

The proposed Minimum Wage Directive

Following a two-stage consultation of social partners launched in February 2020, on 28 October, the European Commission [published](#)¹ its proposal for a directive on adequate minimum wages in the European Union. It is a [watershed](#)² in the history of European social and economic integration: for the first time, the Commission is initiating legislative action not only to ensure fair minimum wages but also to strengthen collective bargaining.

Legal basis of the directive, objectives and measures



The proposal for the Directive is based on Article 153 (1) of the Treaty on the Functioning of the EU (TFEU) which covers working conditions. Art. 153 (5) TFEU, however, excludes interventions related to pay. The draft therefore leaves the main responsibility for defining the concrete level of a minimum wage to the Member States. The Commission sees [valued added of action at the EU level](#)³ in providing the necessary momentum for reforming minimum wage setting systems. While setting minimum wages remains a national competence, an EU framework would ensure that progress is not partial or uneven, thus supporting the process of upward

social convergence to the benefit of the EU economy as a whole. The draft has two fundamental objectives: first, to ensure that workers across the EU are protected by adequate minimum wages, allowing for a decent living wherever they work in Europe and second, to strengthen *collective bargaining* as the main instrument to ensure fair wages and working conditions. Hence, the draft directive does not impose an obligation on Member States to introduce a legally binding instrument. This means that the six Member States without minimum wages set by law (Austria, Cyprus, Denmark, Finland, Italy, and Sweden) are not obliged to do so. For *both systems* the draft proposes: (1) The promotion of collective bargaining on wage setting and (2) Annual reporting by Member States to the Commission alongside structured dialogue. For the 21 Member States *with a statutory minimum wage* the draft also suggests: (3) Clear and stable criteria for setting and updating statutory minimum wages; (4) Strengthened involvement of social partners in statutory minimum wage setting; (5) Limited use of variations and deductions in statutory minimum wage setting and (6) Ensuring compliance and effective enforcement.

Strengthening collective bargaining

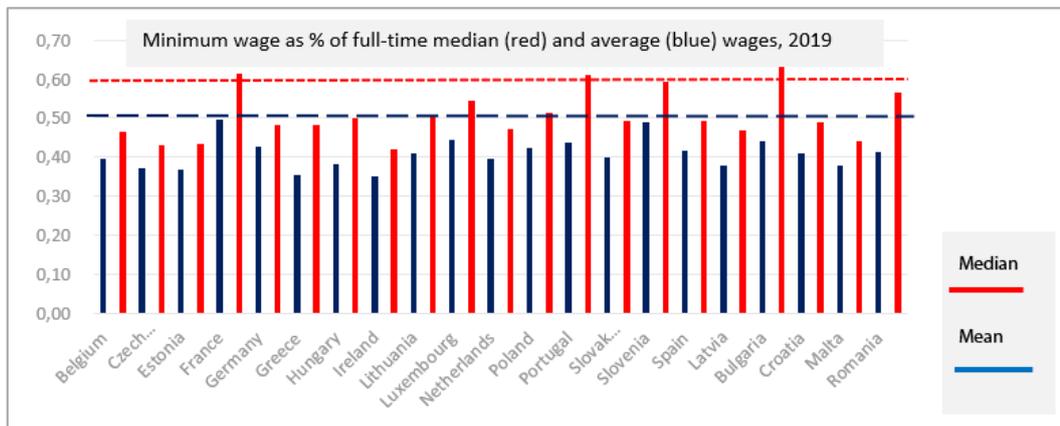
Against the background of declining coverage of collective bargaining, the draft provides a minimum target for adequate collective bargaining coverage: all Member States with a coverage rate below 70% of the workforce shall present an action plan. Collective bargaining coverage varies widely across the EU27, ranging from 80% to over 90% in countries such as Austria, France or Belgium and 10% to 20% in other, mainly Eastern European, countries. Among the six countries without statutory minimum wages, only Cyprus has a coverage rate of less than 70%. In total, 18 out of the 27 EU countries currently stand at below 70%.

