

Learning to Love the Government: Trade Unions and Late Adoption of the Minimum Wage*

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1 Introduction

In a recent article in the *New York Times*, Liz Alderman and Steven Greenhouse tell the stories of Anthony Moore and Hampus Elofsson.¹ Each is an employee at Burger King, the former in Tampa, Florida, the latter in Copenhagen, Denmark. Moore is a shift manager who makes \$9 an hour and typically receives fewer than full-time hours, giving him a take-home pay of around \$300 per week. He is on food stamps and struggles to pay rent and utilities. Elofsson however makes \$20/hr. and is able to afford to save after paying living expenses.

One of the most likely explanations for the wage disparity would be that Denmark has a higher minimum wage than the United States. And in a sense, this is true; \$20/hr. is the minimum that employers can pay in the fast food sector in Denmark. But this minimum wage is set in a collective agreement between the Danish union 3F and the employers' association Horesta. Denmark does not have a statutory minimum wage. In fact, employers are not even legally bound to abide by the minimum wage set in the collective agreement. But they do, because they face highly organized strikes and boycotts if they do not. As Alderman and Greenhouse note: "McDonald's learned this the hard way. When it came to Denmark in the 1980s, it refused to join the employers association or adopt any collectively bargained agreements. Only after a year of raucous, union-led protests did McDonald's relent."²

Nor is Denmark an outlier among western democracies. Several advanced western democracies have not had a minimum wage until recently, including The UK (1999), Ireland

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¹ Alderman and Greenhouse 2014.

² Ibid.

(2000), and Germany (2015), while others, including Sweden, Finland, and Austria still do not have one. Yet these are among the only countries in the world without a statutory minimum wage. As we can see in figure 1, at the end of 2014, over 90% of countries globally had a statutory minimum wage.

---Figure 1 about here---

What explains the disparity between these countries, among the most labor friendly in the world and the rest of the world? And why have some introduced a statutory minimum wage in recent years while others have not? I argue that in order to answer these questions, we need to understand trade union positions on the minimum wage. Trade unions in those western democracies without a statutory minimum wage were very strong for much of the 20th century. They opposed the minimum wage, believing, among other things that it would reduce incentive for union membership. And as we can see below in Table 1, there is a negative correlation between both union density and collective bargaining agreement coverage and presence of a statutory minimum wage.³ But many unions changed their positions as low-wage competition increased and they were unable to adequately respond.

---Table 1 about here---

A closer look at the history of trade unions' minimum wage positions reveals another puzzle: in countries which eventually introduced the minimum wage, unions were divided in their support. The minimum wage divided unions along wage and skill lines with low-skill, low-wage unions supporting the minimum wage relatively early and high-wage, high-skill unions maintaining opposition, sometimes even after the major trade union confederation began to support the minimum wage. Yet such a cleavage has not existed everywhere. In the Nordic countries, unions representing low-wage workers continue to oppose the minimum wage.

³ The correlations for these 18 countries are $\sim-.54$ between collective agreement coverage and existence of a statutory minimum wage and $\sim-.52$ between union density and existence of a statutory minimum wage.

What can explain this variation? And how does it matter for the politics of introducing the minimum wage? I argue that the key matter is the threat unions face from low-wage competition. When this is low, unions prefer to set wages entirely through autonomous collective bargaining.⁴ But unions' ability to do so will vary because not all are equally affected by low-wage competition. Low-wage competition affects unions representing high-wage workers less than those representing mostly lower-wage workers. But if regulation of the low-wage labor market is particularly weak, low-wage competition may begin to pose a threat to some groups of workers represented by high-wage unions. At this point, these unions will either reduce their resistance to the minimum wage or begin to actively support it.

This paper seeks to explain how regulation of low-wage labor market competition affects unions' preferences for the minimum wage and how unions in turn influence different types of leftist political parties on the minimum wage. In section 3, I argue that low-wage competition can be regulated either by unions through industrial action or directly through government policy. Each is a sufficient, but not necessary condition for opposition to the minimum wage. In order for unions to successfully regulate low-wage competition, unions need to be able to take successful industrial action against employers who refuse to sign collective agreements. This is a function of labor law regarding industrial action and conditions for concluding collective agreements. Unions can successfully regulate low-wage competition when there is broad latitude for sympathetic industrial action across unions or the legal framework for collective agreement application is favorable. Although capacity for self-regulation is sufficient for minimum wage opposition, it is not necessary. Unions may also oppose the minimum wage if the government regulates the size of the low-wage labor pool, either through regulation of atypical employment or by reducing low-wage employment incentives through welfare benefits.

After situating my theory with respect to three recent theories in labor and social policy development, Power Resources Theory,⁵ Labor Divided Theory,⁶ and Varieties of Capitalism,⁷ I provide empirical evidence for my theory with case studies of three countries: The UK, Germany, and Sweden. Despite differences in social and labor market policy, none had a

⁴ By 'autonomous' collective bargaining, I mean collective bargaining without government participation in negotiations.

⁵ See, among others Korpi 1983; Stephens 1986.

⁶ Nijhuis 2013.

⁷ Hall and Soskice 2001.

statutory minimum wage until 1999, when one was introduced in the UK. Germany introduced a national minimum wage in the beginning of 2015 while Sweden does not have a statutory minimum wage.

I divide my examination of unions' preferences and the regulation of low-wage competition into two sections. In section 6, I show how the minimum wage created a cleavage between low- and high-wage unions in the UK and Germany as initially, low-wage competition affected only the former. As low-wage competition began to affect higher-wage unions, they also began to support the minimum wage. But low-wage unions in Sweden do not support the minimum wage, as they do not yet face strong low-wage competition.

In order to improve identification of the effect of labor market regulation on unions' minimum wage preferences, I examine how these preferences responded to regulatory shocks in section 7. I show that the British Conservatives' labor law reforms in the early 1980s, which made it more difficult for unions to organize workers and conduct strikes convinced some high-wage unions and the Trade Unions Congress to support the minimum wage. In Germany, the 2003-5 Hartz reforms had a similar effect, although they did so by deregulating the low-wage labor market rather than changing laws affecting strike regulation or union organization. I argue however that the 2007 European Court of Justice Laval Case, which addressed the issue of foreign employers posting workers in Sweden at their home countries' wages, did not affect unions' opposition to the minimum wage because it allowed them to continue to enforce the conditions in their national collective agreements.

In order to illustrate the importance of unions' minimum wage preferences for the politics of minimum wage introduction, I show in section 8 how the position taken by the main trade union confederation affects that of closely allied social democratic parties. These parties, for which unions are central constituents, do not fully support the minimum wage until after the trade union confederation supports it. Union confederation support for the minimum wage was very influential on both the Labour Party in the UK and the Social Democratic Party in Germany. I argue however that union support does not have the same effect on parties further to the left, which represent largely lower-wage, non-union member constituents and which will support the minimum wage before unions as a way to appeal to their core constituents. The Left Party in Germany supported the minimum wage well before either the major trade union

confederation or the Social Democratic Party. There is no evidence of serious discussion of the minimum wage within the Social Democratic Party in Sweden.

This paper contributes to our understanding of the changing roles of trade unions and the state in social policy and the importance of labor law in unions' power resources. The minimum wage has become an increasingly important policy tool across western democracies, as the disadvantages of structural change in labor markets have fallen disproportionately on lower-wage workers. But national institutions still matter for outcomes as well as how unions are able to mediate those outcomes. Although they have reduced impact at the higher of the wage distribution, unions in Nordic countries are still able to establish high minimum wages contractually. These cases teach us that unions can still promote social solidarity and prevent non-living wage work, but that they require a supportive legal framework in order to do so.

2 Explaining Union Preferences for the Minimum Wage

There is a surprising lack of research on the politics of the minimum wage, especially given the voluminous literature on its employment effects.⁸ Work on minimum wage increases at the federal level in the United States has found that state-level union strength is a positive predictor of representative and senator support.⁹ This applies both to the original introduction of the federal minimum wage in the Federal Labor Standards Act of 1938¹⁰ and subsequent house and senate votes for federal minimum wage increases.¹¹

This positive relationship between union strength and minimum wage outcomes is intuitive because one of the fundamental aims of unions is to remove wages from competition. A minimum wage puts a floor under low-wage competition, making higher-wage union labor less unattractive. Cox and Oaxaca formalize the argument that high-skills unions will support

⁸ There is still little consensus on the employment effects of the minimum wage, given the multitude of possible dependent variables and differing ideas about identification strategies. The state-of-the-art approach is to exploit US state-level changes in minimum wage rates on employment in border regions. Papers using this approach have found small and statistically insignificant effects of actual minimum wage increases on employment and wages. See Card and Krueger 1994; Dube, Lester, and Reich 2010.

