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## **COMPARATIVE ANALYSIS OF MINIMUM WAGES IN WESTERN BALKANS AND IN THE EUROPEAN UNION – CASE STUDY OF MINIMUM WAGES IN DENMARK –**

Gordana GASMI<sup>1</sup>  
Predrag DEDEIĆ<sup>2</sup>  
Rolf WEBER<sup>3</sup>

*Abstract:* The study is dealing with the issue of a wage optimization in SMEs as an instrument for optimal economic policy and for good corporate governance. The main idea of wage optimization in different economic conditions is, inter alia, the introducing of a law- based minimum wage in order to have the optimal economic policy, social justice and good corporate governance. The minimum-wage legislation now exists in more than ninety (90%) percent of all countries, although the laws vary greatly. In the European Union (EU), most Member States have national minimum wages. The social importance of minimum-wage derives from the need to ensure social safety for employed people and their dependents. Many companies have recently shifted to a fluctuating wage rate based upon productivity, but in no event shall the amount paid be lesser than minimum wage. The impacts of a minimum wage are the following: Employment impact, Economic impact and Productivity impact. Concluding remarks accentuate that it is necessary to set the minimum wage so as to provide a minimum acceptable standard of living for low-paid workers. It is recommendable not to extend sector collective agreements regarding minimum wages to non-participating employers, and to provide an “opt out” option for employers – especially small ones,

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<sup>1</sup> Prof. dr Gordana Gasmi, Institute of Comparative Law, Belgrade, Serbia, Senior Research Fellow, E-mail: gordana.gasmi@gmail.com

<sup>2</sup> Prof. dr Predrag Dedic, Belgrade Banking Academy, Serbia, Associate Professor, E-mail: predrag.dedic@bba.edu.rs

<sup>3</sup> MA Rolf, Weber Political Advisor and International Secretary, Krifa Denmark, Master in Political Science, Master in Corporate Communication, E-mail: row@krifa.dk

i.e. small and medium enterprises, for whom it is too costly to comply with sector agreements. Such employers from small and medium enterprises should be bound only by the national minimum wage.

*Key terms:* minimum wage, EU, Western Balkans, small and medium enterprises, economic impact, employment impact, productivity impact.

## INTRODUCTORY NOTES

Wage policy and within it, the minimum wage policy has been always considered as being one of a powerful tool for good corporate governance and also for optimal economic policy, if seen from a macro perspective. These standpoints, namely a micro perspective in the form of good corporate governance and a macro angle, in the form of optimal economic policy, are inevitably intertwined in practice. Therefore, this paper is focused on the analysis of both issues, starting primarily from the macro perspective with the insight into micro perspective in small and medium enterprises (SMEs).

The SMEs sector is vital *spiritus movens* for job creation activities at national level, especially in transition economies, but also in developed ones, which brings additional economic value to this sector. Furthermore, the SMEs sector shares its part in the technology development of the economy.

However, the SMEs sector remains vulnerable to wage policy and especially to the minimum wage policy, since it is very often costly to follow sector collective agreements related to a minimum wage. The reason is that the SMEs sector has limited access to bank loans for raising the productivity level and for relieving the production costs. The consequence of this fact is small maneuvering space for collective bargaining with relevant trade unions, due to an average scarcity of available financial resources in SMEs.

## NOTION OF WAGE AND OF MINIMUM WAGE

A wage is a monetary compensation or remuneration paid by an employer to an employee in exchange for work done. Payment may be calculated as a fixed amount for each task completed (a task wage or piece rate), or on an hourly or daily rate, or based on an easily measured quantity of work done. For employers, wages are an example of expenses that are involved in running a business.

The wage rate is usually adequate compensation given the difficulty and skill level required for performing a concrete job. The traditional theory of wage determination states that wages for workers will be based on supply and demand. The supply and demand would be relative to each profession, which means that

the more a profession was needed, and the fewer workers of that profession there are, the higher the wages will be in those positions.

A minimum wage is a wage sufficient to provide the necessities and comforts essential to an acceptable – decent standard of living, which is the definition by the International Labour Organization (ILO). However, it is the minimum amount of compensation an employee must receive for performing labor. Minimum wages are typically established by contract through collective bargaining or by the legislation of the government. As such, it is illegal to pay an employee less than the minimum wage.

The precursor to the minimum wage was passed by King James I of England in 1604. The Act Fixing a Minimum Wage established a minimum wage for textile workers. Prior to passage of the Act, there was an established maximum wage but no formal minimum.

The minimum wage, wage rate established by collective bargaining or by government regulation is the wage that specifies the lowest rate at which labour may be employed. The rate may be defined in terms of the amount, period (i.e., hourly, weekly, monthly, etc.), and scope of coverage. For example, employers may be allowed to count tips received by employees as credits toward the mandated minimum-wage level.

The modern minimum wage, combined with compulsory arbitration of labour disputes, first appeared in Australia and New Zealand in the 1890s. In 1909, Great Britain established trade boards to set minimum-wage rates in certain trades and industries. In the USA the first minimum – wage law, enacted by the state of Massachusetts in 1912, covered only women and children and the first statutory laws were introduced nationally in 1938. The intent of these laws was to shorten hours and raise pay in the covered industries.