Adequacy of minimum wages and recommendations

Although the adequacy of minimum wages is a key objective of the draft directive, there is no binding criterion for the assessment of adequacy. Instead, the draft suggests that every Member State should find its own definition of adequacy, using criteria such as the general level of gross wages and their distribution, the purchasing power, gross wage growth and labour productivity developments. This last category is especially problematic as it is not clear at all what productivity indicators should be used and at what level. While long discussed as a possible pragmatic benchmark to assess adequacy, the so-called Kaitz index has not been included in the draft. The index is a measure of the relative value of the minimum wage in relation to the national wage structure. Accordingly, a minimum wage is considered adequate when it is at least 60% of the national median and 50% of the gross average wage. By analogy



with poverty research, a minimum wage of 60% of the median wage is the wage that enables a *single full-time worker* to avoid a life in poverty without relying on state transfers. A minimum wage set at 60% of median income might, however, not be an effective way to tackle increasing [in-work poverty](#)⁴ in Europe, as it is usually measured [at household level](#)⁵. Low pay is a key factor of (in-work) poverty but, by far, not the only one. Beyond low pay, low labour force attachment and large family size are other mechanisms. One income is often not enough to keep families out of poverty. This confirms the importance of a second earner but also the need for complementary public policies such as adequate minimum income schemes. In addition, to fight in-work poverty, obligatory [living wage levels](#)⁶ for national minimum wages might be instructive for further initiatives at EU level. In 2019, the statutory minimum wage met the 60% standard in only four EU Member States: Bulgaria, Slovenia, France and Portugal. In all others with a statutory minimum, the minimum wage was below this level (cf. figure).



Source: Author's own elaboration based on OECD Earnings Database and Eurostat 2018 data for Bulgaria, Cyprus and Malta.

In its [impact assessment](#), the Commission calculated that an increase of national minimum wages according to the double decency threshold (60% of the median and 50% of the average wage) would improve the wages of around 25 million workers in Europe. This estimate could be a future benchmark to measure whether the directive can indeed contribute to the improvement of wages and avoid it becoming purely a political symbol. Research⁷ confirms that minimum wages might contribute to an increase of the general wage level and alleviate wage inequality at the lower tail of the wage distribution. The magnitude of this effect is larger for women than for men, implying that an increase in minimum wages can reduce the gender wage gap. Parliament and Council still have to approve the draft directive. Possible amendments might include a more precise definition of adequate minimum wages and more practical tools for the promotion of collective bargaining. To ensure that the action plans really fulfil their purpose of increasing collective bargaining coverage to at least 70%, the directive should specify supportive measures to be taken into consideration by Member States. [Proposals](#) include improved protection against victimisation of workers who exercise their right to collective bargaining. Amendments might also include a recognition of the extension mechanisms which in some European countries have proved an effective instrument to ensure high bargaining coverage—by making collective agreements binding on all employers in the sector, whether they are members of the employers' association or not.

¹ [Commission proposal for an EU Directive on adequate minimum wages in the EU](#), 28th October, 2020.

² [Minimum Wage directive: yes, but. Social Europe](#), 10th November 2020.

³ [Staff Working Document and Impact Assessment accompanying the Commission proposal](#), 28th October 2020, SWD(2020) 246 final.

⁴ [Worlds of Working Poverty: National Variations in Mechanisms](#), 2010.

⁵ [Eurostat database: In-work at-risk-of-poverty rate by working time - EU-SILC survey](#). The Eurostat data reflect the equivalised disposable income at household level which means that the overall income of a household is divided by the number of people composing it, and the resulting amount per individual needs to be higher than the poverty threshold which is set at 60 % of the national median equivalised disposable income (after social transfers).

⁶ [Eurofound: Working conditions. What Europe can learn from living-wage campaigns](#), April 2020.

⁷ [An assessment of the new statutory minimum wage in Germany: Positive wage effects, hardly any negative employment effects](#), IAB-Kurzbericht 24/2019 and [Minimum Wages and Wage Inequality in the OECD Countries](#), East Asian Economic Review Vol. 24, No. 3, 2020, pp. 253-273.

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IP/A/EMPL/2020-28; Manuscript completed: November 2020, Date of publication: November 2020

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This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Print ISBN 978-92-846-7491-6 | doi:10.2861/127644 | QA-06-20-001-EN-C

PDF ISBN 978-92-846-7492-3 | doi:10.2861/23709 | QA-06-20-001-EN-N