17. Minimum wages: by collective bargaining and by law

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INTRODUCTION[1]

Minimum wages have become a major tool of labour market policy. This is the result of a gradual process over the decades, in which more and more countries have introduced statutory minimum wages and downward pressure on wages has made them more relevant. Especially since about the turn of the millennium minimum wages have become more salient as precarity of employment, including low pay and the in-work poverty it can lead to (see Hick and Marx in this volume), increasingly rivalled unemployment as a major concern of labour market policy. There are many structural factors that have contributed to the spread of low-wage employment. The most fundamental are the rise of service employment and intensified international economic competition. Both have contributed to a decline in trade union power vis-à-vis employers and an erosion of collective bargaining. With diminishing coverage of collective bargaining, fewer workers are protected by the wage floors defined in collective agreements. Many states have responded to this by either introducing statutory minimum wages or marking up their existing minimum wages.

Minimum wages can be set in two fundamentally different ways (Schulten, 2006). Collective agreements between trade unions and employers can define the lowest possible wage grade in a certain firm, sector, or national economy. Alternatively, the state can determine by law the lowest legal level of wages. This chapter will provide an overview of what we currently know about these two types of minimum wages and the relationship between them.

What is mentioned in the introduction of this volume for labour market policy in general, is particularly true for minimum wages. Economists have diligently studied minimum wages with respect to their economic consequences. In addition, industrial relations scholars have for a long time had minimum wages on their radar. Nevertheless, there is very little comparative policy scholarship.

In many advanced democracies, especially in Western Europe, collective bargaining was the primary way of setting wage floors and was later supplemented by statutory minimum wages. Accordingly, this chapter will first cover minimum wages by collective bargaining and then statutory minimum wages. Thereafter, I will provide a synopsis of countries' minimum wage regimes taking into account both collective bargaining and statutory minimum wages. While also touching on development over time and policy outcomes, the main focus in this chapter will be on cross-national variation. In a final section, I will conclude and point out areas for further research.

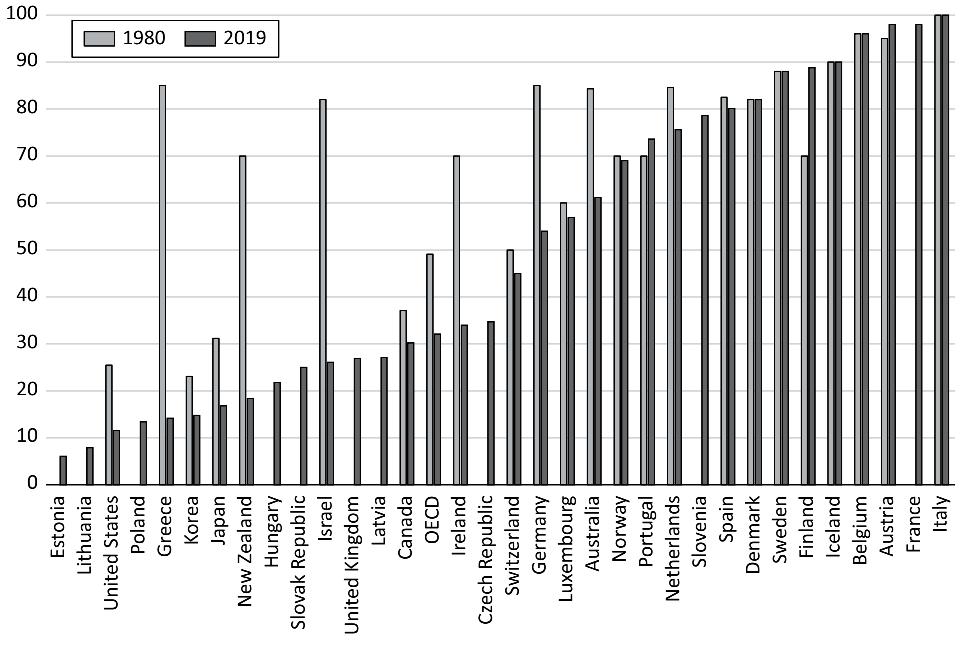
17.1 MINIMUM WAGES BY COLLECTIVE BARGAINING

Collective bargaining is commonly defined as the process of negotiation between one or more employers and a group of workers about the terms of employment. The group of workers is typically represented by one or more trade unions. The terms of employment negotiated can include pay, job security, working time, work tasks, and organization of the work process. At the most basic level, collective bargaining can take place between one employer and the union that represents workers at a specific workplace. However, often collective bargaining extends to several employers at once who are represented by an employer association. Hence, collective bargaining can operate at different levels, typically firm, sector, or nation. Frequently bargaining at a higher level sets the main parameters (for example, the overall wage increase), while details can be negotiated at a lower level (for example, how the overall wage increase will be distributed between various categories of workers). Consequently, collective bargaining systems vary also by their degree of coordination: vertically between the more central and the more local levels and horizontally between different sectors (Doellgast and Benassi, 2020). The two parties in collective bargaining can back up their claims by threatening or carrying through industrial action: strikes by workers or lockouts by employers.