⁹ In one of the few comparative studies, Aghion, Algan, and Cahuc 2011 find that the minimum wage is not present in countries characterized by high levels of social trust, which regulate labor markets through social cooperation rather than legislation.

¹⁰ Seltzer 1995.

¹¹ Silberman and Durden 1976.

introducing a minimum wage as it increases the price and thus decreases the demand for substitutable, non-unionized labor.¹² One can easily extend this logic to the minimum wage preferences of unions representing low-wage workers. Assuming that unionized workers make higher wages than non-unionized workers, an increase in the legal minimum wage increases the price and decreases the attractiveness of non-unionized, low-skills labor relative to unionized, low-skills labor.

But while this logic appears to explain American unions' positions on minimum wages in recent decades,¹³ it does not appear to generalize well either to other western democracies or to earlier periods in US history. Across countries, there has been a cleavage between weaker, low-wage unions, which struggle both to bargain for acceptable wages and to restrict lower-wage labor market entry and higher-wage unions, which are less threatened by low-wage competition. The two largest American trade union confederations, the Council of Industrial Organizations (CIO) and the American Federation of Labor (AFL) disagreed over the introduction of a minimum wage in the 1938 Federal Labor Standards Act. The former, representing largely lower-skills, industrial unions was supportive while the latter, which represented smaller, higher-skills craft unions had several reservations.¹⁴ In the European countries that have introduced the minimum wage in recent years, low-wage unions were early supporters, but could not garner sufficient support within the trade union confederation as higher-wage unions opposed it.

If the benefit unions receive from restricting low-wage competition is not sufficient for them to support the minimum wage, what are the costs and why does the cost-benefit balance differ between unions and over time? Unions' primary concern is that if there is a minimum wage, workers will have reduced incentive to join unions. There is a general fear that this will cause a decline in the social norm of unionism and unions will lose their social preeminence as *the* wage setters. Workers making around the level of the minimum wage might be discouraged from paying union dues and participating in union efforts to fight for higher wages if their wage is largely determined by legislative action.

There are several additional concerns. Union leaders are concerned that the minimum wage will set lower wage 'targets,' toward which employers will orient their bargaining with

¹² Cox and Oaxaca 1982.

¹³ This applies both to the federal minimum wage and local and state level minimum wages. See Reynolds and Kern 2001 on union support for local 'living wage' campaigns.

¹⁴ Forsythe 1939.

unions. Another is that government intervention in wage setting will set a 'slippery slope' precedent, which will make it more difficult for unions to resist similar future government interventions. It could, for example set a legal precedent allowing mandated wage restraint to combat inflation or unemployment. An additional reason why some high-wage unions may oppose the minimum wage is that they benefit from lower wages for low-wage workers and want to prevent wage redistribution.¹⁵

I argue that the primary issue that affects the cost-benefit balance is whether unions are strong enough to suppress low-wage competition and achieve satisfactory wage outcomes through bargaining. When unions are strong and can pressure employers to accept favorable wage outcomes, this is their preference. Gary Marks makes a similar argument for union involvement in politics generally.¹⁶ He argues that when unions are strong and able to adapt to challenges in their economic environment, they adopt 'voluntarism,' a strategy of favoring workplace over political activism.¹⁷ Only when economic conditions become unfavorable do they turn to political activity.

3 Regulating Low-Wage Competition

In this section, I argue that the decisive factor for unions' preferences is the degree to which they face low-wage, non-unionized competition that would be affected by the minimum wage. First, I show how this will naturally vary across unions by wage. Then I show how different types of labor market regulations will affect low-wage competition and unions' minimum wage preferences. I focus on two types of regulation: 1) regulation of industrial action 2) direct regulation of the low-wage labor market. Where legal regulation of industrial action is favorable, they can self-regulate the low-wage labor market sufficiently without a minimum wage. Where this is less favorable, unions will only oppose the minimum wage if the government heavily regulates the low-wage labor market.

The minimum wage differentially affects low- and high-wage unions. The former typically represent workers with general skills, who are more easily replaced. High-skill, high-wage union workers are less likely to face low-wage competition, as their skills are more task-

¹⁵ Carlin and Soskice 2009; Nijhuis 2013.

¹⁶ Marks 1989.

¹⁷ See also Hattam 1993 on the role of judicial and political institutions in unions' adoption of voluntarism.

specific and less common than those of lower-wage workers. Unions whose members include very few potentially replaceable workers should continue to oppose the minimum wage. Some of these unions might begin to support the minimum wage however if there is an influx of labor market competition due to increased substitutability by lower-wage workers or high-wage unions' collective agreements also cover lower-skill workers.¹⁸

Among unions that could potentially face low-wage competition, what will affect the degree to which they do? Although previous research shows that unions will oppose government intervention into the labor market when they are strong, this raises the question of how to define trade union strength. The typical conception of union strength as union density¹⁹ is insufficient because it does not take into account two things which affect the degree of low-wage competition: 1) how unions are able to leverage their membership to secure collective agreements 2) how labor market regulations restrict the supply of low-wage competition. Unions' capacity to strike effectively is a function of their membership size and the regulatory environment for industrial action. Where these are favorable, unions can self-regulate low-wage competition. But while sufficient for union opposition to the minimum wage, this condition is not necessary. If unions are incapable of regulating low-wage competition through strikes, the government can do this through employment regulation (such as restrictions on temporary or part-time employment) or by providing generous unemployment benefits. Conversely, it can increase low-wage competition through wage subsidies or by reducing public employment.

Industrial action allows unions to self-regulate the low-wage labor market by shutting down employers who would pay sub-union wages. Unions' capacity for industrial action is a function of the size of their membership, but also the legal regulation of industrial action. The latter varies greatly across western democracies. Under permissive regulations, unions can engage in different types of 'secondary' action, including solidarity strikes, where one union strikes in support of another striking union or blockades, where a union blocks services or deliveries to an employer confronted by a strike. Where these secondary actions are permitted, even unions with relatively low levels of membership or agreement coverage may be effective in

¹⁸ Collective agreements for unions representing mostly higher-skill, higher-wage workers, like Germany's IG Metall may also cover lower-skill, lower-wage workers. This makes these unions more susceptible to deregulation of the low-wage labor market. The norm in Germany, as in the United States is to have one collective agreement per workplace.

¹⁹ Union density is the percentage of workers who are members of unions.

pressuring employers into favorable collective agreements. Almost all EU countries allow secondary action, but level of permissiveness varies greatly.²⁰ The Nordic countries are the most permissive of secondary action.²¹ Both strikes and secondary action are more heavily regulated in Germany, with the former requiring strict proportionality to the grievance and blockades being illegal. Secondary strikes and blockades are illegal in the UK and US. Strikes in the UK have very strict mail balloting conditions, where there is high likelihood of spoiled ballots.²²

Unions' ability to self-regulate low-wage competition is also a function of the legal framework for setting collective agreements. Less stringent voting rules for workplace unionization and legal restrictions on the replacement of striking workers weaken employers' abilities to replace unionized workers. Conditions for union membership are also very important. Several authors have noted that one of the most effective ways to maintain high union membership is to have a Ghent system of unemployment insurance, in which unions administer unemployment insurance and membership is required to participate.²³ Also important are laws extending collective agreement conditions to firms which do not sign them. Almost all European countries have such a legal procedure for extending collective agreements (known as *Erga Omnes* clauses), although the conditions vary greatly.²⁴ This should weaken unions' support for a statutory minimum wage, as it effectively eliminates wage competition below collective agreement levels.

If strike law and workplace unionization are unfavorable for union self-regulation of low-wage competition, unions may still oppose the minimum wage if the government sufficiently reduces low-wage competition. Employment regulations, such as restrictions on temporary employment contracts or a requirement that these jobs pay standard union rates can reduce the attractiveness of employing lower-wage workers. Deregulation of temporary employment would

²⁰ Warneck 2007.

²¹ Sweden, for example requires neither reasonable proportion between the strike and the grievance, nor either a legal or economic connection between the union and the targeted party.

²² Addison and Siebert 2002.

²³ Western 1997. This system exists in the Nordic countries and Belgium.