The minimum-wage legislation now exists in more than ninety (90%) percent of all countries, although the laws vary greatly. For example, in the USA the vast majority of individual states have minimum – wage legislation in addition to a set federal minimum wage. In the European Union (EU), most Member States have national minimum wages.

### **Minumum-wage and SMEs**

Trade unions' ability to secure higher wages for workers in SMEs depends not upon workplace organisation, but upon well-functioning industrial relations institutions. That is, if workers in SMEs earn less than employees in larger companies, this is due not to the size of the company, but to the absence of a comprehensive collective bargaining system that encompasses SMEs (Andersson, Thornqvist, 2007).

A small firm in a low-wage region might, for example, respond to an increase in the minimum wage by having the owner pick up more hours himself/herself and cut back on an employee's overtime hours. A large firm might likewise try to squeeze more work out of its salaried managers and hire more part-time workers, to avoid benefits obligations.

The social importance of minimum wage derives from the need to ensure social safety for employed people and their dependents. Many companies have recently shifted to a fluctuating wage rate based upon productivity, but in no event shall the amount paid be lesser than minimum wage.

In free market economies, wage rates are determined through supply and demand forces. However, political and social factors often influence their direction.

Many governments have enacted minimum wage laws to create a wage rate floor. Furthermore, policies towards minimum wages have implications at different levels, such as economic level, but especially at the social level.

The minimum wage attempts to protect employees from exploitation, allowing them to afford the basic necessities of life. Social safety includes clothes, food and accommodation, which are basic needs of every person. In addition, social safety depends on the average level of economic development in various countries. Therefore, the minimum wage rate fluctuates between different countries.

It is understandable why big companies pay better – as a rule (<http://www.mywage.org/ireland/home/salary/gender-pay-gap-in-ireland/gender-pay-gap-faqs>, February 2016). That certainly applies to multinationals. But this rule does not automatically apply to big organizations such as government agencies, schools, retailers, or hospitals. Big they may be, but their pay levels are not up to a par with the commercial sectors. On the other hand, they usually offer more flexible regulations for combining working and family life. This fact accounts for the fact that relatively more women are employed in the latter sectors (for example retailers, schools and hospitals) than men are.

In smaller companies, usually average wages are lower. This lower level, however, is to a certain extent compensated for by the relative proximity of the workplace, thus avoiding long commuting hours, which is convenient for family life. These aspects combined may contribute to the statistical fact that on average women work for less pay than men. Making a career for oneself is easier in big companies, and is paid better, but comes with a price in terms of family life.

The open question is how will the Government's implementation of a minimum wage act augur for the businesses of SMEs? SMEs may initially face an overall increase in the cost of doing business due to higher wage costs and competition for manpower from the larger firms. The increase in pay could be mitigated when it is accompanied by higher labour productivity, multi – tasking and multi – skilling as well as greater stability in the workforce. The

transformation, however, could take time. The impact on SMEs could also be mitigated by ensuring that geographical, rural – urban and sector differences are considered in implementing the minimum wage.

### **Pro et Contra a minimum-wage**

The arguments *pro* strongly support the minimum wage explaining that it is important because it raises wages and reduces poverty. Proponents assert that it is needed to protect workers from exploitative employment practices.

Supporters of minimum-wage laws (Aline, 2015, Thorsten, 2012) maintain that they enhance the work ethic and reduce the gender gap in earnings. In the European Union (EU), in average terms, around 16% less salaries for the work of the same value is attributed to women in the EU countries, despite the Council Directive 75/117/EEC of 10 February 1975 on the approximation of the laws of the Member States relating to the application of the principle of equal pay for men and women, which supplements Article 141 of the Rome Treaty by requiring equal pay for “work to which equal value is attributed”.

Minimum wages increase the standard of living of workers and they decrease the cost of social welfare programs and protect workers against exploitation at the hands of their employers.

*Contra* arguments are spoken by opponents of the minimum wage, who claim that it is an unnecessary government intrusion into the relationship between employer and employee.

Opponents argue that minimum – wage laws hurt small businesses that are unable to absorb the costs of higher payrolls, increase unemployment by forcing employers to cut back on hiring, decrease education by encouraging citizens to enter the workforce, and result in outsourcing and inflation as businesses are forced to compensate for rising operation costs.

What are the negative impacts of having a minimum wage act on SMEs? The main negative impact on SMEs and also for the larger firms would be the wage increase, which would also lead to a wage spiral when employers would also have to push up wages at the higher levels. Any sudden and steep increase in wage costs would adversely affect the overall costs and competitiveness of the businesses. However, some findings in the USA (FMM’s Salary and Benefits survey, Marx, Marchal and Nolan, 2012) have shown that small companies had paid a higher increment to non-executive staff in 2010 and 2011 compared to medium and large companies, indicating that these companies are raising wages on their own initiative.

Nevertheless, small companies would require time to adjust to the minimum wage level, especially for firms which have a wide gap to cover from their current

level of wages. Therefore, it is recommended to the government that SMEs employers should be given a two-year grace period to adjust and reach the initial minimum wage level.

Are there any positive effects from having a minimum wage act for SMEs? Some argue that a minimum wage policy would actually compel SMEs to move up the value chain and become less labour-intensive.