Historically, extensive collective bargaining took place or emerged in all Western European countries in the three decades after the Second World War, although of course to different degrees and with distinct institutional structures (Crouch, 1993: Ch. 6). Advanced democracies outside of Europe typically had less institutionalized industrial relations. Under state communism, Central and Eastern Europe did not have the freedom of association to underpin free collective bargaining. Since the 1980s there has been a widespread decline in collective bargaining across advanced democracies, although the Nordic countries have by and large resisted this trend (Baccaro and Howell, 2017; Hassel, 2015). Where collective bargaining is well established, the two sides often defend their autonomy vis-à-vis the state, although it may depend on their assessment of how sympathetic government is to their respective cause. Consequently, statutory minimum wages typically were introduced later, when and where collective bargaining weakened (Kozák and Picot, 2023).

This chapter cannot examine all aspects of collective bargaining but focuses on the setting of wage floors through collective bargaining. Establishing minimum wages is rarely a collective bargaining objective in itself. It is rather the consequence of setting wage standards for all workers, including the lowest paid. In addition, unions often give special attention to the lowest paid due to their commitment to solidarity. In some countries, national collective bargaining can define a national minimum wage, but more commonly wage grades are settled at the sector or firm level. Hence, collectively bargained minimum wages vary by sectors or even firms. Moreover, collectively bargained minimum wages protect only those workers that are covered by a collective agreement.

Figure 17.1 illustrates the huge differences in the share of workers covered by collective agreements. Broadly speaking coverage is lowest in Central and Eastern Europe (with the exception of the Czech Republic and Slovenia), Anglophone countries (with the exception of Australia), and East Asia. Continental European, Southern European (with the exception of Greece), and Nordic countries have high bargaining coverage, although with considerable variation: Switzerland, Germany, and Luxembourg being close to 50 per cent, and Belgium, Austria, France, and Italy close to 100 per cent. In temporal perspective, the figure shows how collective bargaining coverage has declined in many countries since 1980 and downright



Notes: Proportion of employees covered by collective agreements in force among employees with the right to bargain, based on combined administrative and/or survey data sources. Several observations of the 2019 data are from the most recent year before: Australia 2018, Denmark 2018, Estonia 2018, Finland 2017, France 2018, Germany 2018, Greece 2017, Ireland 2017, Israel 2012, Korea 2018, Latvia 2018, Luxembourg 2018, Norway 2017, Portugal 2018, Slovak Republic 2016, Slovenia 2017, Spain 2018, Sweden 2018, Switzerland 2018.
Source: OECD (2021).

Figure 17.1 Collective bargaining coverage in per cent, 1980 and 2019

collapsed in some, such as Greece, New Zealand, and Israel. Only the countries that today still have a coverage rate of 70 per cent or above have managed to maintain coverage; a couple even improved it, notably Finland. Yet, this does not exclude that collective bargaining has been eroded in other aspects, such as through decentralization (Baccaro and Howell, 2017) or a decline in union density (Checchi and Visser, 2005).

The coverage rates in Figure 17.1 include the effect of mandatory extensions of collective agreements, i.e., when the government extends the terms of a collective agreement to firms that were not originally part of the agreement. Governments can extend all terms of collective agreements or only some, such as the lowest permissible wage. In some countries, such mandatory extensions have become an important government tool to prop up collective bargaining coverage (Hayter and Visser, 2018a). Coverage data net of mandatory extensions is not available for cross-country comparisons.

Table 17.1 shows that most Anglophone countries (again with the exception of Australia) do not have any mandatory extensions of collective agreements, and neither do the two East Asian states, Japan and South Korea. Remarkably, Denmark and Sweden achieve their high collective bargaining coverage without mandatory extensions and just by a high degree of organization among workers and employers. This reveals an interesting diversity among the Nordic

Table 17.1 Mandatory extensions of collective agreements to non-organized employers, 2019

