



Fair minimum wages for Europe

State of play and lessons from research

KEY FINDINGS

Despite a positive trend before the COVID-19 crisis, low-wage jobs, in-work poverty (i.e. relative income poverty) and even severe material deprivation remain a challenge in Europe. There is evidence that all forms of poverty compromise wellbeing, resulting often in intergenerational cycles of disadvantage.

Since 1919, the political concept of a living or fair wage has been pushed by the International Labour Organisation and the UN. Anchored in the European Pillar of Social Rights, fair minimum wages are ranking high on the agenda of all three European institutions.

As part of its Work Programme 2020, the Commission is preparing a European legal instrument - either a Directive or a Council Recommendation - to ensure an adequate level of minimum wages, to promote the effective involvement of social partners and the role of collective agreements. The objective is that Member States have national frameworks in place based upon clear criteria, eliminating not duly justified exemptions and providing for regular updates.

Stakeholder positions diverge: Most trade unions in the EU are supportive of a European initiative. Employers favour effective monitoring through the European Semester. Yet, SMEs consider minimum wages as a factor to avoid unfair social competition on the labour market.

Research demonstrates an enormous variety of minimum wage practices across the EU and shows considerable gaps in terms of coverage, adequacy to ensure decent living, updates not going beyond the compensation of inflation and a lack of accounting for regional disparities in living costs.

Further, analysis points to a number of open questions: whether a minimum wage should cover only one adult person or more; the role of absolute wage levels versus relative targets (median thresholds), effects on wage disparities across Europe; how to capture the effect on wage inequalities and finally, whether a Directive is possible given the exclusion of pay from regulation in the Treaty. Moreover, the role of synergies with the existing ILO Convention N°131 on minimum wages of 1970 could be explored.

The COVID-19 crisis has added urgency to policies for income stabilisation through a policy mix of safeguarding wages and adequate minimum income schemes, both being a priority under the German Council Presidency.

This briefing is an updated and extended version of an earlier note prepared for the [European Parliamentary Week 2020](#), co-organised by the European Parliament and the Croatian Presidency in February 2020. It shall support the EMPL Committee in its work on minimum wages. The updated version takes account of labour market aspects evolving with the COVID-19 crisis, the state of play and analysis until June 2020.



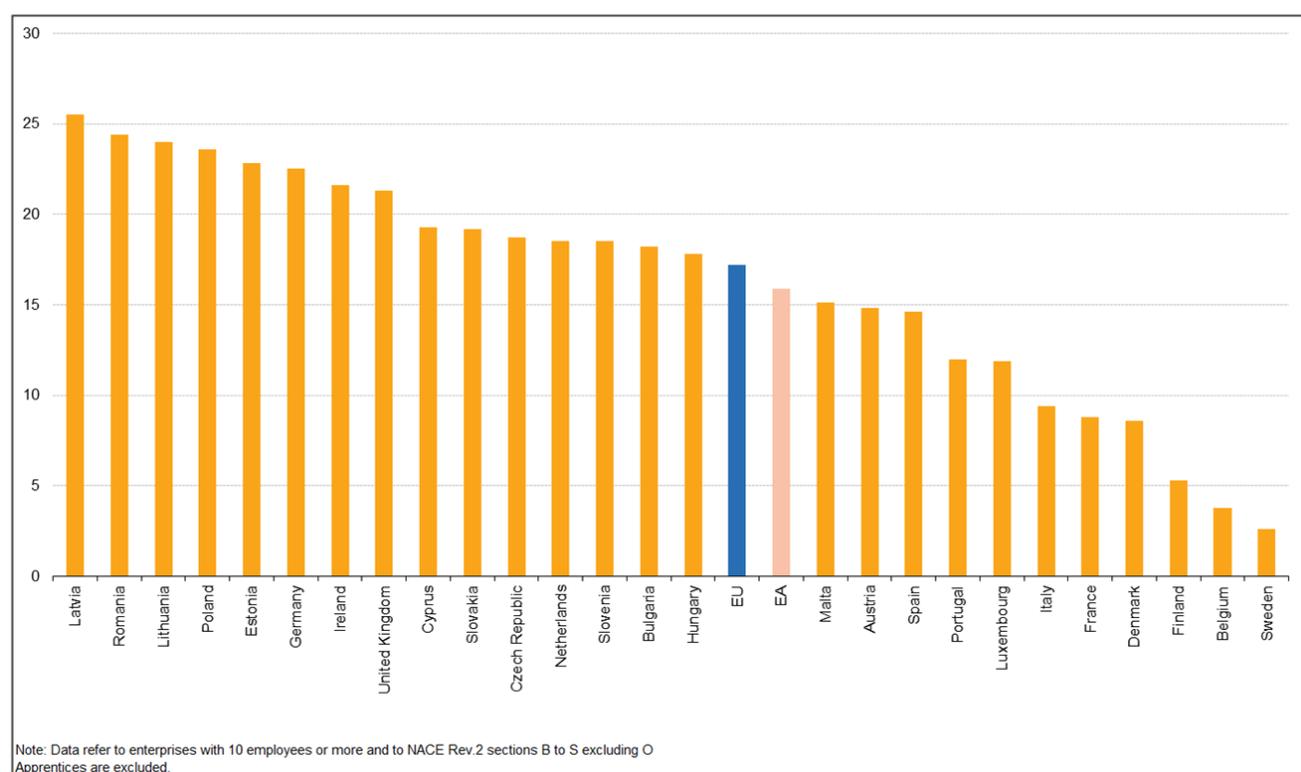
Low-wage jobs and in-work poverty remain a challenge

Despite the overall positive development of economic growth, employment and poverty until the COVID-19 pandemic in 2020, in many EU countries, a significant proportion of workers still earn a low wage and are living in a household suffering from relative income poverty at risk of poverty.

