Fair minimum wages in the EU

Pre-legislative synthesis of national, regional and local positions on the European Commission's initiative

This briefing forms part of an EPRS series offering syntheses of the pre-legislative state of play and consultation on key European Commission priorities during the current five-year term. It summarises the state of affairs in the relevant policy field, examines how existing policy is working on the ground, and, where possible, identifies best practice and ideas for the future on the part of governmental organisations at all levels of European system of multilevel governance.

Summary of findings

Based on EPRS analysis, partner organisations at European, national, regional and local levels point to the following main considerations that they consider should shape discussion of the forthcoming initiative on fair minimum wages for workers in the EU:

- There are fears regarding the implications of the EU initiative for the respective national systems, with the various stakeholders suggesting a cautious approach as part of what could prove to be a long-term discussion. A complex differentiated approach with several safeguards, adapted to the respective systems in place, would appear to be key to avoiding an initiative with only minimal ambitions.
- A broad consensus is observed regarding the need to reinforce the social partners; strengthening social dialogue and promoting collective bargaining should be used as an opportunity to explore ambitious measures in this area.
- The unresolved debate on the effects of higher minimum wages on the economy and employment situation underlines the need for detailed and regular analysis, including by means of greater use of impact assessment tools. This would be valuable in order to prevent negative consequences and demonstrate the added value of EU action.
- Some specific (complementary) instruments deserve to be considered, such as the country-specific recommendations of the European Semester and public procurement procedures.
Current state of play

Background

The European Commission’s commitment to set an EU fair minimum wage

In her July 2019 Political Guidelines, Commission President Ursula von der Leyen announced that ‘a legal instrument to ensure that every worker in our Union has a fair minimum wage’ would be proposed, as part of ‘an action plan to fully implement the European Pillar of Social Rights’, building on the conviction that ‘the dignity of work is sacred’, and minimum wages ‘should allow for a decent living’. She also stressed that ‘minimum wages should be set according to national traditions, through collective agreements or legal provisions’, and that she was ‘a firm believer in the value of social dialogue between employers and unions, the people who know their sector and their region the best’. This was echoed in the mission letter to Nicolas Schmit, Commissioner for Jobs and Social Rights. In her 2020 State of the Union address, von der Leyen praised the solidarity witnessed during the pandemic but added that ‘Everyone must have access to minimum wages’.

Low wages and minimum wages in the European Union

Low pay remains a feature of employment throughout the EU, with around one in every six employees estimated to be a low-wage earner (Eurostat). In recent years, low wages (i.e. employees earning two thirds or less of national median gross hourly earnings) have not kept pace with other wages, leading in many Member States to an increase in wage inequality. Simultaneously, the proportion of employed people at risk of poverty rose from 8.3 % in 2010 to 9.3 % in 2018. Many low-wage employees were hit hard by the economic and financial crisis, in particular the young, the low-skilled and those in precarious forms of employment. Now in 2020, the coronavirus pandemic is having a negative impact on wages, in particular for those on the lowest incomes. In a 2020 Eurofound online survey almost 40% of respondents stated that their financial situation was worse than before the pandemic and nearly half indicated that their household could not make ends meet (47 % in April 2020). In July, 44 % of respondents were still experiencing the same difficulties.

The idea of a European minimum wage

Several EU Member States have a long tradition of ensuring a national minimum wage for their lowest paid workers. In contrast, a number of Member States, including Germany, Ireland and many of the countries that joined the EU in 2004 or later, have only recently introduced minimum wage legislation. Nevertheless, as of 1 January 2020 six of the EU-27 Member States had no national minimum wage (Austria, Cyprus, Denmark, Finland, Italy, and Sweden – see Figure 1 for details).

Figure 1 – Statutory vs collective bargaining minimum wages in EU Member States


The minimum wage is one of the most highly researched and hotly debated topics in economics and the social sciences. In recent years, the focus of the debate has switched from macro-economic impacts to the social dimension. A statutory minimum wage is increasingly considered a useful instrument to ensure fair wages and social inclusion. For its proponents, a ‘European minimum wage'...
Fair minimum wages in the EU

A fair minimum wage could help ensure that all workers earn a decent living in the EU, to fight income inequality, in-work poverty, social dumping, and also gender inequality. After years of discussion among politicians, trade unions, employers’ associations and experts, the idea of a 'European minimum wage' has returned to the forefront in the context of the economic and social crisis engendered by the pandemic, even if setting minimum wages remains the remit of the EU Member States.