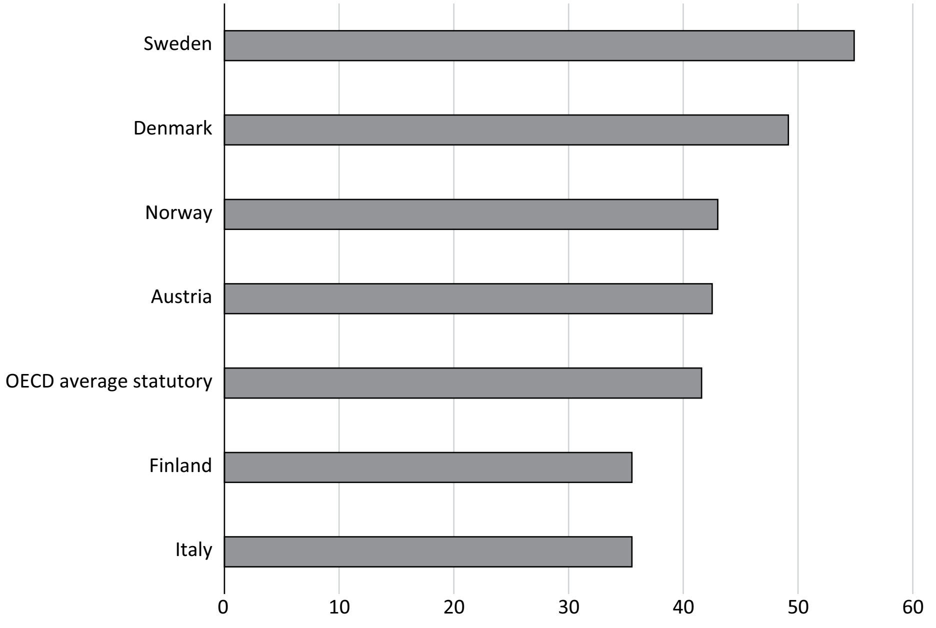
Extent	Countries
Neither legal provisions, nor a functional equivalent	Canada, New Zealand, United Kingdom, United States, Cyprus, Malta, Poland, Japan, South Korea, Denmark, Sweden
Rather exceptional, used in some industries only, very high thresholds	Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovak Republic, Germany, Ireland, Israel, Norway
Used in many industries, but there are thresholds and ministers can decide not to extend	Australia, Greece, Slovenia, Luxembourg, Netherlands, Switzerland
Extension is virtually automatic and more or less general	Austria, Belgium, France, Finland, Iceland, Italy, Portugal, Spain

Source: OECD and AIAS (2021).

countries. While Denmark and Sweden do not use mandatory extensions, Norway uses them to a limited extent, and in Finland and Iceland they are almost automatic. Most Central and Eastern European countries make only exceptional use of mandatory extensions, while most Continental European as well as Southern European countries make frequent use of them.

So, the six countries with the highest bargaining coverage (Italy, France, Austria, Belgium, Iceland, and Finland; see Figure 17.1) accomplish the high coverage at least partly with the help of mandatory extensions. Among these Italy is a special case because the extension of collectively agreed pay levels is based on a constitutional provision and corresponding jurisdiction by labour courts (Leonardi et al., 2018). As mentioned, the high bargaining coverage in Denmark and Sweden is remarkable because it does not rely on mandatory extensions. Norway is a borderline case, as it makes occasional use of extensions and still has high coverage, but at 69 per cent not as high as Sweden (88 per cent) or Denmark (82 per cent). Although mandatory extensions strengthen the result of collective bargaining by making it applicable to more workers, they do not strengthen the organizational basis of collective bargaining. Generally, the coverage of collective bargaining depends mostly on three aspects: the degree of organization of unions, the degree of organization of employers, and mandatory extensions. The first two directly contribute to bargaining coverage, the third is only post hoc. In this sense, mandatory extensions approximate statutory minimum wages. They impose a certain wage floor (possibly together with other terms of a collective agreement) on a sector by law (or executive order), while the level of the wage floor is taken from a collective agreement.

It is difficult to have good comparative data for the level of collectively bargained minimum wages because of the vast amount and diversity of collective agreements across countries. Eurofound (2020) collected the minimum wage rates in collective agreements for ten occupations that account for a high share of low-wage employment. This data was collected for six countries that do not have statutory minimum wages. In order to estimate the collectively bargained wage floor in a comparable way, I have taken the average of the three lowest minimum wage rates per country and divided them by the country's average wage. This indicator is commonly called the "Kaitz index". Moreover, I compare these country figures to the average of the same indicator for the statutory minimum wages of 26 OECD countries, see Figure 17.2.