1. Considerable proportion of low-wage earners in Europe

One in every six employees in the European Union earned a relatively low wage according to the most recent Eurostat data available (i.e. < 2/3 of the national median gross hourly earnings). In eight EU countries, the proportion of workers earning a relatively low wage exceeded 20%, including in Central and East European countries, but also in Germany and Ireland. In contrast, less than 10% of employees were low-wage earners in Scandinavian countries (Sweden, Finland, Denmark) but also in France and Italy (see Figure 1).

Figure 1: Employees with a relatively low wage in the EU, 2014



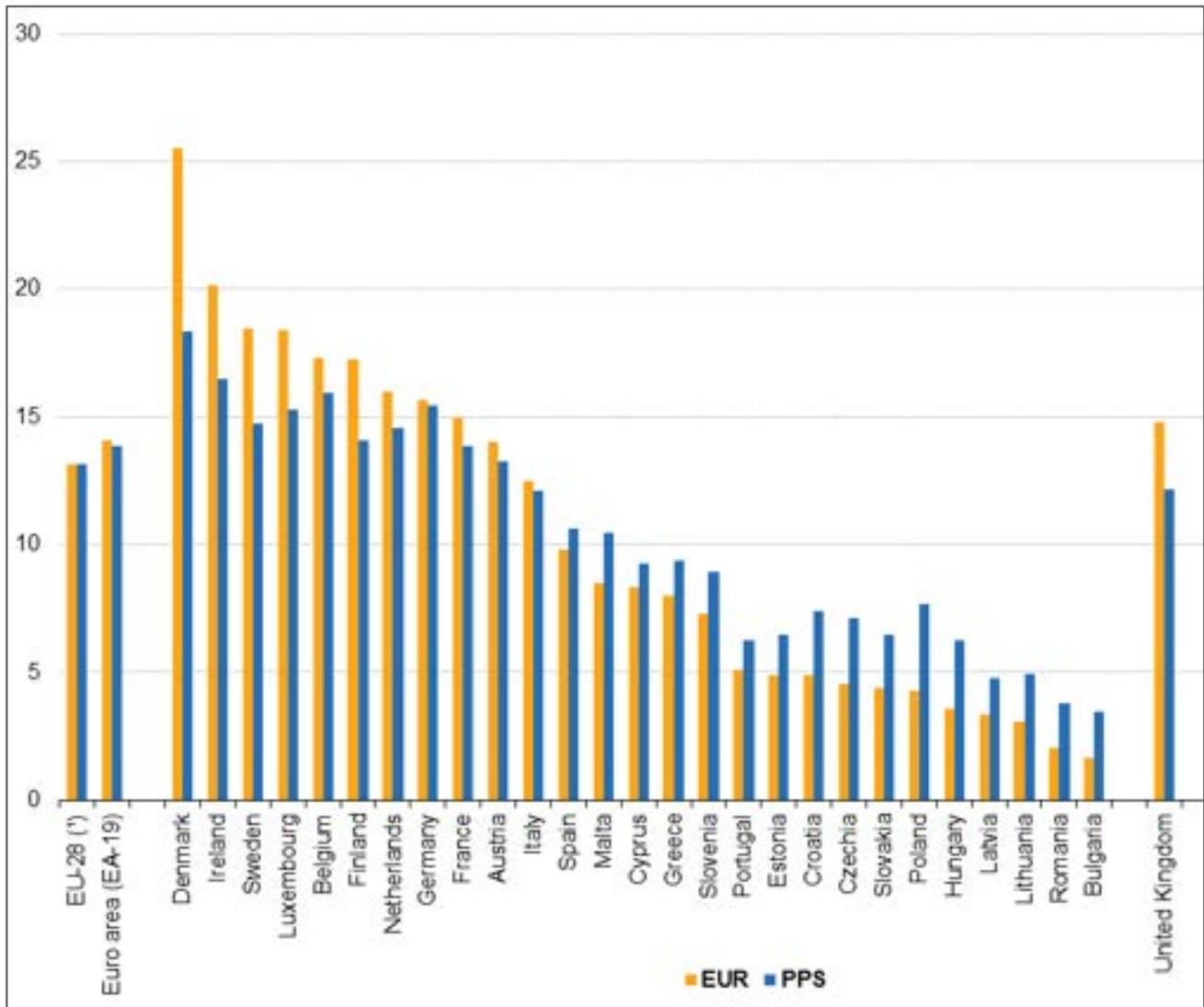
Source: [Eurostat](#) - **low-wage earners** are defined as those employees earning two thirds or less of the national median gross hourly earnings, databasis - [EU Structure of earnings survey](#).