The EU minimum wage initiative

In November 2017, the EU institutions jointly proclaimed the European Pillar of Social Rights, setting out the EU's commitment to fair wages for workers (Article 6). Following von der Leyen's commitment to a minimum wage in her Political Guidelines, the European Commission launched the first phase consultation with the social partners – businesses and trade unions – on the issue of on 14 January 2020. The first phase of the consultation ended on 25 February 2020. The Commission received replies from 23 EU-wide social partners. On the basis of those replies, the Commission concluded that there was a need for further EU action. On 3 June, the Commission launched the second-stage consultation of EU trade unions and employers’ organisations. This ended on 4 September (see below). The Commission is expected to launch its initiative on 28 October 2020.

Members of the European Parliament (MEPs) have debated low income and social exclusion regularly over the years. The minimum wage is increasingly considered to be a tool that can ensure fair wages and social inclusion – in line with the Council of Europe's European Social Charter. In 2008, Parliament called on the European Council to agree a common EU target for minimum wages, to ensure remuneration of at least 60 % of the relevant average wage. In a 2011 resolution, Parliament again urged Member States to develop minimum income schemes based on at least 60 % of the median income in each country. It also called for an end to 'in-work poverty' and inequitable working conditions, ‘through pay levels in general and minimum wage levels in particular, which – whether regulated by legislation or by collective bargaining – must ensure a decent standard of living'. A resolution of 24 October 2017 on minimum income policies called on Member States to introduce adequate minimum income schemes, accompanied by back-to-work support measures and education and training programmes tailored to personal and family situations, so as to support households with inadequate incomes and secure them a decent standard of living.

On 13 March 2019, in its resolution, 'European Semester for economic policy coordination: Employment and Social Aspects in the Annual Growth Survey 2019', Parliament called for decent wages in the EU. It called on the Commission and Member States to examine the issue of in-work poverty carefully and implement measures to improve job quality and reduce wage dispersion, including by raising wage floors, also where applicable using minimum wages set at decent levels. In this context, it called for the implementation of policies that respect collective bargaining and the position of workers in the wage-setting system. In a 10 October 2019 resolution, Parliament urged the Commission to put forward a legal instrument to ensure that every worker in the EU has a fair minimum wage, to be set in accordance with national traditions, through collective agreements or legal provisions. In its 17 April 2020 resolution on coordinated EU action to address the pandemic and its impact, Parliament again pushed for a legal instrument to ensure fair minimum wages.

Methodology

The data sources for this briefing were obtained through:

- general requests for input on key Commission priorities, reaching out to governmental organisations at all levels of government;
- targeted requests for specific input from partner organisations; and
- pro-active desk research, aiming to obtain additional relevant input from online sources.

First, general requests for input were sent to all the governmental organisation contacts in the EPRS Linking the Levels Unit network, using the monthly newsletter 'The Link'. Calls were sent out each
month between March and July 2020 to an expanding network that numbered over 470 contacts by the end of that period.

Second, targeted emails were sent to experts within the partner organisations with specific expertise on minimum wages, as well as to the ministries of economy and of labour or social affairs in each Member State. At this point, more details were provided on the topics to be addressed, guided by the first and second phase consultations on fair minimum wages for workers in the EU launched by the Commission (see previous section) and insights from literature on the subject. The topic can be condensed into four themes, which are developed in the section 'Positions of governmental organisations to date' below:

- Means of EU action
- Adequate level of minimum wages
- Degree of coverage of the population
- Involvement of social partners.

Insights from the governance literature were used in the 'Analysis of governmental organisations' positions' section below, to discuss the following themes:

- Demonstrating EU added value
- Minimum wage: Consequences for employment and the economy.