Notes: The collectively bargained minimum wage rates are averages of the three lowest minimum rates. Austria: standard agricultural, seasonal agricultural, deliverers. Denmark: domestic cleaners, professional cleaners, sales assistants. Finland: standard agricultural, seasonal agricultural, deliverers. Italy: domestic cleaners, personal carers, standard agricultural. Norway: personal carers, seasonal agricultural, deliverers. Sweden: domestic cleaners, personal carers, childminders. I use average wages as the denominator due to lacking availability of median wage data. Normally, median wages are preferable for the Kaitz index.
Sources: Eurofound (2020), OECD (2021), own calculations.

Figure 17.2 Collectively bargained minimum wages as per cent of average wages, 2019

Figure 17.2 shows that the level of collectively bargained minimum wages is in a similar order of magnitude as statutory minimum wages. However, in four of the six countries in Figure 17.2 the collectively bargained minimum wages are in fact higher than the average of statutory minimum wages across the OECD. Moreover, these are the minimum rates in collective agreements for generally low-paid occupations. The minimum rates in most other collective agreements can be assumed to be higher. Therefore, workers are by and large protected by a higher wage floor in countries where minimum wages rely solely on collective bargaining than in countries with statutory minimum wages. Yet, in terms of coverage collectively bargained minimum wages are more patchwork than statutory minimum wages as the former do not automatically apply to all workers and are normally differentiated by sector, occupation, or firm.

There is substantial evidence that centralized collective bargaining and a high coverage of collective bargaining reduce wage inequality (Pedersen, 2023; Doellgast and Benassi, 2020). In addition, Vlandas (2018) highlights that bargaining coverage is vital in order to maintain the egalitarian effects of bargaining coordination. There is also evidence that countries with collectively bargained minimum wages, instead of statutory ones, have lower incidence of low-wage employment (Grimshaw et al., 2021; Pedersen and Picot, 2023).

17.2 MINIMUM WAGES BY LAW

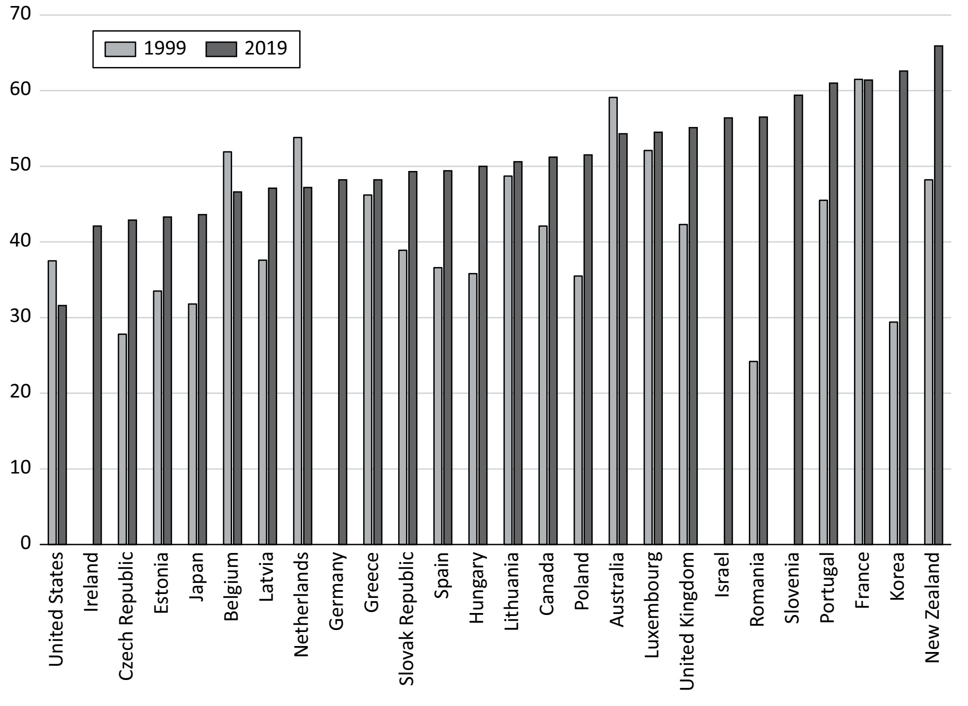
A statutory minimum wage can be defined as the wage level below which wages are illegal according to statutory law. Statutory minimum wages can be restricted to a certain sector, or they can apply across the entire national economy. In this chapter and in common usage, if not further qualified, the term statutory minimum wage implies national scope. We can operationalize statutory minimum wages by the existence of a national law mandating a wage floor across the economy, independently of how the level of the wage floor set.

