 1. The Member States of the European Union with the statutory minimum wage

Belgium	1975
Bulgaria	1990
Czech Republic	1991
Estonia	1991
Ireland	2000
Greece	1991
Spain	1963
France	1970
Latvia	1991
Lithuania	1990
Luxembourg	1973
Hungary	1991
Malta	1974
Netherlands	1969
Poland	1970
Portugal	1974
Romania	1949
Slovenia	1995
Slovakia	1991
United Kingdom	1999

Source: Eurostat.

The countries that have not established the national statutory minimum wage in the European Union are: Denmark, Finland, Italy, Cyprus, Germany, Austria and Sweden. These are countries where there is a high degree of trade union participation and the percentage of workers who are covered by collective minimum wage agreements is high. For example in the Nordic countries of Denmark, Finland and Sweden trade union organization is around 70%. In the remaining four countries trade union participation is not as high, but there are collectively agreed sectorial or professional minimum wages, which are in some cases mandatory for all employees in a given industry or for a given profession. This paper deals only with European Union countries that have established the statutory minimum wage.

The development of the nominal minimum wage in the Member States of the European Union in the years 2005-2013 is shown in Table 2. This table shows the nominal value of the minimum wage in the national currency in January of each year. The data in Table 2 is more informative, as the absolute value of nominal minimum wages in national currencies in individual years can not be used for international comparisons. The percentages annual changes of the minimum wage, which are shown in Figure 1, have the greater explanatory importance.

Table 2. The minimum wage in the EU in national currency (2005–2013)

	Currency	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	EUR	1 210,00	1 234,00	1 259,00	1 309,60	1 387,50	1 387,50	1 415,24	1 443,54	1 501,82
Bulgaria	BGN	150,00	160,00	180,00	220,00	240,00	240,00	240,00	270,00	310,00
Czech Republic	CM	7 185,00	7 570,00	8 000,00	8 000,00	8 000,00	8 000,00	8 000,00	8 000,00	8 000,00
Estonia	EUR	171,92	191,73	230,08	278,02	278,02	278,02	278,02	290,00	320,00
Ireland	EUR	1 183,00	1 292,85	1 402,70	1 461,85	1 461,85	1 461,85	1 461,85	1 461,85	1 461,85
Greece	EUR	667,68	709,71	730,30	794,02	817,83	862,82	862,82	876,62	683,76
Spain	EUR	598,50	631,05	665,70	700,00	728,00	738,85	748,30	748,30	752,85
France	EUR	1 286,09	1 217,88	1 254,28	1 280,07	1 321,02	1 343,77	1 365,00	1 398,37	1 430,22
Latvia	LVL	80,00	90,00	120,00	160,00	180,00	180,00	200,00	200,00	200,00
Lithuania	LTL	500,00	550,00	600,00	800,00	800,00	800,00	800,00	800,00	1 000,00
Luxembourg	EUR	1 466,77	1 503,42	1 570,28	1 570,28	1 641,74	1 682,76	1 757,56	1 801,49	1 874,19
Hungary	HUF	57 000,00	62 500,00	65 500,00	69 000,00	71 500,00	73 500,00	78 000,00	93 000,00	98 000,00
Malta	EUR	561,53	584,24	601,90	617,21	634,88	659,92	664,95	679,87	697,42
Netherlands	EUR	1 264,80	1 272,60	1 300,80	1 335,00	1 381,20	1 407,60	1 424,40	1 446,60	1 469,40
Poland	PLN	849,00	899,00	936,00	1 126,00	1 276,00	1 317,00	1 386,00	1 500,00	1 600,00
Portugal	EUR	437,15	449,98	470,17	497,00	525,00	554,17	565,83	565,83	565,83
Romania	RON	310,00	330,00	390,00	500,00	600,00	600,00	670,00	700,00	700,00
Slovenia	EUR	490,32	511,60	521,80	538,53	589,19	597,43	748,10	763,06	783,66
Slovakia	EUR	215,76	229,04	252,27	268,87	295,50	307,70	317,00	327,00	337,70
United Kingdom	GBP	800,00	831,00	883,00	911,00	948,00	956,00	978,00	1 004,00	1 020,00