²⁴ In Germany, a collective agreement must cover 50% of all workers in a sector nationwide and the Ministry of Labor must deem extension to be in the public interest. This 50% threshold is also custom in The Netherlands, but there is no public interest requirement. In France, the Ministry of Labor, regardless of agreement coverage, can extend a collective agreement, as long as it covers a wide range of working conditions. Neither Sweden nor Denmark has such a legal procedure. See Blanpain 2005.

increase low-wage competition, provided there is an available pool of potential workers. A generous system of unemployment benefits reduces labor market competition by reducing the incentive of those who lose their jobs from reentering the labor market as low-wage competition. On the other hand, the state may increase unions' low-wage competition by offering wage subsidies to increase labor market participation and reduce unemployment. It can also reduce public employment, which hurts unions as public employers are more susceptible to political pressure and are easier to unionize.

Both union strength and the size of the low-wage competitive pool are affected by larger structural factors, such as technological change and offshoring. But while these may have played a role in the weakness of low-wage British and German unions and their support for the minimum wage, they cannot easily explain within-country, between-union variation as early support came from service sector unions and the industrial unions most likely to be affected by these changes were most reluctant to support the minimum wage. They also cannot easily explain the variation between similar unions in different countries, notably between low-wage unions in the Nordic countries, which oppose the minimum wage and those elsewhere.

4 Theories of Welfare State Development and the Minimum Wage

In this section, I examine the relationship between my theory of minimum wage preferences and three other recent theories of unions and social policy: Power Resources Theory (PRT), 'Labor Divided' Theory (LDT), and Varieties of Capitalism (VoC).²⁵ While my theory shares similarities with each, the primary difference with all three is the emphasis on labor law in determining unions' power resources.

PRT conceives of western political economies in class terms (labor vs. capital) and explains the development of social policy as a function of the "distribution of power resources between the main classes within this society."²⁶ Labor as a class fights for the expansion of the welfare state through social democratic parties in order to reduce labor market insecurity and risk. Capital largely opposes these programs, both because it benefits from increased labor market competition and because it will be largely responsible to pay for programs through

²⁵ None of these works was developed to explain the minimum wage specifically. Neither PRT nor VoC directly address the minimum wage, while LDT addresses it as one of several areas of social policy.

²⁶ Korpi 1983, p. 4.

taxation. LDT shares the PRT view that labor is the central actor in social policy development, but argues that absent a centralized peak organization, unions will be divided along wage lines, with high-wage unions blocking social programs primarily benefitting low-wage workers.²⁷ VoC shares the LRT view that within-labor cleavages are important, but emphasizes the role of employers and skills in social policy development. According to this view, unions and employers in Coordinated Market Economies (CME) like Germany and Sweden favor strongly institutionalized negotiations and protections for workers to foster specific skill development. Unions and employers in Liberal Market Economies (LME) like the UK have more adversarial relations, with employers constantly looking for ways to undercut unions and replace union labor.²⁸

Regarding the minimum wage, my theory shares with PRT and LDT the emphasis on labor's active role in policy development. Employers almost always oppose the minimum wage and where they have supported it, they have been either ineffective in achieving their preferences²⁹ or agreed with unions to support it because their primary competition came from foreign employers and workers.³⁰ But it shares with LDT the importance of within-labor cleavages, as high-wage unions often oppose the minimum wage. My theory and LDT depart however in explaining the evolution of preferences for the minimum wage. According to Nijhuis, high-wage unions oppose the minimum wage because they are concerned about redistribution to low-wage unions. But this is hard to reconcile with the fact that these unions change their positions and that they often represent workers who are affected by low-wage competition. Furthermore, his theory explains the between-union cleavage as a function of the level of wage bargaining coordination between unions, which is relatively constant over time within countries and thus cannot easily explaining changing preferences.³¹

The relationship with VoC is a bit more complicated because work within this paradigm has evolved. Early VoC work cannot account for either the original lack of a minimum wage or

²⁷ Nijhuis 2013.

²⁸ Hall and Soskice 2001.

²⁹ See *Eurofound* 2009; Davesne 2009.

³⁰ Starting in 1996, both the union and employers association in the German construction industry agreed to set their collective agreement minimum wage as the national construction industry minimum wage in order to prevent foreign companies from posting workers from their home countries in Germany at home country wages. See Bosch and Kalina 2010.

³¹ Du Caju, Gautier, Momferatou, and Ward-Warmedinger 2008.

unions' negative attitudes toward the minimum wage in both LMEs, like the UK and CMEs, like Germany and Sweden. My theory is more consistent with recent VoC work, which highlights the divergent paths of the Nordic CMEs and Germany. This work places greater emphasis on the role of the state in stabilizing industrial relations through public employment and training programs to help improve workers' skills and reintegrate those who lose their jobs.³²

Although none of these theories was formulated specifically to explain unions' preferences or the politics of the minimum wage, one shortcoming that they all share is that they give little role to labor law and especially strike law in allowing unions to regulate low-wage competition. While power resources theorists have explanations for between-country variation in union strength,³³ there is little emphasis on how labor law gives unions greater or lesser capability to maintain their own power resources and insulate themselves from low-wage competition. While the role of the state as an employer brings stability to industrial relations in Denmark and Sweden, unions in these countries have effectively used strikes to shut down service sector employers unwilling to sign collective agreements, something which would likely not be possible in the UK or Germany. And as we will see below, the Thatcher government's elimination of strike immunity and tightening of conditions for workplace unionization was soon followed by Trade Unions Congress support for the minimum wage.

5 Regulating Low-Wage Competition and Minimum Wage Preferences

Case Selection

Given that my theory applies to unions that are potentially strong enough to regulate wage setting through collective agreements, it is most relevant for western democracies, across which broad-based (but not necessarily centralized) unions became very strong post-World War II. It would not apply to the other two types of countries outside of the west that do not have minimum wage, wealthy autocracies and very poor developing countries, as trade unions are either weak or nonexistent. The theory is most relevant for countries in which lower-wage unions were strong enough to reasonably believe that they could have set acceptable wages through direct bargaining with employers. If unions were never major players in low-wage sectors, they would have little concern about the membership disincentive effects of the minimum wage. In such

³² See Martin and Thelen 2007; Thelen 2014.

³³ See Stephens 1986 on the role of the timing of industrialization in union strength.

cases, the effort to introduce the minimum wage might be led by leftist political parties, which could use the issue to appeal to low-wage voters. Unions might support such efforts, but would not be necessary players in the political process due to their weakness. Interesting cases for further research along this line are Latin American countries, which all adopted the minimum wage relatively early, before unions had become strong.³⁴

I examine three cases: Germany, the UK, and Sweden. I combine interviews with trade union officials with primary sources, including union and parliamentary debates, and secondary sources. The cases are representative of different welfare state models (Germany--Continental, The UK--Liberal, Sweden--Scandinavian) and political institutions (first-past-the-post electoral system in the UK, proportional representation in Germany and Sweden). They exhibit within-case over-time and between-case variation in the dependent variable, unions' minimum wage preferences.³⁵

In order to better identify the effect of labor market regulations, I combine both between-country and within-country, over-time examinations of union positions. There is a great deal of variation in minimum wage positions both within unions over time and between unions in Germany and the UK, but less so in Sweden. Although union density is declining in all three countries, the timing is different, beginning in the 1980s in Germany and the UK, but not until the 1990s in Sweden. British unions faced unfavorable changes to the labor law in the 1980s, but while there have been unfavorable labor law developments for both German and Swedish unions, these have been of lesser magnitude. Germany is a particularly timely case as the minimum wage has been one of the foremost political issues in the 2009 and 2013 elections and was until fairly

³⁴ The minimum wage was adopted in most Latin American countries in the 1930s and 40s as they established comprehensive labor codes. See Starr 1981.

³⁵ Two other cases are worth mentioning: France and The Netherlands. They differ from the countries here in that both set minimum wages relatively early (France in 1950, The Netherlands in 1968), but also have a history of stronger state intervention into the labor market than the UK, Germany, and Sweden. State intervention in France is due in large part historically to weakness and fragmentation among both unions and employers. The Ministry of Labor commonly extends collective agreements (which only one of the five major confederations can conclude), which covered over 90% of firms in 2010, even though union density was only 8%. See Howell 2009; Husson, Sommeiller, and Vincent 2015; Visser 2013. The Netherlands also has a long history of state intervention in the labor market, with extensive usage of incomes policy and collective agreement extension. There was, however resistance among several major unions when the minimum wage was first discussed, as they were concerned that it might erode their ability to attract workers. See Nijhuis 2013, p. 46 n. 90.

recent the subject of much controversy among trade unions. Sweden is one of the only countries in which unions still oppose the minimum wage.³⁶

The next two sections focus on between-union/between-country variation and within-country over-time comparisons respectively. In section 6, I describe the positions of various unions in Germany, The UK, and Sweden, with emphasis on how these positions vary across unions and over time by threat from low-wage competition. In section 7, I show how the positions of British, German, and Swedish unions responded to three labor market regulatory shocks respectively: the Conservatives' labor market reforms in the early 1980s, the Hartz reforms (2003-5), and the European Court of Justice's Laval ruling (2007). In the final empirical section, section 8, I show how union minimum wage positions affected those of different left parties and were instrumental in the political process of introducing the minimum wage.