Australia and New Zealand have a long history of government interventions in establishing wage floors, going back to the end of the 19th century. However, these were mostly so-called "wages boards" that could arbitrate industrial disputes and set certain minimum standards. Britain also introduced such wages boards in 1909. In the US, 15 states adopted minimum wage legislation between 1912 and 1923, which often applied only to women and children. The first clear example of a national statutory minimum wage came with the Fair Labor Standards Act in the US during the New Deal era in 1938 (Neumark and Wascher, 2008; Waltman, 2000; Wilson, 2021).

In Europe, Luxembourg (1944) and France (1950) were the first countries to introduce statutory minimum wages (Kozák and Picot, 2023). The Netherlands and Belgium followed in 1969 and 1975 respectively. Germany was the latecomer among the Continental European states in 2015 (Mabbett, 2016; Marx and Starke, 2017), while Austria and Switzerland have not introduced one to date (2023). In Southern Europe, Greece (1955) and Spain (1963) introduced statutory minimum wages under authoritarian rule, while Portugal (1974) adopted its minimum wage when it became democratic. Italy does not have a statutory minimum wage, but parliament authorized government to introduce one in 2014 (Picot and Tassinari, 2015). This option continues to be debated, but government has not made use of it by the time of writing (May 2023). All Central and European states introduced statutory minimum wages during their transition to democracy (Slovenia with a slight delay in 1995). While partly building on long traditions of wages boards, the liberal market economies of Canada (1965), New Zealand (1985), the UK (1999), Ireland (2000), and Australia (2009) adopted their minimum wage laws gradually over the decades (Wilson, 2021). In East Asia, Japan was early (1959) but South Korea relatively late (2000). Today, there are only eight advanced democracies that do not have statutory minimum wages: all five Nordic countries and three Continental/Southern European countries (Italy, Austria, and Switzerland – but some cantons in Switzerland have statutory minimum wages). Therefore, there is a clear historical trend of the state becoming ever more active in regulating wage floors (Pedersen and Picot, 2023). This trend is mostly explained by the decline in collective bargaining coverage, but introduction of statutory minimum wages is facilitated also by left-wing parties in government (Kozák and Picot, 2023).

The main characteristics for cross-national comparison of statutory minimum wages are: whether they are national or sectoral, their level, their differentiation (different rates for different worker categories), how their level is adjusted over time, and their enforcement.

Almost all statutory minimum wages in advanced democracies today are national. The only exceptions are regional minimum wages in Switzerland (OECD and AIAS, 2021). Figure 17.3 reports the level of national statutory minimum wages as a share of median wages (Kaitz index) in 1999 and 2019. Statutory minimum wages have grown faster than median wages in all advanced democracies over the last 20 years, except the US, Belgium, the Netherlands,



Source: OECD (2021).

Figure 17.3 Statutory minimum wages as per cent of median wages, 1999 and 2019

Australia, and France. In addition to more and more states introducing statutory minimum wages, this further underlines their increasing importance as a policy tool. In fact, there are prominent examples of governments pushing for higher minimum wages, such as the UK in 2015, Spain since 2016, New Zealand since 2017, and US President Joe Biden in his electoral campaign 2020. In 2022, the EU adopted a directive requesting member states to ensure adequate minimum wage levels as well as to support collective bargaining.

The US has by far the lowest minimum wage in international comparison, at 32 per cent of the median wage. This holds for the federal minimum wage, but in the last couple of decades many US states have adopted substantially higher minimum wages (Whitaker et al., 2012). Other minimum wage rates vary between 42 and 66 per cent. The highest rates, above 60 per cent, can be found in Portugal, France, Korea, and New Zealand. Research shows that left parties are more active in raising the minimum wage (Kozák and Picot, 2023; Durocher, 2019).

Although minimum wage laws normally define one standard wage rate, it is common that governments differentiate wage rates for certain groups of workers. Often, they set lower rates for workers whom they consider at risk of being excluded from employment if the standard rate applies to them. Out of 29 advanced democracies with a national statutory minimum wage, only nine set a single rate without differentiation (OECD and AIAS, 2021). The most common distinct rates are lower rates for young workers (11 out of 29) or for apprentices and trainees (eight out of 29). Several countries also set lower minimum wages for workers with disabilities (five out of 29) or differentiate their minimum wage by work experience (five out of 29, OECD and AIAS, 2021).

