Why trade unions have a problem with the minimum wage and what can be done about it

Swedish and Danish trade unions have been up in arms about a minimum wage proposal making its way through the corridors of Brussels and Strasbourg for a while. They have now enlisted the help of closely allied social democratic MEPs and have managed to force a debate and vote in the European Parliament, thus blocking the swift passage of the minimum wage directive for several months. **Bob Hancké** *examines the debate.*

Trade unions against the minimum wage. Not exactly a slogan that would endear them to the millions of European workers that are paid at or below the minimum wage – which is, in some places, considerably less than a living wage. What's going on here? And what, if anything, can be done about this stalemate?

The state in the labour market

First, the basics. Since the Second World War, and with a few local or sectoral exceptions that date back a bit further, continental Europe (the now-EU) has known two basic wage-setting models. One system revolves around tri-partite arrangements, in which the state often plays a role, either directly through wage interventions, indirectly by setting framework legislation, or through a combination of the two. Usually, that reflects both the weakness of social partners and a desire by governments to intervene more broadly in the economy.

If unions are relatively weak, fragmented, or decentralised, and employers unable to persuade companies to accept industry – or economy-wide wages, then governments step in to make that happen, both for reasons of social justice (a decent wage) and for reasons of macroeconomic management (coordinated wages help keep inflation under control). Anyone with any sense of post-war Europe has not taken long to recognise some of the main examples of this: France, Italy, Spain, and a few other southern European economies.

The other European model revolves around strong socio-economic actors, who negotiate wages and working conditions autonomously, without direct government intervention. In general, wage demands in such systems reflect a balance between securing economic growth (and, thus, employment) and bargaining power (and, thus, higher or lower wages). The first incentivises unions to keep wage growth on average over a few years below or level with productivity growth, while the second pushes wages up. Since the economic turbulence of the 1970s, both systems have been able to produce low inflation, but on the whole, the second system has done so with lower unemployment rates.

Nordic unions are especially protective of their ultra-autonomous collective bargaining model, seeing it as the best guarantee to tie macroeconomic performance to social justice: (close to) full employment means that wages will always face upward pressures; that forces employers to invest heavily in productivity-enhancing capital, which keeps aggregate demand high and, therefore, growth and employment. Thus, a new cycle can begin.

They felt it all slip away

For younger readers, it may come as a surprise to learn that German, Belgian, Austrian and other unions with strong autonomous collective bargaining systems were, until quite recently, equally strongly in favour of keeping the government at bay. Yet slowly but surely, they lost control over the system. Net union density – the proportion of unionised employees in the workforce, excluding non-active members – dropped extensively everywhere: from 35% in 1980 in (West) Germany to 17% in 2018; from almost 70% in Belgium to 50%; and from 52% to 26% in Austria (all data in this post are from the OECD, except data for Belgium 1980).

Collective bargaining coverage – the proportion of salaried workers covered by collectively negotiated wages – fell alongside these trends, from 85% in 1980 Germany to 54% (but stayed stable in the high 90% range in Belgium and Austria, presumably reflecting adjustments in the numerator, whereby non-official jobs, and self-employed workers, including gig workers were eliminated from the calculations. These are also among the first targets of a minimum wage policy, of course).

In one generation, in other words, trade unions saw their grasp on developments in standard labour markets weaken quite a bit. In addition, and as much a part of deliberate policies (such as Schröder's Agenda 2010) as of shifts in the economy (with an increase in international wage competition and non-standard employment), labour markets slowly escaped the neatly organised structures that had prevailed for most of the post-war period. By the start of the post-financial crisis decade, unions in all those countries, once proud proponents of what the Germans call *Tarifautonomie*, were asking for or acquiesced in direct government intervention in wages.

The hidden strengths of weak unions?

In the southern economies, the situation had become more complex in the same period. Union density fell everywhere over the past thirty years, sometimes staggeringly so, but the state-sanctioned wage-setting system secured high (in fact, sometimes very high) coverage rates. France is perhaps the most extreme example: density is estimated at around 7% but coverage rates are above 95%.

Suddenly, it seemed as if the weaker unions in southern Europe produced better results than their much-vaunted northern counterparts – though it is a good idea to keep a pinch of salt ready: unemployment rates remained high in the south, real wages stagnated or fell, and the aggregate income stabilisation function of the welfare state was hollowed out along the way. But for most of those with a job, and for whom unions did not set wages (a large part of the secondary labour market of outsiders), the government minimum wage secured a decent deal.

All of Europe?