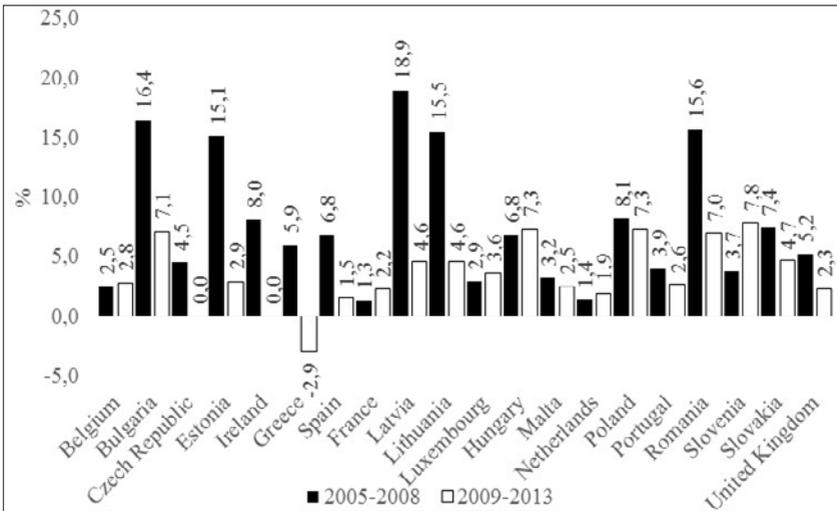
Source: Eurostat (2013).

http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/earnings/database (10.1.2013).

From Tables 2 it is evident that the nominal minimum wage, with two exceptions, did not fall during this time period. One was France, where the nominal minimum wage in 2006 declined, by 5.3%. In fact, in this case there was no real decline in nominal wages, it was only a change in the calculation. There is an hourly minimum wage in France. Eurostat has, since 2006, used 35 working hours per week to calculate the monthly minimum wage instead of 39 working hours. In March 2012 the minimum wage in Greece was reduced by 22% as one of the measures connected with the solution to the debt crises¹. In Ireland from 1 July 2007, the nominal minimum wage was € 8.65 per hour. As a part of the austerity measures the Irish government reduced the nominal minimum wage by one euro to € 7.65 per hour from 1 February 2011. The new government after the elections has decided to return the nominal hourly rate of the minimum wage back to € 8.65 from 1 July 2011.

During the period 2005-2013 the Member States of the European Union went through a business cycle. The relatively rapid growth of the economy was replaced by its fall in 2008 -2009. Figure 1 compares average rates of change of the nominal minimum wage in the period 2005 to 2008 with the period 2009-2013.

Figure 1. The average growth rates of the nominal minimum wage in the period 2005-2008 and 2009-2013



Source: own calculation.

In the period before the crisis, i.e. 2005-2008, monthly nominal minimum wages grew by an average of 7.7%. Higher growth rates were reached by countries of Central and Eastern Europe. The Baltic States, Latvia, Lithuania, Estonia and also Bulgaria and

¹ Table 2 contains amounts of the minimum wage in January for each year.

Romania reached double-digit rates of growth. Conversely fifteen original EU states showed more moderate growth in the period 2005-2008. Yet even in these countries differences could be seen. The higher rates were achieved in the southern states: Greece (5.9%), Spain (6.8%), Portugal (3.9%), Ireland (8.0%) and the UK (5.2%). Lower growth rates of minimum wages were achieved by western countries: France (1.3%), Netherlands (1.4%) and Belgium (2.5%). The economic recession and the associated deterioration in the labour market had an effect on minimum wages. Only six countries had higher average growth rates of the minimum wage in the period 2009-2013 than in the period 2005-2008. France by 0.9 percentage points, Slovenia by 4.1 percentage points, Luxembourg by 0.7 percentage points, Hungary by 0.5 percentage points, Netherlands by 0.5 percentage points and Belgium by 0.3 percentage points. The remaining fourteen countries of the European Union had lower average change of the minimum wage during and after the crisis than before.

Over the last 5 years, the average year change of the monthly nominal minimum wage was only negative in Greece (-2.9 %). This was caused by a decrease initiated by the Greek government in May 2012. Two out of twenty Member States of the European Union have not changed the level of the minimum wage – the Czech Republic and Ireland. Even in the period 2009-2013, there were higher growths of the minimum wage in Central and Eastern Europe. The highest average growth rate over the last four years appeared in Bulgaria, Hungary, Poland, Romania and Slovenia. As is stated below, a partial explanation of this fact may be thanks to the relatively higher inflation rate in these countries.