If minimum wages are not adjusted regularly over time, they lose value compared to price levels and average wages. There are three main ways in which states adjust minimum wage levels: full government discretion, indexation to inflation or average wage growth, or by institutionalized involvement of worker and employer representatives (Eurofound, 2021). In practice, these three institutional arrangements are often mixed and cannot always be neatly distinguished. According to OECD and AIAS (2021), there are only two countries that use pure indexation: the Netherlands and Malta. However, several more exercise a mix of rule-based updating and discretion. Full government discretion can be found in liberal market economies (Canada, New Zealand, and the US) and in Central and Eastern Europe (the Czech Republic and Romania), but also in Spain. Other countries have weak government discretion where governments can decide based on an indexation rule or after non-binding advice from a minimum wage commission. Such minimum wage commissions are distinguished by the degree to which their decisions are binding and by the degree of control by worker and employer representatives. Belgium, Germany, and Korea have minimum wage commissions controlled by social partners whose decisions are binding for government (OECD and AIAS, 2021).[2] However, decision-making in the German commission is in fact strongly rule-based, as level hikes are linked to wage increases in collective bargaining (Bosch et al., 2021). More common are minimum wage commissions that formulate non-binding advice. The composition and distribution of power within these consultative commissions varies widely, involving social partners, experts, and government officials. Such consultative commissions can be found in ten out of 29 countries with national statutory minimum wages (OECD and AIAS, 2021). Boeri (2012) finds that institutionalized involvement of social partners in updating statutory minimum wages leads to higher minimum wage levels.

Statutory minimum wages rule out wages below a certain level. Yet, enforcement is challenging. Workers are not always aware of their rights, or they may be afraid to lose their jobs if they complain. Unionization and union representation in the workplace can therefore help with enforcement. Otherwise, the effectiveness of implementation depends on state institutional structures and financial resources dedicated to enforcement. To the best of my knowledge, we currently lack comparative research assessing the extent of compliance with statutory minimum wages in advanced democracies. However, Benassi (2011) offers a theoretical framework and a case study of the UK, Bosch et al. (2019) conducted an extensive case study of the German case, and Rani et al. (2013) provide a comparative study of developing countries.

There is a vast economic literature on the economic effects of minimum wages, especially those set by law. For overviews, see Neumark and Wascher (2008) and Belman and Wolfson (2014). Economists were for a long time concerned that minimum wages could have negative effects on employment. This was based on a straightforward intuition from neoclassical economic theory (e.g., Borjas, 1996: 165–167): A minimum wage is set above the market level (otherwise there would be no point); above market level, however, demand for labour decreases and supply of labour increases (while at market level both would coincide); the difference between supply and demand constitutes unemployment. The debate in economics shifted, however, with Card and Krueger (1995). Using a regression discontinuity design, they showed that a raise in the minimum wage did not have a negative effect on employment. This finding was later corroborated by more studies so that meta-studies now conclude that statutory minimum wages have either no effect or a negligible negative effect on employment

(Belman and Wolfson, 2014; Doucouliagos and Stanley, 2009). Theoretically, economists have explained these non-effects of minimum wages with employers' superior market power in setting wages (which is conceptualized as "monopsony"; Manning, 2003). Hence, minimum wages make up for some of workers' structural disadvantage when individually negotiating wages. Moreover, research shows that statutory minimum wages increase the wages of low-paid workers (Belman and Wolfson, 2014) and, consequently, reduce wage inequality (Rueda, 2008; Vlandas, 2018; Pedersen, 2023). Especially women benefit from statutory minimum wages because they are more often in low-paid jobs (Belman and Wolfson, 2014).

17.3 MINIMUM WAGE REGIMES

The distinction between a minimum wage by law or by collective bargaining is not as dichotomous as it may sound. In countries without a statutory minimum wage, the state may still considerably contribute to the setting of wage floors through the instrument of mandatory extensions. Moreover, countries with a minimum wage always have some form of collective bargaining as well, even if often with low coverage. Grimshaw et al. (2021) have studied how statutory minimum wages and collective bargaining interact, in particular with respect to wage levels. In some countries they find that coverage of collective bargaining is so low that the statutory minimum wage is the dominant way of setting the wage floor. Other countries have medium to high bargaining coverage and statutory minimum wage levels are so low that they hardly affect wage levels in collective bargaining. By contrast, a third group of countries also has medium to high bargaining coverage and medium to high statutory minimum wage levels, with the consequence that statutory minimum wages considerably influence bargained wage levels. The fourth configuration Grimshaw et al. (2021) identify consists of those countries that have high bargaining coverage and no statutory minimum wage.

Based on the previous sections of this chapter, I propose a somewhat different categorization of minimum wage regimes that focuses less on interaction in wage levels and more on the "stateness" of minimum wage regulation – where "stateness" refers to the extent to which minimum wages are regulated by the state rather than by social partners. There are two main reasons for proposing a new typology. First, the focus here is different from Grimshaw et al. (2021), by emphasizing the extent to which minimum wages are set by the state or by collective bargaining. Conceptually, this is a vital part of analyzing the balance between organized economic interests and the state in contemporary capitalism in comparative perspective. Second, interaction between levels of statutory minimum wages and bargained wages can only be assessed in case studies, as Grimshaw et al. (2021) did. By contrast, the attributes I focus on can be more easily applied to a wider set of countries.