6 Unions' Minimum Wage Preferences

Germany

The introduction of a statutory minimum wage was one of the central issues in the 2013 German parliamentary elections and became part of the coalition contract between the SPD and their coalition partners, the Christian Democratic Union (CDU, *Christlich Demokratische Union*) and the Christian Social Union (CSU, *Christlich Soziale Union*).³⁷ The coalition contract states that the minimum wage will be set at 8.50 €/hour, applicable from January 1, 2015.³⁸ This was passed into law in June 2014. Although there was no single minimum wage before this, there were two legal procedures by which sectoral minimum wages could be set through collective agreement extension: 1) if an existing collective agreement covered at least 50% of employees in a sector

³⁶ I could have also chosen Norway, Denmark, or Finland, which have similar political and economic institutions and whose trade union confederations oppose the minimum wage. Norway and Finland both have procedures to extend collective agreements to non-signing firms. Denmark is most similar to Sweden in that it does not have such a procedure.

³⁷ The minimum wage and political intervention into trade union activities generally had long been taboo as *Tarifautonomie* (collective bargaining autonomy) is enshrined in Article 9 of the German constitution.

³⁸ The minimum wage was initially set by the legislature, but future increases (starting in 2016) will be recommended by a tripartite commission comprised of nine representatives of unions, employers, and pay experts (each having three seats), similar to the current British Low Pay Commission. The parliament will have veto power over the commission's proposal, but will not have active power to set the minimum wage. See Schuler, Beuth, Uken, Breitingner, Faigle, Jacobsen, Sadigh, Karschnick, and Richter 2013.

nationwide and both the employers' association and major union in the sector declared their interest in general application. 2) In industries where collective bargaining was weak, unions, employers, or a federal state government could convene a committee to set a minimum wage. If the committee determined that the industry had 'deep social rifts,' it could set a minimum wage.³⁹

The German Trade Union Confederation (DGB; *Deutscher Gewerkschaftsbund*) supported introducing a general statutory minimum wage since its 2006 congress, when it introduced a proposal for a 7.50 €/hour minimum wage.⁴⁰ This position was supported by 7 of the 8 major trade unions, with only the chemical workers' union, IG BCE voting against.⁴¹ Two other unions, IG Metall, which represents workers in manufacturing and is the largest union in Germany with approximately 2.3 million members⁴² and IG Bau, which represents workers in the building sector⁴³ voted in favor of the proposal, but did so reluctantly.

When the minimum wage came up for national discussion as part of the Hartz labor market reforms in 2004, representatives from both IG Metall and the DGB executive board spoke out against it, declaring that minimum wages should instead be based upon local collective agreement wages.⁴⁴ Their positions however had softened by the 2006 vote, after the Hartz reforms had taken effect. In a debate about the minimum wage at the 2006 congress, a representative of IG Metall stated that they still preferred changing the laws on collective agreement extension to set sector-specific minimum wages, but recognized that while this would

³⁹ The first procedure had been implemented in several sectors, including the construction, painting, roofing, demolition, janitorial, electrical, and postal service sectors and covered approximately 1.3 million workers in 2008. As of 2011, the second procedure had not been used. See Bosch and Weinkopf 2011.

⁴⁰ Bosch and Kalina 2010. The DGB congress is a general convention of representatives and members of the 8 member trade unions, which meets every four years, to discuss and vote on policies and political strategy.

⁴¹ IG BCE is a very strong union, having one of the highest rates of collective agreement coverage, with 83% of workers and 59% of firms nationwide covered by a collective agreement in 2009. See Bispinck, Bauer, Kirchner, Müller, Schmidt, Schwacke-Pilger, Taube, and Wiebel 2011.

⁴² As of 2009, about 63% of workers and 38% of firms in the manufacturing sector nationwide were covered by collective agreements. Ibid.

⁴³ Collective agreements in the building sector cover a relatively high percentage of workers--approximately 72% (59% of firms) in 2009--because they are legally extended to the entire sector. Ibid.

⁴⁴ See *Spiegel Online* 2004.

help them more than a minimum wage, it was insufficient.⁴⁵ Although IG Bau voted in favor of the minimum wage, their representative in this debate made it clear that they still preferred sector-specific minimum wages.⁴⁶ Dissenting from the minimum wage proposal, Hubertus Schmoldt, the Chairman of IG BCE, raised concerns about membership loss and declining support for unions, as well as further political interventions into Tarifautonomie and reduced focus on alternative solutions.⁴⁷

The two strongest minimum wage proponents were the Food, Beverages, and Catering Union (NGG; *Nahrung, Genuss, Gaststätten*) and the General Service Sector Union (Ver.di; *Vereinte Dienstleistungsgewerkschaft*). NGG was the first union to support the minimum wage, which it did in 1999.⁴⁸ At that time, the union organized warning strikes and campaigns to improve organizational quality, but had difficulty gaining traction as worker turnover was fairly high and there were too many small and medium-sized employers to either organize members or strikes effectively.⁴⁹ NGG and Ver.di jointly supported a proposal for a general minimum wage at the 2002 DGB Federal Congress, but this met resistance from other unions and the DGB leadership. Both NGG and Ver.di opposed setting the minimum wage through sectoral collective agreements. They argued that even if they could attain the 50% threshold or if the threshold were lowered, their ability to set acceptable wages through bargaining was so weak that any wage they

⁴⁵ According to representative Michael Guggemos: "IG Metall demands the revision of the law regarding the fixing of minimum working conditions from the year 1952, in which the lowest contract rate of a sector can be declared the legal sector minimum income." But he goes on to say later: "However it is clear to us that will not succeed in all areas. Therefore we vote in a second step for a national minimum wage." Sterkel, Schulten, and Wiedemuth; 266; 282.

⁴⁶ According to their representative in the debate, Gregor Asshoff: "The position of IG Bau is: let us try to make the posted workers' law usable for other sectors...We are as before of the view that this is the least harmful way for wage setting autonomy." Sterkel, Schulten, and Wiedemuth 2006, 267.

⁴⁷ Schmoldt declared: "I don't know what our sales pitch is if we need the state to regulate compensation conditions. In any case, no one can expect that people will flock to the unions." *Frankfurter Allgemeine Zeitung* 2006.

⁴⁸ In 2009, sectors covered by NGG had the third lowest density of 13 German sectors (47% of workers, 34% of firms), only behind the Information/Communication sector and the transport and storage sector. Bispinck, Bauer, Kirchner, Müller, Schmidt, Schwacke-Pilger, Taube, and Wiebel 2011.

⁴⁹ Sterkel, Schulten, and Wiedemuth 2006, 269.

would be able to set would be lower than the likely national minimum.⁵⁰ Yet representatives of these unions also acknowledged that if the legal situation were different, they would prefer to set minimum wages through collective agreements.⁵¹

The United Kingdom

The Labour government under Tony Blair introduced a national minimum wage in the National Minimum Wage Act of 1998. The Low-Pay Commission, a tripartite commission comprised of representatives of unions, employers, and government-appointed pay experts, sets it. Previously, there had been a system of wage councils, which set sector-specific minimum wages for weakly unionized, low-wage sectors.⁵² These had, however been declining throughout the 1970s and were largely abolished by the Conservative government in 1986.⁵³ Unions supported the Labour Party's abolition of 14 wage councils while it was in power from 1974-79, as they believed that these institutionalized low pay and discouraged the workers from seeking union membership.⁵⁴

The statutory minimum wage was even more controversial among British trade unions than the wage councils. One of the primary reasons was that a minimum wage would reduce incentives to join a union.⁵⁵ The wage councils were considered more acceptable than a general minimum wage because they only applied in sectors in which bargaining was weak and would disappear when bargaining became strong enough. Both unions and the Labour Party felt that a

⁵⁰ Indeed at this point, Ver.di had several regional collective agreements with rates around 4 €/hr. During this period, the service sector unions also faced increased competition from employer-friendly 'Christian' unions, which would conclude agreements with low wages, putting downward pressure on wages in these sectors.