2. The real minimum wage

When assessing the amount of the minimum wage price levels or inflation should be taken into account. The growth of the nominal minimum wage itself does not mean that its recipient will be able to buy more goods and services. The increase in the real minimum wage can be a source of motivation for some individuals to continue to work or to find work. The real minimum wage is also important from the perspective of companies' costs.

Table 3 contains data about annual average changes of the real minimum wage in the EU Member States with statutory minimum wage. In calculating the real minimum wage, the inflation rate based on the Harmonized Index of Consumer Prices was used. Figure 2 contains a comparison of the annual percentage changes of real minimum wages before crises (2005-2008) and during following period (2009-2012).

Table 4 and Figure 3 show that before the economic crises the real minimum wage growth was, in the most EU countries, higher in comparison with the following period. The real minimum wage decreased in 4 Member States during the first period – in Belgium, France, Luxembourg and Netherlands. But during second period the annual growth rates of the real minimum wage in these countries were positive. These countries of Western Europe have introduced minimum wages during the 60's and 70's of the 20th century and the minimum wage is regularly adjusted, especially as a result of changes in

the price level. Two remaining Western Europe countries, Ireland and United Kingdom, have introduced minimum wages later. The United Kingdom reintroduced the minimum wage in 1999. At this time the Labour Party with Prime Minister Tony Blair pushed for relatively high increases of the minimum wage. The turning point came in 2008 in connection with the economic crises. During period 2008-2012 the real minimum wage decreased four times.

Table 3. The annual changes of the real minimum wage
in the period 2005-2013

	2005	2006	2007	2008	2009	2010	2011	2012
Belgium	-0,5	-0,3	0,2	-0,5	5,9	-2,2	-1,4	-0,6
Bulgaria	17,9	-0,7	4,6	9,1	6,4	-2,9	-3,3	9,9
Czech Republic	5,6	3,2	2,6	-5,9	-0,6	-1,2	-2,1	-3,4
Estonia	4,2	6,8	12,5	9,3	-0,2	-2,6	-4,9	0,1
Ireland	7,9	6,4	5,4	1,1	1,7	1,6	-1,2	-1,9
Greece	2,3	2,9	-0,1	4,3	1,7	0,8	-3,0	0,6
Spain	7,7	1,8	2,6	1,0	4,2	-0,5	-1,8	-2,3
France	3,9	-7,1	1,4	-1,1	3,1	0,0	-0,7	0,2
Latvia	-6,5	5,5	21,1	15,6	8,9	1,2	6,6	-2,2
Lithuania	8,2	6,0	3,1	20,0	-4,0	-1,2	-3,9	-3,1
Luxembourg	0,7	-0,5	1,7	-3,9	4,6	-0,3	0,7	-0,4
Hungary	3,9	5,4	-2,9	-0,6	-0,4	-1,8	2,1	12,8
Malta	0,7	1,4	2,3	-2,1	1,0	1,9	-1,7	-0,9
Netherlands	-1,5	-1,1	0,6	0,4	2,4	1,0	-1,3	-1,2
Poland	0,8	4,5	1,5	15,5	9,0	0,5	1,3	4,4
Portugal	0,5	-0,1	2,0	2,9	6,6	4,1	-1,4	-2,7
Romania	1,5	-0,1	12,7	18,8	13,6	-5,7	5,5	1,0
Slovenia	2,8	1,8	-1,7	-2,2	8,4	-0,7	22,6	-0,8
Slovakia	4,0	1,8	8,1	2,6	8,9	3,4	-1,0	-0,5
United Kingdom	5,5	1,5	3,9	-0,4	1,8	-2,4	-2,1	-0,1

Source: own calculation.