Moreover, pro-active desk research was carried out to gather further information from other governmental organisations online, and from the relevant literature, using European Parliament Library resources. This process took place from April to July 2020 and aimed at filling any analytical gaps identified. The input gathered pro-actively includes responses from stakeholders to the two phases of the Commission’s consultation on the initiative.

The outreach strategy garnered 61 documents, which are analysed in this briefing. Figure 2 presents this input according to the level of governance from which the documents originated. The documents have been published or provided by governmental organisations such as national ministries or parliaments, but also by umbrella organisations bringing together public authorities such as the Council of European Municipalities and Regions (CEMR), and individual regional governmental organisations.

**Figure 2 – Documents analysed, by governmental level**

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<th>Level</th>
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<td>European</td>
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<td>National</td>
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Source: EPRS.

**Positions of governmental organisations to date**

**Means of EU action**

**Debate on the legal basis**

Since the Commission announced its intention to propose a legislative initiative to ensure fair minimum wages across the EU, opponents and sceptics have been questioning EU’s right to act in this area. Article 153 of the Treaty on the Functioning of the European Union (TFEU) has been invoked as the legal basis entitling the EU to act in this domain, but several stakeholders have rejected this reading of the Treaty. The European Tech & Industry Employers’ organisation CEEMET clearly stated in its reply to the Commission’s second-phase consultation that the 'EU has no legal basis to introduce an EU action in this area', arguing that Article 153(5) excludes pay from the EU's competences. This absence of competence has been identified by the European Economic and Social Committee (EESC) as a key concern relating to possible EU action in this area. Member States have also begun to express scepticism, especially those that do not have a statutory minimum wage.
Replying to our outreach, the Austrian Federal Ministry for Employment, Family and Youth, answered in August 2020 that it considers a possible EU initiative with a legal instrument as problematic, especially in terms of the legal basis. A similar view was shared by the Swedish representatives (social partners and ministry of employment) consulted by the EESC rapporteurs, who shared ‘a general consensus that the EU does not have competence to take action on wages’.

**Legal instrument: Directive vs Council recommendation**

In its consultation of June 2020, the Commission gave more precision on the legal instruments envisaged for its initiative. The instruments under consideration were, a directive in the area of ‘working conditions’ or a Council recommendation inviting Member States to set the conditions for ensuring fair minimum wages. The stakeholders that took part in the consultation were explicitly asked to share their views on these possible legal instruments. The results of the replies could broadly be summarised as follows. On one side, workers’ representatives are calling for a directive (see for example ETUC’s reply), and on the other, employers’ representatives consider that a Council recommendation is the only option (see for example the responses from Business Europe, SMEUnited and CEEP). Those in favour of a directive view it to be the right instrument to set out certain binding minimum requirements and objectives, while opponents consider it non-compliant with the Treaty and warn of legal risks. A Council recommendation would be less constraining and is thus perceived by the pro-directive side as no more than a complementary instrument, and by the others as the default acceptable option. A broader gathering of reactions made before the first-stage social partner consultation by Eurofound presented a more complex picture with trade unions split over the initiative. The Nordic countries in particular demonstrated serious concerns, whereas certain employer organisations showed some support for the initiative in principle.

Local and regional governments act as employers and in this regard the CEMR does not support an EU directive, considering that it ‘would lack proportionality’ and ‘infringe the principle of subsidiarity’. A Council recommendation is assessed less critically by the CEMR but is nevertheless seen as bearing ‘considerable risks’ for national minimum wage-setting systems. At national level, positions are divided in a similar way. The National Council of the Slovak Republic, for example, perceives the initiative as positive – even if it is expecting controversy in the Council. It has made it one of its priorities and considers the instrument should be a directive. Their Swedish counterparts from the Riksdag, on the contrary, believe a minimum wage directive poses ‘a serious threat to the Swedish collective bargaining model’. The Polish government is also quite sceptical about the Commission’s intention to legislate on this topic and believes that soft instruments such as recommendations and guidelines would be sufficient, according to a counsellor at the Permanent Representation of
Poland to the EU. It also expects a well prepared impact assessment, with regard in particular to the consequences for SMEs.