⁵¹ Participant Andreas Rieger notes that "The Scandinavian unions are very effective when they are able to engage in solidarity strikes. If those in Germany could do the same thing...the debate on the minimum wage would end." Günther Waschkuhn, a Ver.di representative admits that "Earlier, I was of the position that we would be committing an irreparable mistake if we even let the regulation of wages a little bit out of our hands-the way of minimum wages would lead automatically at some point to mandatory arbitration by the state." Sterkel, Schulten, and Wiedemuth 2006, 277; 269-70.

⁵² There is one remaining wage council, in agriculture. Sellars 2014.

⁵³ Metcalf 1999.

⁵⁴ Blackburn 1988.

⁵⁵ According to Paul Sellars, a TUC Pay Policy Officer: "If you join a trade union, they negotiate better terms and conditions for you...and to the extent that you have a national minimum wage, that takes something off the incentive to joining a trade union." Sellars 2014.

national minimum wage would replace the councils with a less favorable form of collective bargaining.⁵⁶

The minimum wage received some attention after the Labour Party came to power in 1964 and received support from some lower-wage generalist unions, including the Union of Shop, Distributive and Allied Workers (USDAW), the National Union of Public Employees (NUPE), and the General and Municipal Workers' Union (GMWU).⁵⁷ But it also received substantial pushback from higher-wage unions, including the Iron and Steel Trades Confederation (ISTC) and the white collar National Association of Local Government Officers (NALGO). According to Ian McCartney, a Labour Party member of parliament in charge of preparations for the National Minimum Wage Act: "They were worried about jobs, they were worried about differentials...but beyond that there was a general collective bargaining fear for a number of trade unionists. They said 'If you legislate, at what price to trade union organisation? It would disappear.'"⁵⁸

But by the mid-1980s, union support for introducing a minimum wage had increased. The TUC began to officially support the introducing a legal minimum wage in 1986.⁵⁹ The Transport General Workers' Union (TGWU), formerly opposed to the minimum wage, began to support it during this period as they "began to realise that their position was weak too and that in the absence of an effective wage floor there would be downward pressure on negotiated rates, particularly at a time of high unemployment."⁶⁰ Although there was still resistance to the minimum wage, most notably from the Amalgamated Electrical and Engineering Union (AEEU), a sufficient number of unions had come around for the minimum wage to receive the TUC's full support.

Sweden

In contrast to those in Germany and the UK, Swedish unions have managed to keep both very high membership and collective agreement coverage, at 68.9% and 91% respectively in 2010.⁶¹

⁵⁶ Metcalf 1999.

⁵⁷ Nijhuis 2013, 38; Coats 2007, 20.

⁵⁸ *Institute for Government* 1998.

⁵⁹ Blackburn 1988.

⁶⁰ Coats 2007, 22.

⁶¹ Visser 2013.

High density and collective agreement coverage, especially when combined with a legal framework giving wide permissiveness for industrial action give Swedish unions high strike capacity and thus a great deal of power in direct bargaining with employers. This is also true in lower-wage service sectors, which in other countries tend to have a far lower unionization and coverage rates. As a result, the major trade union for manufacturing and service sector workers, the LO (*Landsorganisation i Sverige*) has always opposed the legal minimum wage and continues to oppose it. I interviewed two representatives of the LO and they made their position very clear. Their idea "is to be a cartel...we sell labor. And if we sell labor, we will negotiate the price of labor."⁶²

Critical for the LO are maintaining union incentives to organize workers, worker incentives to join unions, and ultimately "upholding social power within the workers' movement."⁶³ One of the concerns about ceding social power is that this will eventually jeopardize other trade union rights as well. According to Claes-Mikael Jonsson:

"...it's all about social power. So if we, sort of let the power or the price of labor slip through our fingers and we get someone else doing that for us, then we will lose a lot of influence. And it will lower the wages, other conditions will follow, and that's what you learn from all other countries. So, last resort as a trade union is to demand a legislative minimum wage. As soon as you're there, I think it's very difficult to get out of it."⁶⁴

In addition to having high density and collective agreement coverage, Swedish unions' ability to leverage this latent strength is high due to labor law. Although there is no legal procedure for extending collective agreements as in Germany, sympathy strikes and blockades are legal. This allows unions to act in solidarity to pressure non-cooperative employers to sign collective agreements.⁶⁵ The right to strike is protected by the constitution and the right to

⁶² Jonsson and With 2013.

⁶³ With: "I think that if we [don't] have [a] legal minimum wage we have an incitement to organize the workforce and ask for a collective agreement. It's easier to negotiate...if we do not have [a] legal level. The idea is that we shall regulate it by oursel[ves]. If it was a regulation from the beginning, why should we try to unionize the workplace?" Ibid

⁶⁴ Ibid.

⁶⁵ This has been especially important for dealing with international firms in Sweden. When American toy retailer Toys "R" Us came to Sweden in the mid-90s and refused to sign a collective agreement, the workers went on strike and electrician and transport workers blockaded

secondary action is much broader than in Germany and most other countries, requiring neither reasonable proportion between primary and secondary action nor a legal or economic connection between workers and the targeted firm(s).⁶⁶ Public employees are entitled to strike. The two primary restrictions on strikes are that the primary strike must be taken with the purpose of securing a collective agreement and that strictly political strikes are illegal.

Despite favorable conditions regarding strikes, unions' ability to control low-wage competition has slipped in some sectors in recent years. In 2006, the Conservative government increased the fees for participation in the union-controlled unemployment insurance, which reduced an important incentive for union membership. The reduction of barriers to flows of goods and services in the EU is also important. While this has only minimally affected unions' abilities to conclude collective agreements with immobile workplaces in the service sector (such as hotels and restaurants), it has affected their control over more mobile sectors, such as trucking. Strikes and blockades are less effective here, as those who employ the drivers are based in other countries and Swedish unions cannot strike against these employers. The Swedish Transportation Workers' Union has begun to investigate other countries' systems of extending collective agreements to non-covered firms, but even this has met a cool reception at the LO.⁶⁷

7 Regulatory Shocks and Unions' Minimum Wage Preferences

If my theory is correct, unions' minimum wage preferences should change in response to unfavorable changes to labor market regulations affecting unions' strike capacity or the degree of low-wage competition. If we can isolate relevant labor market regulatory changes and show that union positions remained relatively constant until these changes but then quickly changed, this would increase our confidence that the regulation of low-wage competition, and not other gradual changes (such as structural economic changes or the level of inequality) have a causal effect on union preferences. It would also increase our confidence that relatively fixed institutional factors, such as the degree of coordination or centralization of collective bargaining are not primarily responsible for explaining unions' positions. In this section, I identify the effect of labor market regulation on unions' minimum wage preferences by focusing on how these

Toys "R" Us stores. This brought Toys "R" Us to sign a collective agreement, establishing an important precedent. Ibid.

⁶⁶ Warneck 2007.

⁶⁷ Rolfer 2015.

preferences responded to a labor market 'shock' in each of the three countries. I examine the response of unions' minimum wage preferences to the Conservative Party's labor law reforms in the UK in the early 1980s, the Hartz labor market reforms in Germany in the early 2000s, and the European Court of Justice's 2007 Laval ruling on posting foreign workers in Sweden.

The British Conservative Party's labor law reforms had a dramatic effect on unions' ability to self-regulate the labor market. These reforms made secondary strikes illegal, greatly curtailed unions' legal immunities for primary strikes, increased the procedural burden for union recognition, and abolished extension of collective agreements. Although the Hartz reforms didn't affect the legal regulation of union coverage or strikes, they deregulated the labor market and introduced wage subsidies for low-wage work, dramatically expanding low-wage competition. This made it easier and more attractive for employers to avoid negotiating with unions and increased low-wage competition even for higher-wage unions. The ECJ's Laval ruling had a different effect on Swedish unions. Although either extending collective agreements or setting a minimum wage would have addressed the problem identified by the court, that of wage non-transparency, Swedish unions wanted a solution that would still allow them to work through collective agreements. They sought and were able to achieve a political compromise that would require employers posting workers to follow the conditions in simplified versions of existing collective agreements.

The British Conservatives' Labor Law Reforms: The Conservative Party's labor market reforms in the early 1980s had a tremendous impact on unions' abilities to self-regulate low-wage competition. These reforms both dramatically curtailed unions' legal immunity to strike⁶⁸ and made it substantially more difficult for them to recruit members. By the mid-1980s, unions had lost their ability to conduct secondary actions, faced much higher legal hurdles to conduct primary strikes, and faced greater restrictions for a plant being declared a closed shop, where all employees must join the union and pay union dues.