2. Low wage levels in some countries aggravate the risk of severe material deprivation

According to earning statistics by Eurostat, median gross hourly earnings strongly vary across Europe ranging from a low of EUR 1.67 in Bulgaria to EUR 25.52 in Denmark. Even when adjusted for price levels (by converting to purchasing power standards), the average in Denmark is five times as high as in Bulgaria.

Implications for low-wage earners are particularly severe in countries with low wage and partially also low welfare levels, as they are suffering from severe material deprivation. They cannot afford basic goods including payment for the rent or a mortgage for housing, quality meals, heating, a washing machine or a telephone ([Eurostat](#)).

Figure 2: Median gross hourly earnings in EUR, all employees (excluding apprentices), 2014



Source: [Eurostat](#) (1) includes the United Kingdom. EU-27 data is not available; note: enterprises with 10 or more employees. Whole economy excluding agriculture, fishing, public administration, private households and extra-territorial organisations.

3. In-work poverty in households: low wages are one component in a multifactorial context

There is evidence from research that all forms of poverty compromise wellbeing as issues of education, health, leisure, clothing and food are involved along with income poverty. Further, there exists a considerable risk of perpetuation as many poor children become trapped in an intergenerational cycle of disadvantage ([European Parliament, Daly 2019](#): 3).

Therefore, it is a matter of concern that one out of ten employed persons aged over 18 in the European Union were at risk of relative income poverty after social transfers in 2016 according to the household survey SILC (EU statistics on income and living conditions, see Figure 2). Moreover, the proportion has risen continually, from 8.3% in 2010 to 9.6% in 2016.

Incidence was highest among part-time workers, those with temporary contracts and employed men were slightly more affected than women. This confirms findings from a recent study pointing to a worrying development: Increasingly households with a high work intensity are suffering from poverty ([ESPN 2019](#):

10). Consequently, policies are needed to reduce labour market segmentation and the risk of precariousness connected with some forms of non-standard work (European Parliament [2016](#) and [2018](#)).

The level of wages is an important factor explaining the risk of poverty of a worker living in a household, however relevant other factors come into play: specific household features (existence of a second adult earner, the number of children, being a single parent,) the institutional framework (e.g. tax rates, in-work benefits, family and housing allowances) and other policies such as housing and childcare (see [ESPN 2019](#)). As a result, the impact of a minimum wage alone is highest in a household with one single adult worker.

European policies for a living wage

Minimum wage - fair minimum wages - concepts and relationship

Minimum wage = minimum amount of remuneration that an employer is required to pay wage earners for the work performed, regardless of the method of fixing them, protecting workers against unduly low pay.

Living wage = wage that allows an employee (and his family) a basic but socially acceptable standard of living. In practice, a living wage rate is based on a detailed, regularly updated costing of the basic services and goods. There is an international consensus that an acceptable basic standard increases with economic and social development. A wide variety of calculation methods are used taking account of the national economic situation and the social security system.

Relation of minimum wage to living wage: There is consensus in recent research that a minimum wage may not suffice to support more than one person, raising questions about the concept of wage adequacy ([ESPN 2019](#): 11; [Eurofound 2020](#)). In the few countries where experience with living wages exists these were partially developed in parallel to a statutory minimum wage involving foundations or other structures for funding ([Eurofound 2018](#)).

Source: ILO: [minimum wage](#), section: [the needs of workers and their families](#); Eurofound webpage on: [Minimum wage; Schulten, and Müller](#) (2019).

1. The long way of minimum wages into concrete policy initiatives

During the 20th century, the [living wage concept](#) found its way into various international documents and conventions, such as the [Constitution of the International Labour Organisation](#) of 1919, which referred explicitly to '*the provision of an adequate living wage*'. Later on, demands for a 'fair' or 'decent' wage were included, for example, in the [UN Universal Declaration of Human Rights](#) of 1948, the [International Covenant on Economic, Social and Cultural Rights](#) of 1966 and [ILO Convention N° 131](#) on Minimum Wages of 1970 (signed by 10 EU Member States).

The ILO does not encourage Member States to ratify the earlier, more narrow Convention N° 26 (1928). It has been given an Interim Status and its continuation will be examined at a later stage. Reacting to concerns by some Member States, the responsible ILO Committee recalled that Convention N° 131 allows minimum wage fixing through collective agreements and does not require the introduction of a statutory minimum wage (see [ILO Information system; ILO 2014](#): para 375-379).

In Europe, similar provisions can be found in the [European Social Charter of the Council of Europe](#) of 1961, the [EU Charter of the Fundamental Social Rights of Workers](#) of December 1989 and, most recently, the [European Pillar of Fundamental Social Rights](#) (EPSR) of 2017. In all these documents **a living wage** is defined **as a fundamental social right** for all workers.

2. European minimum-wage policies - pushed by the European Pillar of Social Rights

The **policy debate on a European minimum wage** from its very beginning has been **embedded in the concept of a living wage** as ([Schulten and Müller](#) 2019) argue in their conceptual analysis. It goes back to the 1990s when the EU discussed the implementation of the EU Charter of the Fundamental Social Rights of Workers of December 1989, according to which all workers in the EU '*shall be assured of an equitable wage, that is, a wage sufficient to enable them to have a decent standard of living*', also called a 'fair' or 'decent' wage.