Appropriate level for the minimum wage

Alongside the various types of minimum wage system present in the EU Member States, the varying levels of these minimum wages complicates the picture still further. In July 2020, minimum wages in the EU Member States ranged from €312 in Bulgaria to €2,142 per month in Luxembourg (Eurostat). The gaps are however reduced once the cost of living in the respective countries are taken into account. Map 1 shows the various national situations existing in the EU.

One key aim is that the minimum wage should allow a decent standard of living. According to the International Labour Organization, the needs of workers and their families and also economic factors should be considered when setting the minimum wage level. In an information report with proposals concerning the minimum wage in 2020, the Latvian Ministry of Welfare notes that as the current Latvian national minimum wage level does not guarantee a decent standard of living for a single-person household, the households concerned are at risk of poverty, concluding that the Latvian national minimum wage has yet to reach the level required by the European Social Charter.

In its reply to the second phase of the European Commission consultation of social partners, the ETUC called for statutory minimum wages of at least 60 % of the median and 50 % of the average wage (see Box).

In Sweden, minimum wages are based on collective agreements; wage levels vary between sectors but also depend on age, education and work experience. In a recent report on collective agreements and their impact on the minimum wage in Sweden, the Swedish National Mediation Office noted that a clear majority of low-paid individuals were either younger than 20, worked less than 40 % of full-time, or received supplements on top of fixed pay.

Specific regional situations can lead to adaptations of national minimum wage levels. This is the case for the Portuguese Autonomous Region of the Azores where the minimum wage is 5 % higher than the national Portuguese minimum wage. This is justified by the higher cost of living and the lower value of remuneration received by some of the island’s population compared with the mainland. A similar type of differentiated statutory minimum wage exists in two other outermost regions: Madeira, Portugal, and Mayotte, France. In 2019, the regional government of Catalonia, Spain, adopted a recommendation in favour of setting a higher minimum wage for the region. It was based on a study that quantified a potential figure for the Catalan minimum reference salary – based on 60 % of either the average or the median Catalan salary – and also evaluated the potential incidence for different groups of workers – with a higher incidence identified for women, young people, people entering the labour market for the first time, and people without professional qualifications.

Median and average wage

The median wage and the average wage represent the results of two different calculations. While they use the same data (i.e. the wages received by all individuals), the way they are calculated and the interpretation of their respective results are different.

With the median wage, net wages are first ranked from the lowest to the highest. Then, the series is cut into two groups, each with the same number of individuals. The wage ‘in the middle’ of these two groups of individuals is the median wage. It corresponds to the ‘pivot’ wage: among the whole population, 50 % of workers receive a wage below the median wage, and 50 % above.

The average wage adds up all wages and divides the result by the total number of individuals. It is therefore less precise, since it does not take into account the major differences that may exist between individuals’ wages.

Source: Lafinancepourtous.
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Degree of coverage of the population

The fact that in several Member States a part of workers are excluded from the minimum wage is one of the issues that an EU initiative on minimum wages would be expected to help to tackle. Article 1 of the Minimum Wage Fixing Convention (1970, C131) clearly states that minimum wages should cover ‘all groups of wage earners whose terms of employment are such that coverage would be appropriate’. Recommendation 135 envisages the possibility of some wage earners not being covered but requests that this number be kept to a minimum.

Despite the existence of statutory national minimum wages, multiple exemptions exclude some workers from the protection of the law. Eurofound has calculated that 7.2 % of workers earn less than the minimum wage in EU Member States with statutory minimum wages. Figure 3 below shows considerable variations in this respect, from 13.7 % in Poland to 2 % in Czechia. The Belgian minimum wage covers 97 % of employment through an automatic extension (Law of 1968). In theory, the system is flexible owing to collective bargaining but in practice a lack of innovation has led increasingly to state intervention.

Variations are also visible in the coverage of collective agreements. According to the Swedish Ministry of Employment, around 90 % of employees in Sweden are covered by a collective agreement (100 % in the public sector and 83 % in the private sector). A report from the Swedish National Mediation Office points out, however, that out of around 700 collective agreements currently in place in Sweden, less than 250 include specific levels for minimum wages. The unions often specify recommended starting salaries and count on the individual’s ability to influence their pay. Despite this absence of mandatory elements, in 2018, only a little less than 1 % of Swedish employees had a wage lower than 60 % of the median pay level.