⁶⁸ There has never been a legal 'right to strike' in the UK. Since 1906, there have been a series of immunities for trade union actions undertaken in contemplation or furtherance of a trade dispute. Prior to the Conservatives' labor market reforms, the definition of a trade dispute was very broad and could be interpreted to cover most types of industrial disputes. See Addison and Siebert 2002.

Although there were six major labor market reforms from 1980-1993 (the last occurring under Prime Minister John Major), the first three, The 1980 Employment Act, 1982 Employment Act, and the 1984 Trade Union Act were primarily responsible for removing unions' legal immunities for strikes and tightening the conditions for maintenance of closed shops.⁶⁹ Additionally, the government privatized many public companies, which made it easier to replace relatively high-wage union workers with lower-wage non-unionized workers, increasing low-wage competition for the remaining unionized workers.

The 1980 Employment Act restricted picketing to primary employer disputes and removed immunity from breach of contract for workers striking against anyone other than their primary employer. It also required closed shops to be approved in a secret ballot of at least 80% of those entitled to vote. The 1982 Employment Act further curtailed the scope for strikers' immunity. Critically, and unlike the 1980 act, this act made unions, not just the individual workers, financially liable for unlawful industrial action. This would make them vulnerable to crippling lawsuits. It also required closed shop agreements to be renewed every five years and outlawed contracts specifying that only union labor could be used. The 1984 Trade Union Act further limited unions' strike capabilities by requiring unions to send ballots to all workers who would be called upon to strike. This raised the possibility of strikes being declared illegal if even a few ineligible workers were sent strike ballots or these were not sent to a few workers entitled to vote.

The TUC voted to support a legal minimum wage in 1986, less than two years after the main reforms had been enacted. They had removed almost all protections for striking and dramatically increased the financial liabilities associated with this, limiting unions' ability to apply pressure on employers in collective bargaining. While the weakly unionized sectors already set minimum wages through the wage councils, there was a growing concern that the Conservatives' reforms had begun to affect wages even in sectors that had relied solely on wage bargaining between unions and employers. As David Coats notes: "...broad based union support only crystallized when it became clear that Thatcherism was widening the distribution of earnings in the UK and eroding the effectiveness of collective bargaining."⁷⁰ Unions could begin

⁶⁹ Ibid.

⁷⁰ Coats 2007, 21.

to see that a legal minimum wage was becoming the only way to regulate low-wage competition and low pay.

The German Hartz Labor Market Reforms: The Hartz reforms were a series of four rounds of labor market and social insurance reforms, which occurred under the social democratic government of Gerhard Schröder in the early 2000s. Hartz I-III deregulated the market for atypical employment through liberalization of temporary work and introduced incentives for part-time employment and self-employment. Under Hartz II, which was introduced in January 2003, individuals could take so-called Mini- and Midi-Jobs, which would allow them to earn up to 400 €/month without having to pay social insurance contributions. Hartz IV, which was introduced in January 2005, shortened the duration of short-term unemployment benefits from 32 to 18 months, created a new scheme of long-term unemployment benefits, and required unemployed individuals to take any available job, regardless of the skill level of their previous job.⁷¹ It also introduced a second tier of unemployment benefits (ALG II; *Arbeitslosengeld II*), which could be topped up with earnings from a Mini- or Midi-Job.

Hartz II drew many people, who otherwise may not have participated in the labor force into part-time employment in the low-wage service sector. It incentivized them by allowing them to both work a mini-job and draw ALG II benefits. By shortening the length of unemployment benefits and requiring individuals to take any kind of work, Hartz IV also increased the flow of unemployed workers back into the workforce. These different forms of subsidies for low-wage work greatly increased the number of workers competing for low-wage jobs, putting downward pressure on wages in these sectors. Deregulation of temporary employment also increased the pressure on some higher-wage unions, as it meant that employers could save money by outsourcing non-core functions to temporary work agencies. Before the deregulation of temporary work, temporary agencies had to pay workers in times with no assignments. Hartz removed this and although it had an 'equal pay for equal work' clause, temporary agencies concluded collective agreements with 'Christian' unions, which agreed to far lower wages than DGB unions.⁷² These reforms increased competition for employment in low-wage sectors, as

⁷¹ Jackson and Sorge 2012.

⁷² Bosch and Kalina 2010. 12.6% of agency workers use ALG II to top up their wages, in contrast to 2.6% of the non-agency workforce.

individuals could no longer remain unemployed long-term while continuing to draw benefits at a high percentage of their former income.

While we cannot observe the effect of these reforms on low-wage unions, as these already supported the minimum wage, we can observe their effect on the DGB leadership and some of the higher-wage unions.⁷³ The DGB leadership changed its position during this period, recognizing that it was no longer possible to stem low-wage competition in lower wage sectors due to the liberalization of the labor market.⁷⁴ The Hartz reforms also affected IG Metall collective agreements because part-time agency workers could replace many full-time workers in firms covered by their collective agreements.⁷⁵ Although the Hartz reforms had little direct impact on higher-skills workers in core sectors,⁷⁶ it allowed employers to shed lower-skill, non-core work functions to employment agencies, which could pay much lower wages.⁷⁷ This was especially important in East Germany, where employers from the west always had a more difficult time securing collective agreements.⁷⁸ Temporary work deregulation combined with subsidies for low-wage work allowed employers to take greater advantage of the higher

⁷³ One potentially confounding factor is the EU Free Movement of Citizens directive (2004/38/EC), which was issued on April 29, 2004 and allowed all EU member state citizens the right of residence in other member states, as long as they either worked, studied, or were otherwise self-sufficient. Given the recent accession of lower-wage countries in Eastern Europe, we might expect that this would shift unions' position in favor of the minimum wage. There is reason for skepticism that this a primary reason for unions' position shift however as the directive would not take effect in Germany until 2011. Furthermore, the directive took effect in Sweden in 2004, Norway and Finland in 2006, and Denmark in 2009, yet their trade union confederations continued to oppose the minimum wage.

⁷⁴ According to Dr. Ursula Engelen-Kefer, the Deputy Chair of the DGB: "We also need a general statutory minimum wage in those sectors in which we cannot manage to set minimum wages through collective agreement or in which collective agreement minimum wages fall below a minimum level and this minimum wage must not be below 7.50 €." *Deutscher Gewerkschaftsbund* 2006.

⁷⁵ Dostal 2012.

⁷⁶ Employment protection for regular employment, for example, was not affected.

⁷⁷ This affected higher-wage unions because historically there has been one collective agreement per workplace in Germany, with different skill levels of workers being covered by the same agreement. Deregulation of agency work allowed employers to outsource non-core tasks to temporary agencies.

⁷⁸ Dostal 2012 argues that reunification was largely responsible for low-wage unions' early support for the minimum wage. The low-wage service sector rose in prominence in the east as most manufacturing was inefficient and was closed down while workers flowing from east to west competed with lower-skill workers.

unemployment rate in most of East Germany. Between increased incentives to employers to employ low-wage workers, incentives of workers to take low-wage work, and the deregulation of temporary work, the Hartz reforms greatly increased the pool of low-wage competition, not just for unions representing low-wage workers, but also for those representing mostly higher-wage workers.

The Laval Case in Sweden: The Laval Case (Laval un Partneri v. Svenska Byggnadsarbetareförbundet) was a 2007 European Court of Justice ruling on the case of a Latvian construction firm Laval, which had been awarded a contract to build a school in Vaxholm, Sweden. Laval wanted to use Latvian workers and pay them Latvian wages for this work. The Swedish construction union *Byggnads* pressured Laval to sign a collective agreement paying Swedish construction wages and when Laval refused, the union blocked the construction site. Although the blockade was ruled legal under Swedish labor law, Laval contested the blockade at the European Court of Justice under the *Posted Workers Directive* (1996), which held that wage rates for posted workers must be ex ante predictable, either through a statutory minimum wage or declaration of collective agreements as generally binding.⁷⁹ As neither of these was in place in Sweden, the European Court of Justice ruled that the blockade was illegal.⁸⁰

Two straightforward responses to this ruling would have been to either introduce a statutory minimum wage or a legal procedure to extend collective agreements. Although Laval increased discussion about having a minimum wage, the LO preferred a solution in which the minimum conditions of the respective collective agreement would apply for all posted workers. The Swedish Parliament's Laval Committee (2008) agreed with this, rejecting both a minimum wage and legal extension of collective agreements. Instead, it required employers posting workers to abide by the conditions of special simplified 'posting' agreements, which contained the minimum wage and working hour conditions of the respective Swedish collective agreements.