The Minimum Wage Act in the USA and the corresponding higher wages could lead to a reduction in labour turnover rate among local workers and a reduction in the dependency on foreign labour. Higher labour costs would also drive industries to embark on greater automation and mechanisation to be less labour intensive. The greater use of technology could also lead to SMEs moving up the value chain.

SMEs could also counter the adverse cost effects of the sudden and steep increase in wage costs by increasing training to further improve skills and labour productivity, increase efficiency, reduce wastage and by adopting product market strategies to increase their competitiveness and revenue.

### **Trade unions role – Collective bargaining**

The ongoing process of negotiation between representatives of workers and employers to establish the conditions of employment (Andersson, Thornqvist, 2007) – the collectively determined agreement may cover not only wages, but hiring practices, layoffs, promotions, job functions, working conditions and hours, worker discipline and termination, and benefit programs.

Collective bargaining existed before the end of the 18th century in Britain; its development occurred later on the European continent and in the USA, where Samuel Gompers developed its common use during his leadership of the American Federation of Labour. Collective agreements are probably less significant in developing countries that have large labour populations from which to draw.

The degree of centralization in the bargaining process and the functions performed by collective agreements vary. Contract negotiation (Torsten and Thorsten, 2015) may occur at the national, regional, or local level, depending on the structure of the industry within a country. National agreements, which are more common in smaller countries, usually settle general matters, leaving more detailed issues for local consideration. An agreement may, for example, set actual wage rates, or it might simply establish minimum wage rates.

Statutory minimum wages are not a substitute for wage bargaining. The main purpose of minimum wages is to set a floor for wages in the whole economy.

Unions can and whenever possible should increase the wages of the lowest paid above the minimum wage.

The fixing of minimum wages by a public authority, government or otherwise, after consultation with the social partners, is by far the method most frequently chosen. This means that in countries where there is a significant coverage of workers by collective agreements and there exists a strong union movement, statutory minimum wages are of secondary importance. But even in these countries, statutory minimum wages can give an orientation of how the low-wage sector should develop. They can add to the coherence of the wage bargaining process.

The luxurious situation as in some Scandinavian countries (Thornqvist, Woolfson, Fudge, 2014), where strong unions in all parts of the economy make a statutory minimum wage dispensable is unfortunately not the standard case. In many countries trade union movements are generally weak and/or do not cover all industries sufficiently. In all of these cases, statutory minimum wages are highly desirable and urgently needed to control wage dispersion.

### **Minimum-wage in Balkan countries – Fiction of social justice**

Compared to the EU Member States, national minimum wages are much lower in average terms in the Balkan region. *Exempli causa*, Serbia has one of the lowest minimum wage in the region – around 1 Eur per working hour for the period of the first half of 2016, i.e. 175 Eur on a monthly basis. The consequence is real poverty and social exclusion of population – 9,2% – plus grave economic problems of internally displaced people and Roma population.

Behind Serbia are FYR of Macedonia – 131 Eur monthly minimum wage and Albania – 150 Eur. In Bosnia & Herzegovina, it is 191 Eur, in Montenegro 193 Eur, while in Croatia – 396 Eur and in Slovenia – 791 Eur. This comparison is made taking into account that it is the space of ex-Yugoslavia (SFRY), except Albania. On the contrary, in Bulgaria, EU Member State, the monthly minimum wage is only 184 Eur. In Germany, it is 1,473 Eur, Netherlands – 1,502 Eur, Luxembourg – 1,923 Eur.

Minimum wages are regulated by the Labour law regulations in all Balkan countries, which represent a general legal framework. However, socio – economic councils are authorized to conduct negotiations with the government on the minimum – wage concrete rates usually twice a year. The tripartite structure of socio-economic councils (representatives of employers, the government representatives and of the trade unions) is to ensure equal representation of different economic interests.

In a case of failure of negotiations (collective bargaining lasts usually 10 – 15 days), the government adopts the decision on the minimum wage rate for the period of six months of a current year. Government Decision is to be published in the Official Journal of the country. The case of Serbia – Labour Law of 2014 year regulates minimum wages in its Art. 111 – 113. Bad news, according to those regulations is: the employer is authorized by the Law to establish the minimum wage, but limited to six months maximum. After the expiration of 6 months, the employer has to inform concrete trade union about the reasons for the continuation of the minimum wage regime. Good news: in line with the Law (Art. 112), minimum wage rate cannot be lower than the rate of the previous year.

Minimum wage is submitted to taxes, which induces many critics to this practice.

*Exempli causa*, the minimum price of working hour is 8,5 Eur in Germany, while it is around 1 Eur in Serbia and other countries in the Balkan region. Furthermore, bad practice occurs – in many sectors not even the statutory minimum wage rate is implemented in Balkan countries. Trade unions perform continuing pressure for an increase of minimum wage rates, but without results, in the whole region.

Usual parameters of minimum wage set by the law (statutory minimum wage):

- social needs of employee and dependents calculated through the value of minimum consumer/food basket,
- employment rate on the market,
- GDP rate increase/decrease,
- consumer price rate,
- productivity level and
- average wage rate.