The issue has, however, never been transformed into concrete policies. Yet the EU has a longstanding practice of issuing, at least formally, non-binding policy recommendations on pay issues in the context of the [European Semester](#). Campaigns for living wages have become a core issue in many European countries, and a growing number of countries the living wage initiatives have started to link their national debates to the European discussion of a common minimum wage policy ([Schulten and Müller](#) 2019).

European action has been pushed by the proclamation of the [European Pillar of Social Rights](#) by the European Parliament, the European Council and the European Commission in November 2017. One of its twenty principles (principle 6) confirms the commitment to the right of workers to '*fair wages that provide a decent standard of living*' thus setting the concept of a living wage as a norm for wage policies in the EU:

European Pillar of Social Rights - Principle 6: Wages

Workers have the right to fair wages that provide for a decent standard of living.

Adequate minimum wages shall be ensured, in a way that provides for the satisfaction of the needs of the worker and his/her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.

All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners".

Source: [European Pillar of Social Rights](#).

Implementation of this principle has been supported through specific monitoring within the [European Semester](#) and the [Social Scoreboard](#). The [Employment Guidelines](#) adopted by the Council in 2018 added minimum wages as dimension: Member States and social partners shall ensure adequate minimum wage levels while respecting national practices and reduce in-work poverty. A number of countries received Country-Specific Recommendations to review the wage-setting system or the indexation of minimum wages, though [research](#) concludes that monitoring scheme could be further strengthened.

3. The new Commission made fair minimum wages a priority in 2019

In 2019, the new European Commission put policies to promote minimum wage policies even higher on the agenda. In his campaign to be Commission President for the Socialists and Democrats, Frans Timmermans, Executive Vice-President of the Commission, called for each EU Member State to have a minimum wage equivalent to 60 per cent of the median salary in that country. Commission President Ursula von der Leyen committed herself to '*put forward a legal instrument to ensure that every worker in our Union has a fair minimum wage*' within the first 100 days when presenting the [Political Guidelines](#) for her candidacy to the European Parliament in July 2019.

Consequently, the European Commission included a policy initiative to promote fair minimum wages in its [Work Programme 2020](#) presented end of January 2020: "[...] *the Commission will put forward a legal instrument on fair minimum wages for workers in the EU, in consultation with social partners and all relevant*

stakeholders". According to the adjusted [Work Programme of May 2020](#), the Commission plans to present a proposal for a legal instrument in Q4/2020 (a binding or a non-binding instrument, see [EU glossary](#)).

4. European Parliament repeatedly called for EU initiatives to promote adequate minimum wages

In 2008 already, the European Parliament in [a resolution](#) to promote social inclusion and combat poverty called on the European Council to agree a common EU target for minimum wages. This target should ensure a remuneration of at least 60% of the relevant average wage, repeated in its [2016 resolution](#) on social dumping. The 2017 [resolution on the European Pillar of Social Rights](#) recommends '*the establishment of wage floors in the form of a national minimum wage*'.

Currently, in line with the provision of the Social Pillar, the European Parliament pushes a legal instrument to ensure fair minimum wages. Overall, it concurs with the position expressed by the Commission that such an initiative should respect national traditions, in particular the role of collective agreements as functional equivalent (see [resolution on employment and social policies of October 2019](#) and [resolution on EU coordinated action to combat the COVID-19 pandemic and its consequences](#) of April 2020).

5. European Council: Minimum wages and minimum income became a priority for 2020

In its [Coalition agreement](#), Christian and Social Democrats in Germany committed themselves in 2018 to develop at European level a framework for minimum wage schemes and for national minimum income schemes. Consequently, both projects, complementing each other to fight poverty, belong to the priorities of the [programme for the German Presidency](#) in the second half of 2020: Awaiting the Commission proposal, Germany in general supports a **European framework for minimum wages** that strengthens the protection of employees as well as the social partnership and supports income stabilisation also in times of crisis. In addition, Council conclusions shall bring forward a **European framework on minimum income** that can build upon comprehensive [preparatory work](#) by the European Commission.

Preliminary results from the two-phase public consultation:

1. Launch of two-stage consultation could imply the preparation of a legislative instrument

As part of its [initiative](#) to further implement the European Pillar of Social Rights, on 14 January 2020, the European Commission launched a consultation of Social Partners under Article 154 TFEU as first step of the [compulsory two-stages procedure](#) in the field of social policy interventions under Article 153 (phase 1: possible direction, phase 2: content).

In its [Consultation document](#), the Commission stresses the **added value** of fair minimum wages as these contribute to preventing in-work poverty and reducing wage inequality. Further, they help to make work pay and promote the participation of women in the labour market and tend to support domestic demand. Given diverse performances across and within Member States, the Commission identifies this policy area as '*a matter of concern at European level*'. There exists evidence of gaps in coverage, lack of clear criteria for setting statutory minimum wages, inconsistent and irregular updating of minimum wage levels independent from the mechanism for wage-setting (law, collective agreements or mix).