⁷⁹ Denmark would have had a similar problem with posted workers, as it also does not have a procedure to extend collective agreements. Although neither Norway nor Finland have a statutory minimum wage, both have procedures to extend collective agreements, which would have prevented this problem.

⁸⁰ Skedinger 2010.

The outcome of the Laval Committee was not, however to revert back to the status quo before the ECJ's Laval ruling. Unions could demand that firms posting workers abide by these simplified versions of Swedish collective agreements, but only if they did not already offer their workers wage conditions on par with these.⁸¹ Unions could only take industrial action against the posting firm if it refused to follow the minimal conditions in the collective agreement. If the firm could demonstrate that it already paid posted workers as much or more than what the collective agreement required, it would not have to sign a collective agreement and trade unions could not take industrial action against it.⁸² Furthermore, unions could not use industrial action to pressure employers posting workers to sign collective agreements with above-minimum conditions. While foreign employers have largely complied with the minimal conditions in collective agreements,⁸³ there is a concern that because these employers do not actually have to sign full collective agreements, unions' ability to monitor compliance is weakened. A commission appointed by the current Swedish government has called for giving unions' the ability to use industrial action to pressure employers to sign collective agreements, but it is not clear that this would comport with the original Laval ruling.⁸⁴

8 Union Preferences and Party Positions

While between-union and between-country variation in unions' minimum wage preferences is important in its own right, unions are politically influential and should be instrumental in the adoption of minimum wage legislation. While parties on the right typically (although not always) oppose the minimum wage, there may be variation on the left in the timing and extent of support for the minimum wage, depending on who parties' core constituents are and their closeness to unions. I argue that parties closest to unions, the SPD in Germany, Labour Party in the UK, and

⁸¹ The main Swedish employers association SAF, which had supported Laval in its original case in the Swedish courts, opposed this solution, preferring a statutory minimum wage. They also lobbied the government during this period to limit the scope of secondary industrial action, without success. See Davesne 2009.

⁸² Ahlberg 2014.

⁸³ Claes-Mikael Jonsson: "During these years, I would say that we have had huge success in getting the collective agreements in place. We have a lot of different collective agreements in place which are the normal Swedish ones." Jonsson and With 2013.

⁸⁴ The Confederation of Swedish Enterprise argues that this would be incompatible with EU law. See Ahlberg 2014.

the SAP in Sweden will not begin to support the minimum wage until unions support it,⁸⁵ as their median voter is likely a union member. These parties' support is in turn necessary (but not necessarily sufficient) for introducing the minimum wage. Parties further to the left may support the minimum wage before trade unions fully support it, as their constituents tend to be lower-wage workers either unaffiliated with unions or affiliated with low-wage unions, who would benefit from the minimum wage.

I focus primarily on two cases, the UK and Germany. I examine the evolution of the Labour Party's position and that of the three left parties in Germany, the Left (*die Linke*, formerly the PDS (Party of Democratic Socialism; *Partei des Demokratischen Sozialismus*)), the Green Party (*die Grünen*), and the Social Democratic Party (SPD; (*Sozialdemokratische Partei Deutschlands*)). Germany is a somewhat more interesting case as it has a proportional representation electoral system, which produces multiple left parties whereas the UK has a single member simple plurality system with tight party discipline. There is no serious discussion of a minimum wage in the Swedish SAP, with no mention of this in any of their electoral manifestos.⁸⁶

My objective in this section is limited. First, I analyze only the initial introduction of the minimum wage. In the UK and Germany, the minimum wage is set by an expert panel comprised of unions, employers, and pay experts, with parties in the legislature only able to vote for or against the panel's proposals. Second, I argue only that union support and center-left party support for the minimum wage is necessary condition for introducing the minimum wage, not that it is a sufficient condition. Although the Labour Party introduced the minimum wage in the UK without the support of the Conservative Party, CDU-CSU support was necessary to introduce the minimum wage in Germany.

Given historical opposition between unions and right parties, unions' preferences should be less influential on their positions. In the US, UK, and Germany, there are deep historical ties between unions and the Democratic, Labour, and Social Democratic parties respectively, with

⁸⁵ I follow the same identification strategy as in the previous section, showing that the SPD and the Labour Party opposed the minimum wage until the trade union confederation began to support it, at which time they quickly began to support it.

⁸⁶ Interestingly, while there has been little general discussion of introducing a minimum wage in Finland, the Left Alliance (VF), which is the furthest left party, proposed in its manifesto for the April 2015 general elections a minimum wage of 10 €/hour. See Lindén 2015.

the latter two being founded by union members in the 19th century and the former heavily supporting the Democrats since the anti-union Taft-Hartley Act of 1947. Union members are more likely to vote for left parties and left parties historically receive the largest percentage of their overall funding from trade unions.⁸⁷ Efforts by right parties to heavily court unions would likely also upset business associations, which have been a much more reliable base of support. Therefore we would expect right parties to be less responsive to the concerns of trade unions and their members.

Right parties may support the minimum wage, but this will be for reasons other than union support, such as catering to favorable public opinion toward the minimum wage or strategic concerns regarding party competition. The CDU-CSU began to support the minimum wage before the 2013 elections as the issue of non-living-wage work had become much more visible and the minimum wage had become quite popular with German voters across the political spectrum.⁸⁸ The British Conservative Party recently proposed a budget that would include increasing the minimum wage (which they have rebranded as the 'National Living Wage') from £6.50/hr. at the end of October 2014 to £9/hr. by 2020. This would be approximately 60% of the median wage. The ostensible purpose was to move Britain "from a low wage, high tax, high welfare economy; to the higher wage, lower tax, lower welfare country."⁸⁹ In addition to budget concerns, top incomes have dramatically increased while low-wages have stagnated and minimum wage increases enjoy majority support across supporters of all political parties.⁹⁰

The Labour Party: Before the TUC voted to support the minimum wage in 1986, the Labour Party had investigated introducing a minimum wage on several occasions, including official

⁸⁷ See Evans 1999 on class, union membership, and party voting for various advanced democracies. Since the 2002 election cycle in the US, six of the ten largest political contributors have been trade unions, each giving over 90% of its donations to Democrats. See *Center for Responsive Politics* 2015. From 2001 to 2009, British unions made cash donations of £78.2 million, 63% of total donations. See Ewing 2012.

⁸⁸ 86% of those surveyed in June 2013, including 79% of CDU-CSU supporters supported introducing a statutory minimum wage, up from 57% and 46% in February 2006 respectively. See *Deutscher Gewerkschaftsbund* 2013.

⁸⁹ Others noted strategic political concerns, given the popularity of the national minimum wage in the UK. Although trade unions welcomed the increased minimum wage, they harshly criticized the Conservatives' plans to reduce tax credits and the housing allowance for low-wage workers. See *BBC* 2015.

⁹⁰ Dahlgreen 2014.

discussions at Labour Party conferences in 1964 and 1973.⁹¹ In both cases however, they did not end up supporting it, largely due to resistance from the TUC. The minimum wage does not appear at all in Labour Party election manifestos until 1983 and even here, the party only goes so far as to declare "We will also discuss with the TUC the possibility of introducing a minimum wage." They remain committed to collective bargaining autonomy noting, "We will work together with the unions to tackle low pay and extend the concept of fair wages and arbitration...and will ensure machinery is available for the trade unions to establish these principles."⁹²

It is not until the 1987 election, after the TUC has officially begun to support the minimum wage that the Labour Party supported it, declaring "we will implement a comprehensive strategy for ending low pay, notably by the introduction of a statutory national minimum wage."⁹³ The Labour Party made the minimum wage a central part of its 1992 election campaign. Following the TUC's preference for an indexed minimum wage, the Labour Party proposed a minimum wage indexed to 50% of the average wage.⁹⁴ When they lost the 1992 election, the party switched its plan for the 1997 election from an indexed minimum wage to a tripartite 'Low-Pay Commission,' which would monitor wage developments and economic fundamentals and recommend a minimum wage based upon these. Although several unionists were unhappy with this, as they felt it would lead to lower minimum wages, Labour won the election and implemented this plan.