A survey carried out in 2008 by the Austrian statistical office showed that the coverage rate of collective agreements in Austria was lower than expected, at 94 %, and that low levels of coverage were especially to be found in sectors not organised in the Austrian chamber of commerce, in the tourism industry and in the IT sector. A revision finalised in 2019 confirmed that this coverage has not evolved. Closing this gap and triggering changes in areas covered by a collective agreement where no wage increases have been agreed for a long time are among the goals set by the Austrian
government in its programme for 2020-2024. If the social partners are not in a position to find a solution, the federal government will propose appropriate ways to find a solution.

The involvement of social partners

Numerous contacts and stakeholders are worried that the social partners will see their autonomy reduced and collective bargaining weakened with the Commission’s proposal. Commission President Ursula von der Leyen underlined in her 2020 State of the Union address, however, that national competence and traditions would be fully respected. According to von der Leyen, social partners play a fundamental role in states with collective agreement systems, and also play a key bargaining role more broadly, especially when it comes to adjustments to minimum wages.

Collective bargaining

Nordic countries and more generally countries where the minimum wage is determined by collective agreements are those most concerned about the consequences the EU initiative could have for their national systems. Although Finland welcomes the discussions on the European minimum wage and supports the objective of raising the income levels of EU workers living in poverty, it has however some worries concerning respect for the Nordic labour market model based on collective bargaining. As low incomes are particularly prevalent in countries where trade union density is low and collective bargaining is lacking, Finland suggests focusing on encouraging collective bargaining in all EU Member States. Austria holds the same position since it views its system of determining the minimum wage through collective agreements as working well.

Local and regional governments acting as employers share similar views. According to the CEMR, ‘national legislators and social partners remain the most accountable institutions or bodies’ for wage-setting. It asks the Commission to recognise fully that ‘social partners are autonomous both in setting the frame and negotiating the conditions for wages setting’. In a joint reaction adopted along with the European Public Service Union (EPSU) at the beginning of 2020, the CEMR stated that wages are best set through collective agreements between strong and autonomous social partners at national level.

A few years ago, the European Committee of the Regions (CoR) acknowledged the key role of collective bargaining in setting minimum wages in an opinion but pointed out that in many sectors and SMEs, sectoral agreements did not exist, as a result excluding some workers. This raises doubts as to how well collective bargaining works. In order to have a good understanding of the situation, in Portugal, for example, each year a report on the evolution of collective bargaining is produced by a public body made up of representatives from the ministry of labour, trade unions and employers. The 2019 edition looks at fundamental aspects of the economic context and normative variables forming the background to collective bargaining, and shows, from a general and predominantly quantitative perspective, the lines of development of collective bargaining in 2019, placing it in the context of developments since 2005. It also analyses the conventions negotiated recently, and examines collective bargaining in the public administration.

Among the diverse elements that can be studied is the interaction between the statutory minimum wage and collective bargaining. An evaluation report on the Dutch minimum wage between 2011 and 2018 produced by the government’s independent econometrics office looked at the evolution of the statutory minimum wage in relation to collective bargaining agreements, and concluded that the development of the statutory minimum wage had exceeded the development of both collective agreements and actual wages. During the preparation phase for the Commission initiative, an academic presentation on the situation in Germany noted that the introduction of a statutory minimum wage in Germany in 2015 had had a positive impact on collective bargaining in some industries.
Adjustment of minimum wages

Closely related to the collective bargaining issue is the social partners' role in setting minimum wages. Several partners and stakeholders advocating a reinforcement of collective bargaining also call for the social partners' role in wage adjustments to be safeguarded and increased.