In terms of the **legal basis** for possible European action, the Commission refers in particular to Art 9 [TFEU](#) committing the Union to the promotion of employment and the fight against social exclusion, the [Charter of Fundamental Rights](#) (Art 31 'fair and just working conditions'); Art 151 TFEU to implement measures in the field of social policy and Art 153 defining fields of intervention such as working conditions (Art.153 (1)(b) with the exception of pay. (Art.153.5). The Commission therefore points to examples where European legal instruments have been adopted including pay, such as the [Directive on Equal pay for Work of an Equal Value](#) (1975) or the [Council Recommendation on active inclusion](#) of 2008 promoting quality jobs

including through pay and benefits. Adequate minimum wage levels also form part of the [Employment Guidelines](#) adopted by the Council in 2018. Further, the document argues that a number of [EU countries \(10\)](#) have ratified [ILO Convention No 131](#) on Minimum Wage Fixing having the force of law.

Taking the view that an EU initiative on fair minimum wages could be appropriate, the Commission presents as **main directions for an EU action**, leaving the main responsibility to define the concrete level of a minimum wage to the Member States:

- to ensure an **adequate level of minimum wages** in light of national economic and social conditions;
- to effectively protect workers in the EU;
- to effectively involve **social partners** in the adjustment of minimum wages and to encourage the conclusion of collective agreements; and
- to ensure that statutory minimum-wage setting is guided by **national frameworks** based on clear and stable criteria with reasonably frequent and regular updates.

The Commission stressed from the very beginning that an EU action "*would not seek to harmonise directly the level of minimum wages across the EU (and) would also respect national traditions, social partners' autonomy and the freedom of collective bargaining*". ([Consultation document 1](#), p.2; see also the [briefing](#) on the Commitments made by the designate Commissioner Schmit at the hearing).

2. Second stage of consultation launched in June 2020

On 3 June 2020, the Commission launched the [second stage of the consultation](#) providing more detailed analysis in an [accompanying document](#). In the [Consultation document](#), the Commission gives a number of indications on concrete elements the planned initiative could have. Following the feedback by the social partners during the first phase of consultation (see section on stakeholder views below), in addition to a strong involvement of social partners, the Commission puts strengthening of collective bargaining in wage setting as first policy objective, clarifying that complete coverage should be achieved. With regards to adequacy, all three common options are mentioned as possibility for a criterion: a proportion of the net or gross median wage or a rate of the median average wage.

The specific objectives and policy measures include:

- **Well-functioning collective bargaining in wage setting** (e.g. ensure that all workers are covered in countries setting minimum wages exclusively through collective agreements);
- **National frameworks for setting and updating minimum wages including clear and stable criteria** (e.g. level and distribution of wages, the cost of living, economic and social conditions, frequency of wage updates, indicators against which minimum wage adequacy would be assessed - gross median wage, net median or average wage, criterion to ensure decent living standards such as a reference basket of goods, non-binding reference values such as the percentage of the gross median wage or the net median/average wage);
- **Effective involvement of social partners in statutory minimum wage setting** to support minimum wage adequacy (e.g. involvement in an effective and timely manner, existence of regular formal consultation mechanisms, specialised minimum wage committees);
- **Elimination or limitation of minimum wage variations and exemptions** (e.g. criteria and conditions for use such as being non-discriminatory, proportionate, duly justified and limited in time where relevant); and

- **Effective compliance** with national minimum wage frameworks and monitoring mechanisms (e.g. involving social partners, sanctioning).

Whether the Commission will propose a hard or a soft legal instrument, a Directive in the area of working conditions based upon Art.153 (2) TFEU or a Council Recommendation remains an open question. In order to avoid problems with the exclusion of pay from the regulation of working conditions as stipulated by Article 153.5 TFEU, "the proposal would contain a set of minimum requirements and procedural obligations to be complied with" ([Consultation document 2](#), p. 16) and not intervene in setting the level of minimum wages. A Council Recommendation would set a common policy framework at EU level together with a monitoring scheme based upon benchmarking.

Stakeholder positions on European minimum-wage policies

1. Most ETUC Members support a European initiative and a target of 60% of the median wage

The [European Trade Union Confederation](#) (ETUC) is supportive of European policies to achieve adequate minimum wages, putting these into the context of wider wage policies and stronger collective bargaining mechanisms. In 2018, ETUC launched a campaign for a European Wage Alliance, stressing that the EU should set a target date for statutory minimum wages to reach at least 60% of the median wage, and then living wages. In order to reach such objectives the ETUC committed itself, in its [resolution on Priorities for the Coordination of Collective Bargaining and Wage Policies](#) of the same year, to support the ETUC member organisations upon request in their demands for the introduction of transparent mechanisms of minimum wage setting.



Responding to the launch of the Commission's public consultation on 14 January 2020, ETUC calls again for strengthening collective bargaining as key policy strategy to [better tackle underlying problems of low wages](#) ([Consultation document 2](#)) including zero-hour contracts and increasing self-employment. Whilst acknowledging that 'increasing statutory minimum wages to **60% of the median wage** [...], is a basic requirement' [ETUC considers](#) that '(this) is not enough', calling upon the Commission to lead by example when setting criteria for public contracts. Furthermore, it is important to note that at a hearing with social partners in June 2020, **a large majority (83%) of ETUC members were in favour of the European initiative**, in particular trade unions from central and eastern Europe ([Eurofound 2020](#): 7).