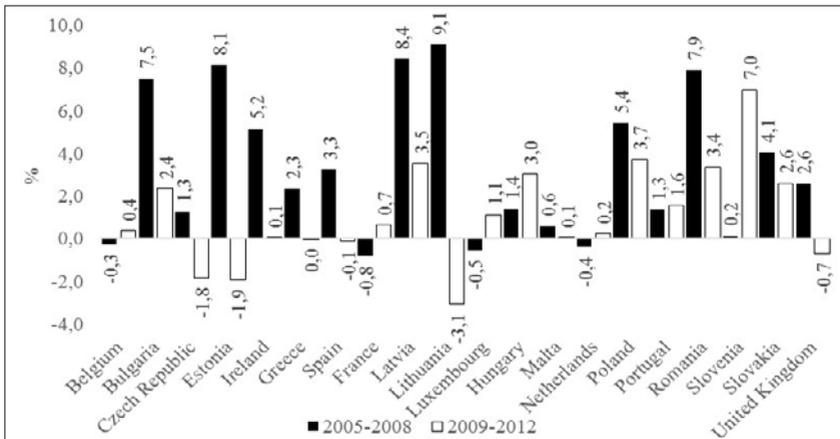
Ireland introduced the minimum wage in 2000. Ireland had a relatively high growth of real GDP at the first years of this century. The situation with the labour market was positive and so the growth of the nominal and real minimum wage rates were relatively high. But Ireland was strongly hit by the economic crises and the situation with the labour market deteriorated significantly. The nominal minimum wage has not changed since 2008² but thanks to deflation in 2009-2010 there was a positive real growth of the minimum wage in Ireland in these years. In the southern European countries: Portugal, Greece and Spain, the real growth of the minimum wage was higher than in

² However, the nominal minimum wage was temporally reduced in 2007.

Western European countries during the first period. After 2008 there was a reduction in the growth rate of the real minimum wage in these countries.

With some exceptions, in the countries of the Central and Eastern Europe the real minimum wage increased quite quickly during first time period. The growth in the nominal minimum wage was higher than the growth in the price level, so the real minimum wage increased. The slower growth in the nominal minimum wage after 2008 resulted in the slower growth or even decrease of the real minimum wage in these countries. Slovenia and Hungary were exceptions, where the average growths of real minimum wage were significantly higher after 2008 in comparison to the previous period. In Slovenia it was thanks to new legislation on the minimum wage.

Figure 2. The average growth rates of the real minimum wage in the period 2005-2008 and 2009-2012



Source: own calculation.

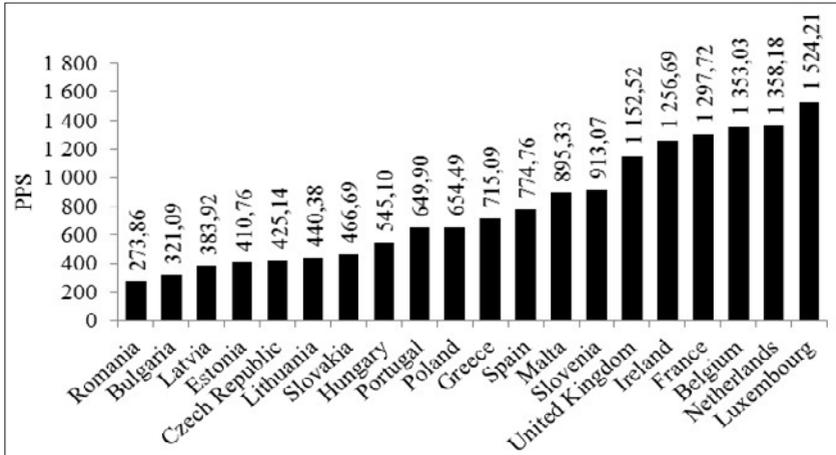
During 2005-2008 only four countries, Belgium, France, Luxembourg and Netherlands, had negative average growth rate of the real minimum wage. During 2009-2012 five countries, the Czech Republic, Estonia, Spain, Lithuania and the United Kingdom, had negative average growth rate of the real minimum wage.

3. The minimum wage in purchasing power standards

For international comparison, the minimum wage could be expressed in purchasing power standards or in euros. In this paper purchasing power standards (PPS) are used. The analysis of minimum wages in the European Union in euros can be found in the article “The minimum wage in the European Union and the impact of recent economic recession on its development“(Pavelka, 2012). Figure 3 contains data about the minimum wages in purchasing power standards in the European Union in 2013.