In Serbia, only 30 – 40% of employees earn above 350 – 400 Eur that is considered to be an average wage, which is alarming data for the standard of living. Labour expenses in overall business costs are around 33% in Serbia, which is significantly less than in developed countries such as Netherlands – 64%.

Therefore – syndrome of cheap and highly qualified labour force in the region also induces the fact that the majority of employees are living on the edge of real poverty. There are some proposals to raise the minimum wage rate up to 50% of average in order to reduce the phenomenon of poverty and social exclusion in the region. However, in Montenegro for example, the Labour law and collective agreements have established the minimum wage rate of 30% of the average wage at the national level. In Croatia, it is 38,1% of the average wage rate, but with the



proclaimed target of 60% in 2017, according to the new EU efforts to set up a coordinated minimum wage policy (without real outcome for now).

The problem in collective bargaining within tripartite socio-economic councils is that very often provisions of labour laws on establishing parameters of a minimum wage rate are not respected and properly implemented. Trade unions' requests for raising the minimum wage rate in line with achieved productivity and the level of GDP are usually rejected by the government and by employers' organizations in practice. Especially, the key parameter for a statutory minimum wage rate that is set by relevant laws, is not implemented in reality – social needs of employees and dependents calculated through the value of minimum consumer/food basket.

The minimum wage is often wrongly considered to be equal to the price for the most simple work (the lowest wage) and it is the excuse for employers not to implement the minimum wage rate. Evident problem is the lack of automatic establishment, by legislation, of a minimum wage rate in an adequate percentage in line with the average wage rate or according to the consumer / food basket prices. The current practice is to define the minimum wage rate twice a year through the mechanism of negotiations within tripartite socio-economic councils. This mechanism of decision making is not fruitful, due to the weakness of trade unions, so the government usually adopts the decision on the minimum wage rate without taking into account stands of trade unions.

### **EU approach to minimum wage – hidden optimal economic policy**

Wages (and their distribution) are a key aspect of the Europe 2020 employment and social cohesion targets. The Europe 2020 Strategy did not contain explicit references to wage policies. The Treaty on the Functioning of the European Union (EU), the Lisbon Treaty of 2009, explicitly excludes wages from the set of fields in which the EU has the competences to intervene and explicitly recognizes the autonomy of the social partners in pay bargaining.

Therefore, the EU has no formal power of initiative in this area. Does the EU have a socially friendly face? It is still an open question without an answer (Gasmi, Zoric, 2015).

In the EU context of the trend towards reduced trade union membership and collective bargaining coverage in the majority of EU countries, trade unions have pushed for the introduction of statutory minimum wages as a way of influencing wage developments. The existence of statutory or national inter-sector minimum wages does not rule out the possibility of higher national minimum wages additionally being negotiated at branch/sector and enterprise

levels through collective agreement. Such sector minimum wages are sometimes significantly higher than the national minimum wages.

In this context, it is important to stress the alarming fact that women account for the majority of low-wage workers!

In terms of the amount of the minimum wage, EU Member countries can be classified into three groups:

- The first group consists of 11 states with a minimum salary in the range of 100 to 400 Eur (in this group of countries the lowest minimum wage is in Bulgaria – 184 Eur).
- In the second group, with minimum wages of between 400 and 1,000 Eur are Portugal, Malta, Slovenia, Spain and Greece. Portugal with 566 Eur is the end of the line, while Slovenia and Spain have the amount of the minimum wage of 750 – up to 790 Eur.
- In the third group, with earnings higher than 1,000 Eur there are 6 countries – Britain, France, Belgium, the Netherlands, Ireland and Luxembourg, where the minimum wage is not lower than 1,100 Eur, like Britain, where workers are guaranteed 1,139 Eur. In this group of countries, the highest minimum wage is in Luxembourg – 1,758 – 1,923 Eur. All figures relate to gross amounts before taxes and contributions for health and pension insurance.

For the sake of comparison, in the USA the minimum wage was 1,035 Eur in January 2015.

Large differences in the minimum wages between the European East, South and West are somewhat less if the amount of the minimum wage is to be expressed in purchasing power parity.

The EU Commission's recommendations resulting from the new European Semester of economic policy coordination (introduced in 2011) stress the need for:

- corrections to ensure that wages support competitiveness and develop in line with productivity growth;
- review of wage setting systems in consultation with social partners; and
- reform the wage-indexation system.

The EU new system of economic governance leads towards enhanced economic policy co-ordination, but have been paralleled by a change in attitude towards collective bargaining. Namely, autonomous collective bargaining has, in a number of EU countries, *de facto* been undermined by direct intervention at a political level by the EU into national bargaining arrangements. Trade unions in the EU Member States, therefore, call for the continued respect of free autonomous collective bargaining including on wages.

The differences in the nominal level of agreed nominal minimum wage rates are large, reflecting national prices differences and associates variations in living

standards, as are the differences between the Member States in the effective value of minimum wages measured in relation to the average national wage. The number of people covered by the minimum wage is relatively high.