2. Mixed picture on the side of employers: Opposition with SMEs being more supportive

Employers oppose any EU legislation on minimum wages. [BusinessEurope](#) considers the **European Semester as the adequate tool** to implement the European Pillar of Social Rights. Overall, the need for fairness should be combined with a view to productivity gains and competitiveness. Some requested a clearer definition of core terminology, such as fair minimum wage or the adequacy of take-home pay according to the [Commission consultation document](#) for the second-stage consultation. However, SMEUnited **considers minimum wages as a factor to avoid unfair competition** on the labour market.

3. Social policy stakeholders - priority on minimum income schemes, higher minimum wages

Stakeholders in the field of social policy agree on the need for Member States to establish a minimum threshold of 60% median wage whilst overall prioritising an **EU Framework Directive on minimum income** (EAPN [position paper 2020](#); [Social Platform 2020](#)). The **European Anti-Poverty Network** (EAPN) underlines the need to establish adequate levels of net minimum wages (60% of the median wage, indicators reflecting the gender pay gap, wage dispersion and the wage share of GDP) and to ensure coverage of all workers. The aim is to **increase or stabilise the "bottom line wages"**, in particular in "low wage" economic sectors concentrated in services and having large shares of female employment and migrant workers. The paper states that EU soft instruments have not been sufficient to achieve adequate minimum. In line with ETUC and the European Youth Forum, EAPN **supports the removal of subminimum rates** (e.g. for long-term unemployed workers or workers with disabilities).

The **Social Platform**, the European platform of social NGOs, [supports establishing minimum wages](#) which effectively protect against poverty whilst maintaining incentives to take up employment. It does not indicate any preference for the type of EU intervention, but sets three preconditions for an adequate minimum wage in its [position paper](#): 1) it should be higher than what is considered an adequate minimum income; 2) it should be at least 60% of national median wage; 3) it should be set in a non-discriminatory way and irrespective of contract type and for all sectors of the economy.

Minimum wages: enormous variety in quantitative relevance, coverage and levels

1. Most Member States have a minimum wage, but quantitative relevance of this segment varies

Most EU Member States have adopted a statutory minimum wage, a handful of countries have chosen another option setting minimum wage levels by sectoral collective agreements ([Eurofound infographic](#)). Cyprus has statutory minimum wages for different occupations:

- Statutory minimum wage: 22 Member States; and
- No statutory, but sectoral minimum-wage (collective agreements): DK, FI, SE, AT, IT, (CY).

If coverage by collective bargaining is high like in Nordic countries, collective agreements ensure a more complete coverage by minimum wages and lower wage inequalities ([Garnero et al. 2015](#)).

The possible impact of changes in the level of minimum wages on poverty and also on wage inequality of a given country depends considerably on the **proportion of employees earning around the minimum wage**. In countries with a rather large proportion ($\geq 20\%$ in HU, PL and RO, $> 10\%$ in LT, IE, HR) changes could have a significant aggregate effect. However, in a number of countries the proportion is very low (e.g. in SE, BE, DK, NL, CZ, EL, AT and FI, see [Eurofound 2020](#): 13) and therefore, a refined and more nuanced methodology could be considered to make the impact of changes better visible.

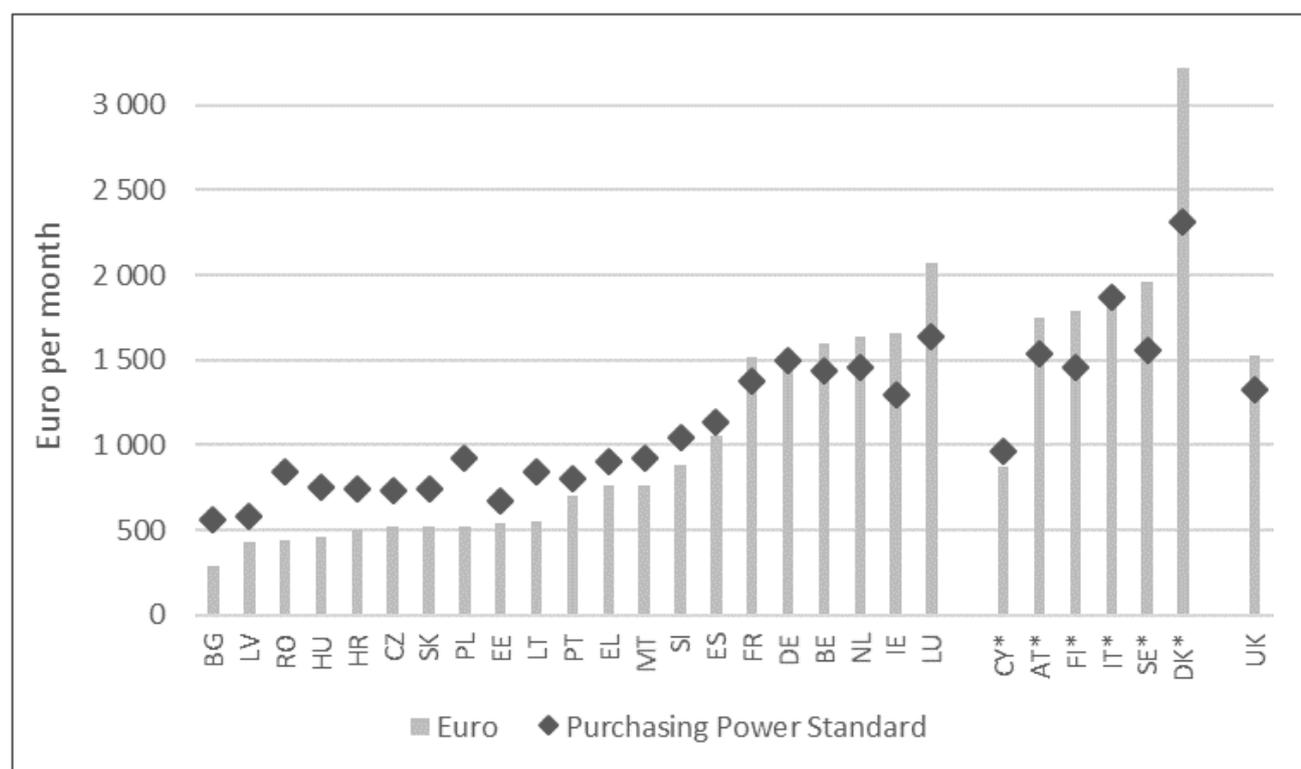
2. Evidence of gaps in existing minimum wage and living wage schemes