Social partners' involvement in determining the minimum wage level is a dominant feature, but there are variations in the processes and in their degree of autonomy. In Croatia, as in several other EU Member States, the proposal for the minimum wage level is made by the minister responsible for labour, after consulting the social partners.17 This usually takes place annually and is then fixed by a government regulation. In Ireland, the Low Pay Commission was established in 2015 in order to take an evidence-based approach to the setting of the national minimum wage. Members are representatives of trade unions and employers, but there are also experts and an independent chair. In Latvia, a decentralised wage-setting system is in place, with one minimum wage level binding for all employers. Higher minimum wages may be specified in collective agreements negotiated by social partners. In a concept paper prepared in 2016 with several governmental organisations, the Latvian welfare ministry identified several problems with the national process of setting and reviewing the minimum wage. One was the fact that social partners are not sufficiently involved. The regulation prescribing the procedures for the determination and review of the minimum monthly salary is currently being revised.

Latvia's neighbour, Lithuania, has expressed its readiness to discuss the determination of the criteria and principles for setting minimum wages in all EU Member States, but here as well, minimum-wage setting rules are established with the close involvement of the social partners.18 A tripartite council made up of representatives of trade unions, employers and the government recommends the minimum hourly wage and the minimum monthly salary. Therefore, Lithuania considers that the importance of social dialogue should be acknowledged in the EU decision.

Analysis of governmental organisations' positions

This section analyses the content and some features of the input gathered, and draws some conclusions based on the insights from governance literature.

Content and remarkable features of input

The various documents analysed demonstrate how divisive and sensitive the issue of the EU initiative on a minimum wage is. The objective of fighting in-work poverty and ensuring decent living conditions for all EU workers is widely shared but the perspective of this being achieved by means of legislative action at EU level has generated many questions and concerns. The alternatives are either a light approach focused on reinforcing the role of social partners and promoting collective bargaining, or a rather complex differentiated one involving several safeguards. As the Lithuanian authorities explained, upward convergence may take time owing to differing historical and cultural situations in EU countries, and differing economic and financial situations.19

The input received confirmed that minimum-wage setting is very much a stakeholder and national-level issue, even if in some cases the regional level may feature in a specific way. The local level however is not a player directly involved in this discussion but is likely to be affected and responsible for various aspects related to minimum-wage setting and its social consequences. The replies received to the targeted requests furthermore showed that – so far at least – questions relating to minimum wages are essentially perceived through the national prism, focused on Member States' own systems and legislation. Research and data on the consequences of potential EU-level action are at this stage limited. The level of reluctance to change the status quo is quite high. Even where deficiencies are acknowledged, the existing system remains perceived as the best frame of action.
Demonstrating European added value

The huge diversity of situations is a fundamental challenge for the EU. The consensus on the need to fight poverty and in particular the aim to prevent in-work poverty, is confronted with the EU’s limited capacity to act on social policy. Therefore, it appears crucial for the EU to explain and demonstrate the added value of an EU initiative in this domain. In its second phase consultation document, the Commission specified its goals and policy objectives. These include: well-functioning collective bargaining in wage setting; national frameworks for setting and updating minimum wages including clear and stable criteria; effective involvement of social partners in statutory minimum-wage setting to support minimum wage adequacy; elimination or limitation of minimum wage variations and exemptions; effective compliance with national minimum-wage frameworks and monitoring mechanisms.

These specific objectives and policy measures have been welcomed by a majority of EESC members, who confirmed that ‘they should be addressed through EU action on fair minimum wages’. According to the CEMR, the Commission was however still failing to show ‘a clear link between a more harmonised European system of wage setting and the improvement of living and working conditions’. The ability of the Commission to propose effective instruments able to tackle inadequate wages, gaps in minimum wage coverage, insufficient collective bargaining and gender inequalities may well be key to the initiative’s chances of success.

A study carried out by the Parliamentary Institute of the Czech Parliament looked at the situation in the various EU countries to see which countries would benefit or not from the introduction of a European minimum wage. After placing the minimum wage in the context of the median and the average wage, it concluded that the introduction of a minimum wage may be unnecessary in some EU countries (such as Sweden or Finland) where trade unions have a strong position and regularly negotiate decent wages for employees. In other countries, however, with no such traditions, it could be useful but determining the level often remained problematic. For example, the study noted that Belgium and France were doing very well, but even here the minimum wage did not reach 60 % of the median wage. In Czechia, and also in Slovakia and Germany, one-fifth of the working population did not have a wage that allowed for a decent standard of living. The report concluded that a Europe-wide minimum wage of at least 60 % of the median wage would require an increase in the minimum wage in all EU Member States.