The most important difference in the coverage of minimum wages is associated with the differences between statutory and collectively agreed models: in the latter the minimum applies only to workers covered by collective agreements (unless such agreements are made universally applicable). At the same time, in most cases, this coverage may be very high, or even universal as in Austria, where it is obligatory to be a member of an employer organisation. In other cases, the government has intervened to increase the level of protection by different means, including extending the collective agreement in situations where at least half of an industry is covered (Finland). However, in Belgium, the national minimum wage does not apply to workers who are normally engaged for periods of less than one month.

The majority of EU Member States (21 of 28) has national statutory minimum wages (especially more recently following the inclusion of the new Member States after EU enlargement which brought in countries of Central and Eastern Europe which had implemented statutory minimum wages since the 1990s).

In countries without a statutory national minimum wage, such as Cyprus, Germany (till 2015), Denmark, Finland, Sweden, Austria and Italy, different minimum wage levels apply in different sectors and/or occupations that do not necessarily cover the whole working population – calculation is based on the number of working hours. In Cyprus, for example, the statutory minimum wage only applies to specific sectors.

Consequence – young employees, employees with only short work experience and, to a lesser extent, low qualified workers, are less likely to be covered by minimum wage protection in countries without statutory minimum wages.

Wage floor	<u>7-8 euros per hour</u>	<u>2-7 euros per hour</u>	<u>Under 2 euros</u>
Member States	Luxembourg (11.10)	Slovenia (4.53)	Hungary (1.97)
	France (9.43)	Malta (4.06)	Slovakia (1.94)
	Belgium (9.10)	Spain (3.91)	Estonia (1.90)
	Netherlands (9.07)	Greece (3.25)	Latvia (1.71)
	Ireland (8.5)	Portugal (2.92)	Lithuania (1.76)
	UK (7.78)	Croatia (2.29)	Romania (1.06)
		Czech R. (2.01)	

Source: Thematic Paper: "Maximising the minimum: a review of minimum wage approaches and trends in European Member States", European Commission, 2014.

Eurostat data for countries with a statutory minimum wage has been combined with estimates for minimum wages in other countries (European Commission, 2014, Thematic Paper: „Maximising the minimum: a review of minimum wage approaches and trends in European Member States”, [www.europa.eu.int](http://www.europa.eu.int)). Overall, the trend has been for an increase in the relative value of minimum wages since 2000.

### **Future Research Directions – Relevant Recommendations**

The increase of minimum wages brings bigger business costs. At the same time, high business costs are one of the most important causes of high unemployment. Therefore, it is important to research how the prudent wage policy will make balance in this context.

From a macroeconomic perspective, minimum wages should at least increase in line with the wage norm – that means according to the medium-term productivity development and the target inflation rate of the central bank. The rationale for this thesis is that the minimum wage becomes an important anchor against deflationary developments. This is a very important task that minimum wages should be assigned, especially in periods of economic crisis and weak union power. If minimum wages are substantially below the lowest wages actually paid to a relevant group of workers they are meaningless. It is difficult to designate a certain percentage of workers who should be directly affected by minimum wages. But an approximation of five to ten percent may serve as an orientation.

The stronger trade unions are in negotiating sufficiently high wages for the lowest paid, the lower the need for a large share of workers to be affected by statutory minimum wages.

The International Labour Organization has not defined a specific rate (either in absolute terms or in relation to the average or median wage) that countries should follow.

However, what is being recommended is that the minimum wage is set at a “decent” level.

In Convention 131 from 1970 the ILO (1970) writes: “The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include:

- (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
- (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.”

This term is very vague. In many countries, the amount of the minimum wage to average wage is set in practice at around 40 %. But in the end, the relation of minimum wages to the general wage level involves value judgments which must be politically decided upon in each country.

In most cases, employers' associations build a coalition with the government and decide about the minimum wages against the demands of unions. The relevant example as a solution: the UK fits in the category of countries with tripartite institutions. A recommendation is made to the Low Pay Commission consisting of members coming from the unions, employers' associations and academics. Politically, it is difficult, but possible, to reject the proposal by the Low Pay Commission. A tripartite body which includes independent members of academia instead of the government is more recommendable than having the government as the third party. The Low Wage Commission writes an annual wage report. In this way, a lot of important information and research about wage dispersion and minimum wages is delivered to the public.

Minimum wages also always reflect the power of unions in any country, given so all countries in the world should use statutory minimum wages as an instrument to prevent wages falling to very low levels in some companies and industries in comparison to average or median wages. It is still a function of trade unions to negotiate higher wages in collective bargaining.

### **Impacts of minimum wage**

Employment impact – From the perspective of neoclassical market-driven models, minimum wages are assumed to have a negative effect on employment for those with a productivity level below the minimum wage.

From a wage-efficiency model perspective, the productivity of workers will be positively affected by an increase in minimum wages, which could also lead to more employment.

Economic impact – Wages and economic competitiveness have received particularly close attention since the global economic crisis, and it is clear that there is a general concern in the EU emerging from the Country Specific Recommendations in the European Semester that if wages increase without any rise in productivity, companies based in the EU will be put at a disadvantage compared to the EU's global competitors, especially those in labour-intensive industries.

Productivity impact – minimum wages can foster productivity and efficiency. As well as increasing the incentive to work and the motivation of employees, they can reduce staff turnover.

## II – CASE STUDY OF MINIMUM WAGES IN DENMARK

It is more and more difficult to talk about single individual countries in Europe. The challenges are far more complicated and demand cooperation and unity.