Germany: The minimum wage did not become a political issue in Germany until the early 2000s. No party mentioned it in its 1998 election manifesto. The minimum wage started to receive some attention after NGG began to support it in 1999. In 2002, the PDS introduced a proposal for a minimum wage in the Bundestag. Introducing the bill, the PDS speaker, Pia Maier explicitly mentions the increasing pressure on the lowest-wage workers and the support of NGG.⁹⁵ Representatives of both the SPD and the Green Party strongly rejected this, referencing the

⁹¹ Coats 2007; Nijhuis 2013.

⁹² *Labour Party* 1983.

⁹³ *Labour Party* 1987.

⁹⁴ Sellars 2014.

⁹⁵ *Deutscher Bundestag* 2002. p. 24032.

importance of Tarifautonomie. Echoing the concerns of the unions, SPD representative Anette Kramme noted that the minimum wage:

"may on one hand reduce the interest of the social partners in autonomous regulations in the low-wage sector, on the other, it may decrease the organization interest of workers, above all in the low-wage groups...The consequence would be a general tendency of wage decline."⁹⁶

Much had changed in the German labor market by the 2005 election cycle, however. The Hartz reforms brought much greater attention to the situation of low-wage workers. The SPD and Green Party rejected another general minimum wage proposal from the PDS in early 2006, but began to favor setting sectoral minimum wages by extending collective agreement.⁹⁷ A key turning point came in May 2006, when the DGB began to support the minimum wage. At this point, the SPD began to work with the DGB on a plan for minimum wages and in a second debate on the PDS' proposal in October 2006, SPD representative Andrea Nahles proclaimed that the DGB and SPD had agreed on a minimum wage set by a low-pay commission, as in the UK. The SPD presented a petition to rally support for the minimum wage in March 2007 but, in something of a political spectacle, voted against a bill put forth in the Bundestag by the Left Party (successor to the PDS) with the exact same wording.⁹⁸

The SPD called for a minimum wage of 7.50 €/hour and a low-pay commission similar to the British model in their 2009 manifesto. By the 2009 elections, The Left, The Greens, and the SPD all agreed on the need for a general minimum wage with rates set by a low-pay commission. Although it lost its place in the governing coalition as a result of this election, the SPD introduced its own proposal in the Bundestag in 2010 for an 8.50 €/hour minimum wage. This followed the demand of the DGB, which had previously increased its minimum wage demand to 8.50 €/hr. In the debate, SPD representative Anton Schaaf focused on the lack of regulation of temporary work and the rise of Christian unions, which concluded low-wage agreements with

⁹⁶ *Deutscher Bundestag* 2002, p. 24035.

⁹⁷ In their 2005 election manifesto, the SPD declares: "The social partners are called upon to agree on common collective agreement minimum wages in all sectors. If this does not or cannot happen, we will take measures for a legal minimum wage." *Sozialdemokratische Partei Deutschlands* 2005.

⁹⁸ At the time, the SPD was in a governing coalition with the CDU-CSU, which was resolutely opposed to the minimum wage.

these employers.⁹⁹ Although the right-wing CDU/CSU-FDP coalition was anti-minimum wage, public support for the minimum wage increased over the next few years and when the CDU-CSU called upon the SPD in 2013 to form a grand coalition government, introducing the minimum wage was the SPD's central demand.

9 Conclusion

The minimum wage is an increasingly important issue in western democracies, both in those where it has long been established and where it has either only recently been or not been established. There are currently 29 American states with a minimum wage above the federal minimum, 15 of which either index or plan to index their minimum wage to the cost of living. There have also been numerous campaigns in American cities to introduce a 'living wage.'¹⁰⁰ In the UK, the Conservatives have become leaders on the minimum wage, calling for an almost 50% increase in its nominal value by 2020. And despite its still-cool reception by major trade union confederations, other Nordic labor groups, such as the Council of Nordic Trade Unions believe that there needs to be increased discussion of both collective agreement extension and the minimum wage.¹⁰¹

Future research into the politics of the minimum wage should further examine the role of different types of parties in adopting the minimum wage, both in middle-income democracies where it has long been established and also in advanced democracies where it has been introduced more recently. Trade unions have different levels of influence on different political parties and in middle income democracies, parties on the left may look more like *die Linke* in Germany and push for a minimum wage without union support because unions are less broad-based and represent workers in higher-wage, sheltered sectors. Given the historical divide between right parties and unions in advanced democracies, unions have limited influence on them. Right parties may still support the minimum wage regardless of the preferences of unions, but we would need a different theory to explain these preferences. They may be motivated by strategic concerns regarding party competition, a desire to shift the burden of providing a living

⁹⁹ *Deutscher Bundestag* 2010. p. 3693-5.

¹⁰⁰ While unions have heavily supported these campaigns, they have also asked in several instances for exemptions from the minimum wage for union contracts. For a recent example in Los Angeles, which became quite controversial, see Jamison, Zahniser, and Alpert Reyes 2015.

¹⁰¹ Preisler 2015.

income from state programs to employers, or perhaps even as a way to 'protect' workers from competition from migrants.

The minimum wage has become a more important issue because the negative consequences of structural economic changes and increased international mobility have fallen disproportionately on middle- and low-skills workers. Technological change, offshoring, and financialization have conspired to eliminate many of the middle-wage jobs that were performed by lower education workers and increase income inequality.¹⁰² Loss of mass employment industrial occupations has increased competition for service sector jobs and management can suppress wages without serious concerns about triggering worker exit. This has both directly impacted the strength of unions and in doing so, has also removed the foremost-organized base of support and advocacy for middle- and lower-income citizens.

Despite facing common pressures, countries have responded to these changes with different types of social policies. Two of the most prominent policies, which are to some extent substitutes for each other, are earned income tax credits and the minimum wage. These policies have different redistributive implications, with tax credits redistributing from taxpayers to low-income workers and the minimum wage redistributing from low-wage-paying employers to low-wage workers. The US and the UK have relied heavily on tax credits for low-income workers to boost their incomes. The UK however plans to change its course, reducing tax credits and shifting the burden to employers with a much higher minimum wage. In Germany, service sector growth was initially slow due to generous unemployment benefits. With the Hartz reforms however, it opted to increase workforce participation through wage and self-employment subsidies. More recently, Germany has followed the UK and reversed course by introducing the minimum wage rather than relying solely on wage subsidies to boost low-earner incomes. Future research should attempt to better understand the conditions under which politicians will make a trade-off between earned income tax credits and the minimum wage.

¹⁰² See Autor, Levy, and Murnane 2003 and Goos, Manning, and Salomons 2014 on technological change and job loss in the United States and Europe, Autor, Dorn, and Hanson 2013 on import competition and job loss in the United States, and Lin and Tomaskovic-Devey 2013 on the relationship between financial activities and inequality at the industry-level in the United States.

Finally, while there has been increased discussion of inequality, much of this has focused on top inequality, especially the rise of the top 1% of earners.¹⁰³ Top inequality is an important topic, but the question remains: how we should protect those in advanced democracies rendered increasingly replaceable and irrelevant? Rates of working poverty have been increasing in several western democracies.¹⁰⁴ Part of the discussion about inequality should be how to best ensure acceptable social minima, which would connect to broader debates about social justice, what the fundamental aims of social policy should be, and how to design social and economic institutions to achieve these aims.

But the question remains how best to achieve acceptable social minima. Chris Howell notes that there has been a trend toward the individualization of labor rights and an increased state role in the assurance of social minima.¹⁰⁵ Earned income tax credits and the minimum wage are both examples of this increased state role. But while this story fits the recent experience of both the UK and Germany, it does not appear to fit that of Sweden or other Nordic countries. Here, labor power is still important, with unions as the primary guarantors of both labor rights and social minima. And Sweden appears to have little issue with working poverty. Only about 15% of workers fall below 2/3 of the average monthly wage and only about 6% below the average monthly median wage.¹⁰⁶ To be sure, the state still matters for labor relations in these countries, as it controls the regulation of industrial action. But while there are some signs of small cracks in the Nordic model of labor regulation, this paper shows us that given a favorable institutional environment, unions can still adapt to changes in the economic environment and act to ensure acceptable social minima for those who are struggling greatly in other countries.¹⁰⁷

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¹⁰³ Piketty 2014.

¹⁰⁴ Gautie and Schmitt 2010.

¹⁰⁵ Howell 2000, 2015.

¹⁰⁶ Skedinger 2010.

¹⁰⁷ Thelen 2014 argues however that dualism has been increasing in Sweden, reflected in higher rates of youth and immigrant unemployment relative to its neighbors. Immigration and the recent influx of refugees into Sweden could have profound implications for their ability to maintain this model.

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