I use the term "regime" here in line with Dingeldey et al. (2021: 1) as "a certain ensemble of legal and institutional arrangements". By "typology" I mean nothing more than "an ordering resulting from more than one criterion" (Sartori, 2005: 110). Hence, my use of these terms does not imply institutional stability. On the contrary, we know that there has been and still is considerable change in this policy field, especially considering the decline in collective bargaining and the rise of statutory minimum wages (Baccaro and Howell, 2017; Pedersen and Picot, 2023).

The first main distinction of minimum wage regimes is between countries that have a statutory minimum wage and those that do not. If we locate the countries that do not have a statutory minimum wage, in Figure 17.1, above, we find that all of them have medium to high bargaining coverage, even if Switzerland's coverage rate of 45 per cent is much lower than that of the other seven countries without a statutory minimum wage. The high bargaining coverage in these countries is in line with Kozák and Picot's (2023) finding that low bargaining coverage is a main driver of statutory minimum wage introduction. Among the countries with only collectively bargained minimum wages, I distinguish those that make no or only rare use of mandatory extensions and those that frequently or automatically extend collective agreements. In the latter, high bargaining coverage is propped up by the state, thus implying a higher degree of stateness of the minimum wage regime. I call these two regimes "collective" and "collective plus state". To be sure, in countries without mandatory extensions the state still supports industrial relations in other ways (Pedersen and Picot, 2023; Crouch, 1993). Yet, for minimum wage regulation the extent of mandatory extensions is an important distinction.

The group of countries where minimum wages rely almost purely on collective bargaining are the three Scandinavian states Denmark, Norway, and Sweden (see Table 17.2), even if bargaining coverage is somewhat lower in Norway than in the other two countries and Norway makes some use of mandatory extensions. The countries with "collective plus state" minimum wage regimes are the Continental/Southern European states without statutory minimum wages (Austria, Switzerland, and Italy) as well as the remaining two Nordic countries (Finland and Iceland).

Among the countries with statutory minimum wages, I distinguish between those with medium to high coverage of collective bargaining and those with low bargaining coverage. Workers that are covered by a collective agreement are protected by the bargained wage floor and do not have to rely on the statutory wage floor. Hence, high bargaining coverage reduces the importance of state regulation and implies, in this sense, a lower degree of stateness. Based on Figure 17.1, I use 40 per cent as the cut-off between the two groups of countries. This is slightly above the OECD average of 32 per cent. The reason is the clear gap between the Czech Republic (35 per cent) and Switzerland (45 per cent). The gap is even bigger if we

Table 17.2 *Minimum wage regimes, 2019*

Minimum wage regime	Countries
Collective Collective bargaining, no or rare mandatory extensions	Denmark, Norway, Sweden
Collective plus state Collective bargaining, frequent or automatic mandatory extensions	Austria, Switzerland, Italy, Finland, Iceland
State plus collective Statutory minimum wage, high bargaining coverage	Belgium, France, Germany, Luxembourg, Netherlands, Portugal, Spain, Slovenia, Australia
State Statutory minimum wage, low bargaining coverage	Canada, Ireland, New Zealand, UK, US, Israel, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovak Republic, Korea, Japan, Greece

Sources: See Figure 17.1, Table 17.1, and section on statutory minimum wages.

only consider countries with statutory minimum wages. As Switzerland does not have one, the next relevant country is Germany with 54 per cent coverage, which justifies using this wide gap as a distinction between the two groups. I call the statutory minimum wage countries with high bargaining coverage “state plus collective” and the ones with low coverage just “state”.

The group of countries with “state plus collective” minimum wage regimes is dominated by states from Continental Europe (Belgium, France, Germany, Netherlands, and Luxembourg). In addition, Portugal and Spain are in this group as well as Slovenia and Australia. The latter two can be regarded as outliers, with perceptibly higher bargaining coverage than other Central and Eastern European or Anglophone countries. Finally, the “state” minimum wage regime can be found in most Anglophone developed democracies: Canada, New Zealand, the US, the UK, and Ireland (and Israel, which is often regarded as a similarly liberal market economy). Further, most Central and Eastern European states belong to this type (the Czech Republic, Slovak Republic, Estonia, Latvia, Lithuania, Poland, and Hungary), both East Asian advanced democracies (Japan and South Korea), and Greece where coverage declined rapidly after mandatory extensions were suspended under the Euro crisis and not restored since (Hayter and Visser, 2018b).