The European Welfare is under pressure. Trade union rights are weakened, new jobs occur which requires new answers from unions. Pension and salaries get lower.

Europe competes with the rest of the world. Growth and employment growth are faster elsewhere in the world.

Besides, there are the demographic challenges in Europe, with the recent dramatic migrant crisis. On 3<sup>rd</sup> December 2015, the Danes voted on whether to have closer ties with the European Union to continue a decade-old opt-out from home and justice affairs. The Danes rejected adopting EU rules on cross-border policing.

Now, at the beginning of 2016, Denmark risks losing access to Europol, Europe's crime and intelligence-sharing agency, a service frequently used by Denmark. And a service which is very important these days with the increasing terrorist threat. Despite all this, Denmark is deeply dependent on the European Union. Seventy (70) percent of the Danish export goes to the EU countries and 500,000 Danish jobs are directly dependent on the EU's internal market. Those facts are an important framework of functioning of the Danish labour market model and the Danish economic policy.

In Denmark, pay and working conditions are typically laid down by collective agreements concluded between trade unions and employers' organisations. This system of labour market regulation is referred to as the Danish Model. The Danish Model is characterised by the fact that the social partners determine the rules of the game on the labour market. The philosophy is that the social partners are in the best position to know the problems in the labour market. This means that they will also be the best at finding quick solutions and adapting to the current challenges of the labour market.

Strong labour market organisations with a high membership rate are a precondition for a system based on the social partners' self-regulation and this is also the case in Denmark. But they are only the best in an ideal world where some important assumptions are present. In addition, many of these assumptions are not present in Denmark.

- a) Strong labour market organisations with a high membership rate is a precondition for a system based on the social partners' self-regulation – If the social partners are going to make their own laws, they must represent most of the employees in the labour market. And like other European countries, it goes the opposite direction in Denmark. (2000 year – 95%, 2016 year – 65%)

- b) Democratic deficit – In a democratic country, all social partners should be a part of this system of labour market regulation. But in Denmark, it is only the old – mostly socialist unions, which can be a part of the system. Other unions, e.g. Krifa have 15-20% of the members in Unions and have no formal influence as a social partner.
- c) The Security part of flexicurity is more and more eroded. The period with unemployment funds has been shortened and it is more difficult now to qualify for unemployment funds.

Briefly to mention what *flexicurity* is (it is a Dutch invention).

By European standards, the agreements on the Danish labour market are highly flexible, for instance with regard to working hours, overtime, and hiring and firing of personnel. This also means that mobility is high within the Danish labour market. In return for their high level of flexibility, Danish employees are guaranteed a relatively comprehensive social security in times of unemployment, illness or occupational injury. Social security is guaranteed by law to all employees. The combination of high flexibility and comprehensive social security is why the Danish labour market is sometimes referred to as based on a “flexicurity model”.

- d) The Globalization challenges the Danish model – eg. the waves of immigrants and refugees, when new workers are willing to work on other pay and working conditions; when our budgets are tied to the demands of the EU, etc.

How can a Danish Model be able to compete in a globalized world?

- e) Press from the EU system – When EU makes a labour market directive: It is often implemented through collective agreements. The traditional social partners claim that this is enough to implement the directive at the Danish Labour market through collective agreements. However, 25% of the Danish employees are not covered by a collective agreement. During the recent years, it seems that the EU Commission has more focus on that problem.
- f) The biggest challenges for the Danish model are that the collective agreements do not cover everybody.

The main reason why there is no minimum wage in Denmark is this strong Danish Model tradition, which assumes that the social partners themselves determine the rules of the game on the labour market. The argument is that if you allow the politicians to determine in one area, e.g. to determine a minimum wage, then it will quickly be spread to other areas and then the Danish Model will be destroyed. The social partners are in the best position to define problems in the labour market and it will weaken the employees if the politicians take over the issue.

The problem is that the collective agreements do not cover the whole labour market in Denmark, so 25% of the employees on the private labour market are not covered by a collective agreement. It means that they, in reality, have no rights when it comes to salary, notice of termination, child's first sick day and pension. What the social partners agree about – only is an agreement for a part of the employees and the 25% of employees are not a part of these agreements.

When there are no law based minimum wages there is a risk for social dumping – where foreign workers are exploited as cheap labour. Today there are have 80,000 East European workers in Denmark and 22% of the employees in the agricultural sector (with very few collective agreements) are from East Europe. There are no rules for an acceptable salary in this sector, eg. it is very popular in Denmark to hire East Europeans as strawberry pickers. The concrete salary for strawberry pickers can be as low as €4 per hour. Since there is no law based minimum wage in Denmark, this salary is considered as being regular. A survey in Denmark shows that 51% of the Danes are of the opinion that the Parliament should decide minimum wages which cover the entire labour market in Denmark. Krifa's voice in this debate is that it recommends that the politicians, together with the social partners, introduce a minimum wage in Denmark. It could be a law based minimum wage. But it is also possible to transform a collective agreement into a part of Danish legislation, e.g. one can take the wage in a collective agreement and raise it to legislation. In Norway, they have done that in the constructing sector.