Research by Eurofound demonstrates **enormous variety and obvious gaps** with regards to the capacity of a minimum wage system to ensure universal protection even of one single adult worker:

Incomplete coverage: In half of the Member States having statutory minimum wages, certain groups are exempted (e.g. young workers, workers with disabilities, seasonal workers). In countries setting wage floors through sectoral collective agreements, coverage is often fragmented and leaves groups of workers out, even in countries with high coverage like Denmark (e.g. cleaners) Moreover, minimum wage rates can vary significantly within countries, ([Eurofound 2020](#): 26, 49).

Lack of fairness: Minimum wages very low compared to other workers: in most EU countries, the level of minimum wages is below the level of 60% and in many even below 50% of the gross median wage usually considered as a threshold for a fair wage in relation to other workers (European Commission, [SWD 2020](#): 20). **Level insufficient to ensure decent living:** In some countries, a high proportion of minimum-wage workers is suffering from material deprivation: Overall, 7 out of 10 minimum-wage workers report some difficulty in making ends meet, as compared to less than 5 out of 10 other workers (< 10% in DK, FI, DE, SE; > 50% in BG, HR, CY; 80% in EL, see [Eurofound 2020](#): 41ff).

Figure 3: Minimum wage levels, gross monthly figures (Euro/Purchasing Power Standards), 2019



Source: [European Commission \(2020: 31\): Analytical document](#). * For AT, CY, DK, FI, IT and SE, information on comparable collectively agreed wage floors was taken from Eurofound (2019): "Minimum wages in 2019 - Annual review", Figure 3, while information on PPS was taken from the European Commission's AMECO database.

However, in countries with low wage levels, even a minimum wage level of 60% median wage or above, like in Bulgaria, does not protect workers from deprivation as overall wage levels are very low, see Figure 2). On the other hand, in countries with higher wage (and welfare) levels, despite a minimum-wage level below the 60% threshold (e.g. Germany) a lower proportion of workers has difficulties to make ends meet. Here, the harmful effects of relative income poverty and disadvantage prevail (see section on in-work poverty above). Overall, a **relatively high absolute level of minimum wages (> EUR 1000) appears to better protect workers from poverty** in terms of having difficulties to make ends meet **than a high relative level of the minimum wage** (relation to gross median wage, see [Eurofound 2020](#): 43).

Increases of minimum wages in most countries are limited to compensation of inflation: While most countries increased gross statutory minimum wages in 2019, only a few countries with relatively low minimum wages saw real increases ([Eurofound 2020](#): 15).

Living wages: Initial stage in practice, but increasing number of initiatives. Practices vary across Member States as to which pay components (e.g. seniority bonus, allowances) count towards a (statutory) minimum wage ([Eurofound 2020](#): 20). Further, a very few countries currently apply (UK, IE) or are developing living wage concepts (RO, SI, see [Eurofound 2018](#)). In UK and Ireland these are parallel instruments

complementing the statutory minimum wage. However, an increasing number of initiatives in different countries supports structural increases going into the direction of a living wage. As Schulten and Müller (2019, 2020) argue, **definitions of a living wage depend heavily on the particular circumstances in the respective countries. They are always the result of a social agreement or compromise between different social actors.** This may imply that in countries with lower welfare levels higher minimum wage levels would be needed to achieve an adequate level thus increasing the risk of a trade-off with productivity and competitiveness.

Regional disparities make a difference for decent living: Substantial variation of living costs between urban and rural regions raises questions about the fairness of a unique national minimum wage (Eurofound 2020: 44).