CONCLUSION

Minimum wages are an important instrument of labour market policy today. In most states they were historically set by collective bargaining. Yet, as collective bargaining declined and more and more states introduced statutory minimum wages, they are today mostly a government tool to regulate the labour market. Nevertheless, the extent to which minimum wages are controlled by the state still varies significantly across advanced democracies. I have identified four types of minimum wage regimes. The first two (“collective” and “collective plus state”) are mostly based on collective bargaining but differ in the degree of state support for collective bargaining. Yet, as of 2019 only eight out of 33 advanced democracies analyzed belong to these two types (see Table 17.2). All the others have statutory minimum wages but are distinguished by the extent to which they still have substantial collective bargaining in addition to the statutory minimum wage (“state plus collective”). Again, however, much more countries belong to the type with little collective bargaining (“state” minimum wage regime): 16 out of the 25 countries that have statutory minimum wages (see Table 17.2).

These trends and patterns raise important issues for policy-makers as well as scholars of labour market policy. Here, I want to highlight five such issues. First, the fact that states increasingly intervene directly in wage setting by imposing a wage floor, seems to contradict prevailing notions of an era of liberalization (e.g., Baccaro and Howell, 2017). While other aspects of liberalization, such as a general weakening of unions, decentralization of collective bargaining, and deregulation of non-standard employment, undoubtedly take place, it seems that democratic states do not tolerate a full dismantling of wage floors (Pedersen and Picot, 2023). The political dynamics of this should, however, be studied in further research.

Second, what can governments do to prevent a further decline in collective bargaining or even reverse the trend? This question has become even more important since the 2022 EU directive on adequate minimum wages requires member states with less than 80 per cent bargaining coverage to adopt national action plans to improve coverage. An effective policy to support unionization in Northern Europe was to allow unions to administer unemployment insurance, which, with state subsidies, creates incentives to join unions (the so-called "Ghent system" of unemployment insurance, Rasmussen and Pontusson, 2018). Yet, this policy is hard to copy due to the path dependency of existing unemployment insurance systems and the already weak status of unions in other countries. Similarly, corporatist arrangements can strengthen the public visibility and legitimacy of unions as well as employer organizations. Again, these are hard to initiate when these organizations are already weak. Other, more concrete policies to support unions are to secure the effective right of workers to organize,[3] to make union member fees tax deductible, or to require contractors in public procurement to adhere to collective agreements (Schulten et al., 2012). Besides the Ghent system and corporatism, there is little comparative research on the variety of measures that governments can undertake in this field.

A third important question is how statutory minimum wages and statutory extensions of collective bargaining affect collective bargaining in the medium to long run. Where unions are strong enough to maintain high bargaining coverage, they dislike statutory minimum wages as these interfere with the autonomy of collective bargaining and may decrease incentives for low-wage workers to join a union (Meyer, 2016; Furåker, 2020). However, there is little comparative research that examines the effect of statutory minimum wages on union density or collective bargaining. Aghion et al. (2011) suggest that there is indeed a trade-off, but other research does not support this claim (Checchi and Lucifora, 2002; Ress and Spohr, 2021; Kozák et al., 2023). The direct effect of mandatory extensions is of course to increase the impact of collective bargaining. However, it does not support the degree of organization of workers or employers so that they achieve high coverage by their own strength. Hence, the long-term effects of this policy on collective bargaining also deserve further research.

Fourth, as mentioned above, the compliance with and enforcement of statutory minimum wages is a crucial field where more comparative research is needed. Fifth, the focus of this chapter was on wage floors. Yet regulation of wage floors interacts with other low-pay policies in important ways. In the face of low-wage employment, governments can try to reduce it through minimum wages, but they can also try to help low-paid workers by paying them public benefits on top of their low earnings, so-called "in-work benefits" (see Chapter 20 in this volume). Research has shown that support for low-paid workers through the tax-benefit system is much more substantial in countries that mostly rely on statutory rather than collectively bargained minimum wages (Pedersen and Picot, 2023). More comparative research is required to better understand how minimum wages interact with other parts of the welfare state.

NOTES

1. I am grateful to Balder Blinkenberg for effective research assistance and to Daniel Clegg and an anonymous reviewer for excellent comments. This research was supported by research grant 275382 from the Research Council of Norway.
2. In 2022 the German government raised the minimum wage beyond the recommendation of the minimum wage commission, but this was only possible by legislation outside the framework of the original minimum wage law.
3. In 2022, the US Congress debated a legislative package (Protecting the Right to Organize Act) to this effect.

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