The next question is how high shall this minimum wage be? There are different answers in different countries. Is it possible that it can be too high? A case which can illustrate that is Ryan Air and their activities in Denmark.

Ryanair announced in March 2015 that they establish a base in Copenhagen. The airline industry's Staff Union in Denmark has an agreement with other airlines based in Denmark. The union asked for an agreement with Ryan Air. An agreement intended to ensure decent conditions for pilots and flight attendants on Ryanair bases in Denmark – including the minimum wages.

The arguments from the union were that Ryan Air's pilots and flight attendants are working under conditions that are unacceptable, so the Staff Union expects to come into conflict with the company if Ryan Air will not sign a collective agreement.

“We work directly with employees. We do not cooperate with trade unions,” David O'Brien said when he announced the Ryan Air Airline's Copenhagen plans in October 2015. Some unions put a case in the Danish Labour Court (Arbejdsretten) to determine whether Ryanair should operate under Irish or Danish rules when it begins flying out of its new Copenhagen base. The decision was that Ryan Air should follow Danish rules and this decision cleared the way



for a blockade. A blockade would mean that members of a lot of trade unions would be barred from doing work for Ryan Air, which would make it nearly impossible for the airline to handle baggage or receive fuel deliveries.

Before the blockade was a reality, Ryan Air had decided not to use Copenhagen or Billund as a base for their staff and flights. This was followed by a loss of Danish workplaces.

The discussions in Denmark have been if the claims from unions can be too high – especially if it brings the loss of work places?

The same discussion appears when it comes to the integration of all the refugees one can see in Europe these days. Having a job will make it easier their integration into new societies. Employed refugees will contribute to the social security system and their increased spending on consumer goods will be beneficial to the economy as a whole. Over time, this can help European countries to address demographic decline, ageing populations and so on.

The fact is that many employers will not pay the collective agreement salary for these people. And if they have to do so, they will not hire them.

To solve this problem, the government in Denmark proposed to introduce a scheme of ‘phased-in wages’ (*indslusningsløn*) for refugees, designed to facilitate their entry into the Danish labour market. According to the government, a wage below the sector minimum wages would make it more attractive for employers to hire refugees.

The traditional trade unions in Denmark immediately rejected this idea and argued that it would spoil the Danish Labour Market Model. A phased-in wage will displace others on the labour market and contribute to economic inequality, they argue from trade unions.

It is difficult to find the right answers to these challenges. However, trade unions should have the courage to discuss an alternative way to solve the problems and also to discuss if the salaries can be too high.

Perspective – Issues which are getting bigger and bigger importance, namely new ways of working, so discussion over those issues will overtake the discussion about the minimum wage. In Denmark, we see it with „Uber“. This American transportation network company operates through the Uber mobile app, which allows consumers with smartphones to submit a trip request, which is then routed to Uber drivers who use their own cars or taxis.

There is also an “Air-bub”, which is a marketplace for people to discover, and book accommodations around the world — online or from a mobile phone or tablet.

The challenge is that it creates the new ways of working, with less security and safety for the employees and raise the question of status – you are an employee

or you are self – employed. It challenges the discussion about the minimum wage. In this new way of working, one cannot talk about a minimum wage. The wage is what the customer will pay. If the price is too high, there will be no customers.

### **Relevant Assessment**

It is important that the trade unions work positive and constructively to solve the problems we deal with. Traditionally, trade unions have been known as being the opposition to everything and every development. The discussion about “Uber” indicates this notion. Danish Trade unions try to do whatever they can to get them out of the country. However, one cannot stop this development. It is the inevitable future. It is recommendable to establish a kind of collective agreements for this sector or to develop products which can make working conditions better for the people who work in that sector.

When it comes to the question about the minimum wage in Denmark and the position of the unions and the question about the advantage/disadvantage of a minimum-wage by law, the conclusion is quite evident. A labour market without a law- based minimum wages can be good, but it requires one very important condition, namely that everybody on the labour market is covered by a collective agreement. If that is not the case, it is necessary to have a law-based minimum wage, if the desired target is to establish functioning decent working conditions for everyone. Therefore, the Danish Labour Market model has to modernize itself and consider what is best for the employees, instead of what is best for this model to survive.

### **CONCLUDING REMARKS**

It is necessary to set the minimum wage to provide a minimum acceptable standard of living for low-paid workers, but simultaneously ensure that its “bite” is limited, that it does not cut too deeply into the wage distribution.

It is needed to allow for labor market conditions, i.e. do not increase the minimum wage when unemployment is high or rising and is concentrated among low-skilled workers.

It is important to implement a youth sub-minimum wage, especially if youth unemployment is high. Roughly, the youth sub-minimum should account for about 75 percent of the adult minimum wage. Further differentiation may be considered, e.g. a lower minimum wage for teenagers and higher for young adults.

Besides, it is significant to consider regional differentiation in the minimum wage if labor market conditions and productivity vary substantially across regions.

In economically depressed regions with high unemployment, the regional minimum wage should be lower than in regions with more prosperous labor markets.

It is recommendable not to extend sector collective agreements regarding minimum wages to non-participating employers, and to provide an “opt out” option for employers –especially small ones, i.e. small and medium enterprises, for whom it is too costly to comply with sector agreements. Such employers from small and medium enterprises should be bound only by the national minimum wage.