3. Effects of minimum wages: findings from research

Recent research provides evidence-based information on possible effects and criteria for a European minimum wage initiative:

Employment effects: A comprehensive review of studies by the ILO points to inconsistent results for high-income countries. Further, these were often close to zero and too small to be observable in aggregate employment or unemployment statistics. In general, debates on employment effects are controversial, with different economic theories leading to different predictions. Confirming relatively small employment effects according to latest research, Eurofound (2020: 2) points to possible decreases in working hours.

Effects on poverty and in-work poverty: According to a simulation by the International Monetary Fund (IMF 2020: 13 ff.), a hypothetical European minimum wage set at 60 percent of each country's median wage would reduce **in-work poverty**, but have limited effects on overall poverty due to many poor households not earning a wage near minimum wage and off-setting effects such as the loss of means-tested benefits. In a recent study, the European Social Policy Network (2019) points to the **role of complementary public policies as a minimum wage can protect one single adult person** against the risk of poverty, but is often not enough to support more than one person. (see also Eurofound 2020, p. 67). This raises questions about the scope of protection through wages while it can be taken for granted that a broader institutional framework determines the chance for decent living. This includes tax rates, the level of social protection, housing and family allowances as well as fees for childcare, education or health care. To conclude, it depends on the national constellation of factors which policy adjustments are needed to reduce in-work poverty.

Effects on wage inequalities: Minimum wage increases improve the situation of low-wage earners covered by supporting their consumption. To which extent increases translate into less aggregate wage inequality for all workers depends on the proportion of minimum-wage earners in employment and the magnitude of the increase: The introduction of a minimum wage in Germany (2015) and strong increases in Hungary and Poland reduced inequality (Arpaia et al. 2017: 42; Eurofound 2020: 57f; Pereira, and Galego 2019: 819).

Effects on wage disparities across Europe: A relative harmonisation (i.e. 60% of the median wage as reference) could widen the distance between nominal minimum wages across Europe as relatively higher income EU Member States (e.g. Germany, Belgium, Ireland, Netherlands and Luxembourg) would have to significantly increase their minimum wage levels. Even if some relatively lower income countries in Eastern and Central Europe would also need to increase minimum wage levels, the nominal increase would be much lower given lower wage levels. Hence, wage differentials on the Single Market would not decrease if applying a relative criterion across countries (IMF: 2020: 8f).

4. Reservations prevail regarding a Minimum-Wage Directive based on Art.153 TFEU

Type and scope of legal instrument: A [study by the Centre of European Policy](#) (CEP 2020) argues that the planned initiative on an EU minimum wage cannot be based on the EU's social policy competence [Art.153 (2) (b) TFEU] as the ban on EU competence in Art.153 (5) TFEU means that neither the flexibility clause (Art.352 TFEU) nor cooperation between Member States in the form of enhanced cooperation (Art.329 TFEU) can be used. The fundamental right of workers to working conditions which respect their health, safety and dignity (Art.31 CFR) does not apply because the Charter of Fundamental Rights expressly states that it does not establish any power for EU action (Art.51 (2) CFR). Member States are however entitled to commit to an international treaty on common minimum wage regulations.

Other research suggests to strengthen the existing monitoring within the European Semester, an approach favoured also by employers: In terms of its regulatory setting a pragmatic way to circumvent the legal uncertainties would be to integrate a European minimum wage policy into the European Semester, as proposed in a report of the French Parliament (Cordery, 2016). Although such a procedure would not be legally binding, it could establish a regular monitoring and reporting system (Schulten, and Müller 2019). However, most stakeholder who are in favour of a European initiative, like the European Parliament, support a dedicated policy initiative in form of a legal instrument to stimulate policymaking in the Member States. Effective monitoring would be necessary for effective implementation of any legal instrument on minimum wages.

COVID-19: Need for combination of minimum wage and minimum income policies

The COVID-19 lockdown has catapulted supply of quality essential services onto centre stage as these kept societies running during the lockdown in the EU between March and June 2020. Numerous frontline workers are in low-paid jobs such as cleaners, helpers in logistic centres, shop sales assistants, waiters, personal care and childcare workers, labourers in agriculture and food production, couriers and deliverers, workers in public transport or garbage collection. Many of these jobs suffer from precarious working conditions, such as low pay and partially also from a lack of health and social protection, in particular [platform workers](#) as ETUC documents. Further, in a context of recession, wage freezes and cuts are common as the last recession following 2008 has shown. At the same time, many low-wage workers in other sectors (e.g. in the accommodation and catering sector, or in leisure and entertainment services) have been strongly affected by job losses ([Eurofound 2020](#): 67).

[Eurofound](#) concludes that **minimum wage policies are an important element** in a policy mix for income stabilisation **to cope with the COVID-19 effects**. According to a [survey by Eurofound](#), almost 40% of respondents reported their financial situation to be worse. Given job losses and partly low replacement rates through unemployment benefits, minimum income policies are equally important. At European level, these will be promoted under the Germany Council Presidency.

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 Administrators responsible: Susanne KRAATZ, Stefan SCHULZ; Editorial assistant: Roberto BIANCHINI
 Contact: Poldep-Economy-Science@ep.europa.eu
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