A coalition of necessity therefore emerged between southern unions who benefited from government intervention and northern unions for whom this had become an acceptable second-best option. In fact, the northerners could persist in acting like 'real' unions in sectors where they remained strong (even if they were no strangers to concession bargaining – negotiating reduced losses rather than maximising gains – but that was the consequence of the autonomous wage-setting systems: sometimes you win and sometimes you lose). The stage was set for the introduction of the European minimum wage.

This is where the scepticism of the Nordics comes in. Net union density rates in Sweden and Denmark remain high: 65% and 67% respectively. Coverage rates may have fallen somewhat over the past twenty years but remain high as well, and higher than in Germany: again, 88% in Sweden and 82% in Denmark. And most importantly, employers and unions in both countries take the long view, unwilling to change a system that has not only served them well but has allowed the countries to adjust to deep shifts in the economy from company to Europe and the world without suffering big social shocks.

Make the minimum wage a right, not an obligation

Given the stalemate, a way forward is difficult to imagine. Most trade unions accept or encourage the minimum wage, but the ones that refuse to do so in fact hold a (soft) veto, since wage-setting has never been an EU competency. That explains in part why we are where we are: the minimum wage is an area that requires a lot broader consensus among member states than standard EU competencies, and a few MEPs can hold up proposals from the European Council. Furthermore, given the European Court of Justice's general liberal, *anti*-anti-competitive leanings, it is impossible to exclude a judicial review or a deeply upsetting verdict, with all the negatives for further European integration that this might entail. There may be many things wrong with the EU, but it is still among the best mechanisms we have, so let's take a breath before we go there.

There may be a different way to think about this, however. The principle to apply here could be one that also should apply to other rules that (could) divide us sharply. Take the example of abortion: even though you may personally be against choice, the legalisation of abortion does not force you to terminate pregnancies – powerful Catholic US politicians like President Biden and Governor Mario Cuomo have lived by that motto for most of their public lives.

The Nordics could, in the same vein, accept a minimum wage directive, as long as that rule was not imposed on them. In fact, the current idea already embraces this principle by setting a threshold of 80%. But that is too static a conception of the problem, since 80% may seem like a good idea now but not later, or everywhere. There are many ways to obtain a decent income, after all, and a single target in one policy area is usually not flexible enough to handle that. So, the regulation needs to be more adaptable to the abilities of those who can handle it, and more rigid for those who need it.

In fact, a combination of the two dominant approaches to wages that exist in Europe may be a useful way out. Imagine a considerably looser directive that privileges collective bargaining, including on minimum wages, by giving it both a sharper and a more contextualised target – something like a procedural threshold, along the lines of ‘if member states cannot agree on a decent wage for all workers (defined in the country, and explicitly agreed by all social partners) then a minimum wage law comes into force’.

Such an arrangement will have the same substantive effect as a government-imposed minimum wage if all goes wrong but force social partners to negotiate in good faith – with the carrot of a negotiated wage and the stick of a union (or employer) veto. It will also give every union in Europe what they prefer: autonomous wage setting in Scandinavia, a mixed system in Germany and its neighbours, and a government-heavy arrangement in the south.

Is a minimum wage such a good idea, then?

There is a legitimate concern that unions could overplay their hand and impose a ‘job-destroying’ minimum wage. But, unlike what the textbooks tell us, there is not one single serious study that has found a persistent negative effect of a minimum wage and perhaps the most important study, by the late Alan Krueger and his colleague David Card, found a positive local effect. It is unclear why, but one plausible hypothesis is that raising wages at the absolute bottom of the labour market increases local demand so much that it begins to have small positive aggregate employment effects.

Nonetheless, assume for a moment that union wage demands are ‘excessive’; in that case, employers could simply exercise their veto, walk away and ask the government to intervene. And while left-wing governments of a social democratic persuasion will, all things being equal, certainly be sensitive to union demands, all things are not equal. Social democratic parties have a much more mixed electorate today, and in government, they have important responsibilities for macroeconomic management, including low inflation; such reputations for sound economic policies are hard to acquire and easy to destroy.

Excessive wage demands by unions will therefore lead to a restrictive reaction, roughly in line with macroeconomic stability, from governments and central banks. And if all else fails, unions would end up shooting themselves in the foot: their members (and others) would become poorer in real terms and/or lose their jobs to foreign competition (since domestic price rises translate into falling exports and rising imports).

The minimum wage debate is also a debate about the EU

The minimum wage debate in Europe could be a starting point for a more balanced form of integration, in which EU members agree on the substantive target, but leave open the process by which to get there. That would probably better reflect the diversity in economic systems and labour market governance on the continent, while also leaving decisions to be made where they belong, instead of imposing central one-size-fits-all policies. The crisis of EMU showed us the limits of the latter. The minimum wage debate could show us the strength of diversity.

Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: Immo Wegmann on Unsplash

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