According to the minimum wage in purchasing power standards in 2013, the EU Member States can be divided into 3 groups. The first group with the highest nominal minimum wage includes countries whose minimum monthly nominal wages exceeded 1 000 PPS. They are the countries of Western Europe: United Kingdom, Ireland, France, Belgium, Netherlands and Luxembourg.

Figure 3. The minimum wage in the European Union in PPS in 2013



Source: Eurostat (2013), own construction, estimated value.

http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/earnings/database (20.1.2013).

The second group consists of countries whose minimum wage in 2013 ranged between 400-1 000 PPS. This group can be divided into two subgroups. The first subgroup consists of countries of Southern Europe: Portugal, Spain, Malta, Greece and Slovenia too. The second subgroup is formed by countries of Central Europe: Czech Republic, Slovakia, Hungary and Poland. The Czech Republic slightly deteriorated in the rankings of countries in the given period. The main reason was a lack of increase in the minimum monthly nominal wages in the last five years. Due to the rapid increase of the nominal minimum wage in Lithuania in 2013 (by 25 %) this state can also be included into this group.

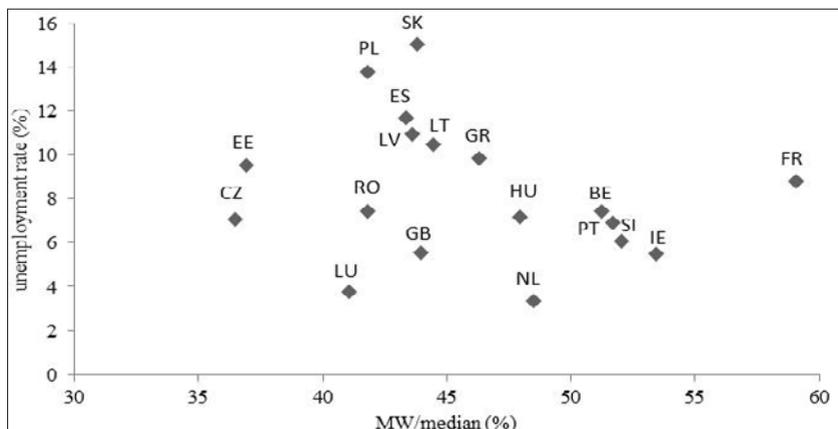
The third and last group is formed by countries with low monthly nominal minimum wages, which were below 400 PPS. In this group of countries, two Baltic States – Estonia and Latvia – belong besides Romania and Bulgaria.

4. The minimum wage and unemployment

In this part of the article graphical and statistical analysis of the relationship of the minimum wage and the unemployment rate are made. The analysis covers the period

2000-2010 and compares data about the share of minimum wage to the median wage where data is available. Generally, it is assumed that the higher the ratios of the minimum wage to the wage median, the higher the unemployment rate.

Figure 4. The unemployment rate and ratio of the minimum wage to the wage median in the European Union



Source: own construction and own calculation from OECD (2010), „Earnings: Minimum wages relative to median wages“, OECD Employment and Labour Market Statistics, <http://www.oecd.org/> (10.9.2012).

On the vertical axis of Figure 4 is the average unemployment rate for the period 2000-2010. On the horizontal axis is the average share of minimum wage to the wage median for the same period. From Figure 4 it is obvious that there will be no strong relationship between the proportion of minimum wage to the wage median and the unemployment rate. A simple regression analysis confirms this conclusion. The relationship between the proportion of minimum wage to the wage median and the unemployment rate is very weak and statistically insignificant.

Besides the simple regression analysis of the relationship which used averages of both variables in 10 years, panel data can be used to carry out further investigations. The result of this analysis is presented in Table 4.

Table 4. The influence of share of the minimum wage to the wage median on unemployment

Dependent Variable: UN?

Method: Pooled Least Squares

Date: 09/04/12 Time: 10:55

Sample (adjusted): 2001 2010

Included observations: 10 after adjustments Cross-sections included: 17

Total pool (balanced) observations: 170
 Convergence achieved after 5 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MM?	0.206842	0.024915	8.302024	0.0000
AR(1)	0.895830	0.030947	28.94682	0.0000
R-squared	0.811247	Mean dependent var		8.774706
Adjusted R-squared	0.810123	S.D. dependent var		4.223897
S.E. of regression	1.840557	Akaike info criterion		4.069708
Sum squared resid	569.1251	Schwarz criterion		4.106600
Log likelihood	-343.9252	F-statistic		722.0512
Durbin-Watson stat	1.222954	Prob(F-statistic)		0.000000

Source: own calculation.