Conclusion stems that performing periodical minimum wage adjustments to allow for the price or wage growth is necessary. At the same time, it should be taken into account changes in labor market conditions. To balance these two considerations, it is important not to get locked into a rigid formula for regular adjustments of the minimum wage. For example, the balance can be struck by linking minimum wages to the average wage increase, but subject to the inactivity rate remaining below a specified level (as it is the case in the Netherlands).

Therefore, either it is useful to collect data on the wage distribution or by means of an employer or by means of the household-based survey and to analyze the wage distribution before increasing the minimum wage, focusing on factors that will determine the impact. The two most important are:

- a. The ratio of the new minimum wage to the average (preferably median) wage for vulnerable worker groups (e.g. youth, low-skilled workers) and across regions.
- b. The proportion of workers to be affected by the increase, i.e. the proportion of workers whose wages are between the current and the new level of the minimum wage (by worker group and region).

Political and trade union claims for more extensive rights to worker involvement have traditionally been supported by the democratic argument that the principles of civil democracy should be transposed within firms in order for workers to become citizens in the workplace by participating in decisions that will affect them. The legitimacy and importance of such claims are in fact also supported by economic arguments, as a growing body of evidence demonstrates that advanced schemes of worker information, consultation and representation in corporate governance bodies contribute positively to economic and social performance. The ‘European Participation Index’ developed by Vitols demonstrates that European countries with high standards of worker involvement (i.e. widespread rights and practices of board representation, workplace representation and collective bargaining) perform significantly better than countries with comparatively low standards on seven major indicators of the EU ‘smart, sustainable and inclusive growth’ strategy, including their employment rate (broken down by age and gender), expenditure on R&D, and the risk among the population of poverty or exclusion. In the current turbulent

times, the fostering of greater information, consultation and representation of workers in corporate governance could, therefore, be an important means to enable companies to survive and thrive (Conchon, 2015).

It is important to set the minimum wage at a lower level and to enforce it effectively. This is a more efficient and equitable approach than setting the minimum wage at a higher level but with weak or selective enforcement.

Seen from a standpoint of an optimal economic policy, there appear to be limits to what minimum wage policies alone can achieve in the fight against in-work poverty. The route of raising minimum wages to eliminate poverty among workers solely reliant on it seems to be inherently constrained, especially in countries where the distance between minimum and average wage levels is already comparatively small and where relative poverty thresholds are mostly a function of the dual-earner living standards. In order to fight in-work poverty new policy routes need to be explored (Marx, Marchal and Nolan, 2012).

Ultimately, setting the minimum wage is a balancing act, when benefits accruing to those who enjoy a wage hike need to be weighed against potential losses suffered by those who lost their job or cannot find one.

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Gordana GASMI  
Predrag DEDEIĆ  
Rolf WEBER

**UPOREDNA ANALIZA MINIMALNE ZARADE  
U ZEMLJAMA ZAPADNOG BALKANA I U EVROPSKOJ UNIJI  
– STUDIJA SLUČAJA MINIMALNE ZARADE U DANSKOJ –**

*Apstrakt:* Studija se bavi pitanjem optimizacije plata u malim i srednjim preduzećima kao instrumentom za optimalnu ekonomsku politiku i za dobro korporativno upravljanje. Osnovna ideja optimizacije plata u različitim ekonomskim uslovima je, između ostalog, uvođenje zakonom garantovane minimalne zarade, kako bi se obezbedila optimalna ekonomska politika, socijalna pravda i dobro korporativno upravljanje. Zakonom ustanovljene minimalne plate sada postoje u više od devedeset (90%) posto svih zemalja, iako se zakoni razlikuju u velikoj meri. U Evropskoj uniji (EU) većina država članica ima definisane minimalne plate na nacionalnom nivou. Društveni značaj minimumalne plate proističe iz potrebe da se osigura socijalna sigurnost za zaposlene i njihove porodice. Mnoge kompanije su se nedavno orijentisale na utvrđivanje plata u skladu sa stopom fluktuacije bazirane na produktivnosti, ali ni u kom slučaju uplaćeni iznos neće biti manji od minimalne zarade. Efekti minimalne zarade su sledeći: uticaj na zapošljavanje, ekonomski uticaj i uticaj na produktivnost. Završne napomene naglašavaju da je neophodno uspostaviti minimalnu zaradu tako da se obezbedi minimalno prihvatljiv životni standard za slabo plaćene radnike. Preporučljivo je da se ne šire granski kolektivni ugovori u vezi sa minimalnim platama na poslodavce koji u njima ne učestvuju, kao i da se pruži mogućnost “isključivanja” za poslodavce – naročito u malim i srednjim preduzećima, za koje je preskupo da se usklađuju sa sektorskim sporazumima. Takvi poslodavci iz malih i srednjih preduzeća treba da budu obavezani samo minimalnim zaradama, koje su utvrđene na nacionalnom nivou.

*Ključne reči:* minimalna plata, EU, Zapadni Balkan, mala i srednja preduzeća, ekonomski uticaj, uticaj na zapošljavanje, uticaj na produktivnost.

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