The analysis was based on data from 17 Member States of the European Union for the period 2000-2010. For all countries the unemployment rates and the ratios of the minimum wages to the wages medians are used. The data are stationary. The low number of data can affect the quality of the outcome of the model. An autoregressive lag (AR 1) is used.

A simple static model can be written by the equation:

$$u_{it} - c_{it} + \alpha mm_{it} + \beta u_{it-1}$$

where:

u – is the unemployment rate

c – is a fixed constant that is statistically insignificant and therefore is excluded from the model

mm – is the share of minimum wage to wage median

The data in Table 4 shows that when the proportion of minimum wage to the median increases by a unit, the unemployment rate will rise by 0.2 percentage points. This confirms that the increase in the minimum wage (in this case, faster than the growth of the average wages) may have some impact on the unemployment rate. However, this effect nevertheless seems small.

Conclusion

The minimum wage is an economic policy tool whose use often evokes different opinions. Among economists there is established opinion that a high minimum wage leads to a rise in unemployment. But it is obvious that not every increase of the minimum wage must necessarily lead to a rise in unemployment. The proper level of the minimum wage can motivate people to seek employment. This can reduce unemployment.

The analysis shows that the rate of increase in the nominal minimum wages in the European Union were higher in the pre-crisis period. In a time of economic crisis, mini-

imum wages grew more slowly, and some governments even froze the minimum wages for several years. The member states of Central and Eastern Europe in the period had a higher growth of the minimum wage than the fifteen original EU member states.

The development of the price levels had significant impact on the purchasing power of the minimum wage. Generally speaking, the real growth of the minimum wage was higher during pre-crisis period in comparison with the following years. After 2008 the decreases in the real minimum wage were common. Thanks to deflation the growth of the real minimum wage was higher than the growth of the nominal minimum wage in some countries.

Countries of Western mainland Europe have the highest minimum wages in terms of purchasing power standards. The lowest minimum wages in purchasing power parity can be found in Eastern Europe.

From performed statistical analysis it is evident that the increase in the minimum wage to the wage median, lead to an increase in the unemployment rate. This increase is only moderate. From the above analysis it does not follow that any increase in the minimum wage must necessarily lead to a rise in unemployment. Negative effects of the minimum wage will be significant from a certain level of the share of the minimum wage to the wage median. It should also be noted that the unemployment rate in the period was influenced by many other factors (among others economic crisis). The applied time series is very short, so consequently no strong conclusions can be made on the impact of minimum wages on unemployment.

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MINIMALUS DARBO UŽMOKESTIS IR JO RAIDA ES ŠALYSE NARĖSE

Santrauka. Minimalus darbo užmokestis yra tradicinis ekonominės politikos instrumentas, kuris sukelia nevienareikšmės reakcijas. Visos ES šalys narės yra įsivedusios tam tikras minimalaus darbo užmokesčio ribas ir daugelis iš jų taiko statutinį minimalų darbo užmokesčio lygį. Minimalaus darbo užmokesčio raida labai dažnai priklauso nuo darbo rinkos būklės.

Pagrindinis straipsnio tikslas yra išnagrinėti minimalaus darbo užmokesčio raidos skirtumus iki ir po ekonominės krizės, užklupusios Europos šalis. Šiuo požiūriu pasirinkta nominalaus darbo užmokesčio raidos analizė 2005-2013 m. laikotarpiu. Pagrindiniai veiksniai, veikiantys žmonių, gaunančių minimalų darbo užmokestį, perkamąją galią yra kainų lygio kitimas. Buvo atliktas realaus minimalaus darbo užmokesčio dinamikos iki ir po ekonominės krizės palyginimas ES šalyse narėse. Pagal priimtas ekonomikos teorijas nustatytas minimalus darbo užmokestis neigiamai veikia užimtumą, todėl minimalaus darbo užmokesčio poveikis nedarbui yra analizuojamas antroje straipsnio dalyje.

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