Different conclusions were drawn a few years earlier by an information report produced by a member of the French National Assembly. This report concluded that a European minimum wage would have many advantages as it would minimise the risk that certain countries use wages as a tool to increase their competitiveness to the detriment of others, and would thus have a positive effect on the economy and on the overall competitiveness of the euro area. A two-step approach was promoted: first, to allow the establishment of a minimum wage in each country of the EU, and then, to organise convergence between them. More recently, in a political opinion relating to the European Commission’s 2020 work programme, the French Senate considered that a European initiative on minimum wages would ‘promote social convergence in Europe and turn social Europe into real added value for European citizens’. It nevertheless called for respect for the jurisdiction of Member States and social dialogue, and mentioned ‘the establishment of benchmark indicators, which take account of the economic situation in each Member State’ as an appropriate way to set minimum wages. The members of the National Assembly also made a number of points such as, that every Member State should have a minimum wage that should represent between 50 % and 60 % of the median wage, social partners should be actively involved in the process, and a European wages conference should be set up to make recommendations to the Commission to organise the convergence of wages.

The French députés also called on the Commission to include the minimum wage question in the country-specific recommendations as part of the European Semester. Use of this framework coordinating economic and fiscal policies had also been suggested a few months earlier by the CoR, which recommended ‘soft processes such as the open method of coordination’. Several
stakeholders – in particular those on the employers' side – have suggested enhancing the European Semester process as the right way forward. The CEMR, for example, sees the European Semester as the appropriate instrument for promoting decent working conditions, as each Member State could determine its own tools and strategies in cooperation with the social partners and the Commission.

Another path suggested both by the CoR in its 2015 opinion and by the EESC in its 2020 opinion is to use public procurement. Public institutions could, through this means, promote decent wages, fair working conditions, and collective bargaining. Regional and local levels could also lead by example through their employer role and exchange best practices that could be coordinated at EU level.

Minimum wage: Consequences for employment and the economy

In February 2020, the CEMR reproached the Commission for not having provided a sufficient list of the possible negative effects of an EU minimum wages initiative on employment and competitiveness. In this regard, in 2014, the French finance and economy ministries had explored the potential effects of introducing a minimum wage at European level. The authors of the publication stated that a European minimum wage, fixed at an adequate level, could raise the standard of living of the poorest workers and improve the functioning of the European economy, without necessarily having any negative effects on employment. It would reduce the opportunities for social dumping and ease competition on wages.

Although the issue of setting minimum wages is one of the most analysed and debated subjects in economics and the social sciences, its potential impact on employment, growth, equality and poverty remains unclear. For some experts, higher minimum wages might lead to job losses, as it increases the cost of labour. Others oppose the establishment of a minimum wage, as it could have inflationary effects, lead to an increase in 'informal work' and reduce employers' profits, as labour costs are often the largest share of a company's budget. Conversely, experts in favour of the minimum wage point out that it can help combat 'in-work poverty', by increasing employees' purchasing power, and reduce inequalities, by narrowing the gap between low and high incomes.

A study on the impacts on employment and wages of increasing the minimum wage in Czechia in the 2013-2017 period published by the Economics Institute of the Czech Academy of Sciences showed that the successive increases in the minimum wage had a positive effect on wage growth but did not have a significant negative impact on employment. It should nevertheless be noted that the level of the minimum wage in Czechia remains relatively low in comparison with other European countries and affects only a small proportion of workers. The study's authors stated that their findings did not enable them to predict whether or not further increases would impact employment, and recommended continued regular monitoring.

The Dutch independent econometrics office made a similar observation in its evaluation report on the Dutch minimum wage from 2011 to 2018. It observed that international studies had produced mixed results on the impact on employment of increasing the minimum wage. The results were affected by several labour market characteristics, such as market power, existing institutions, the number of people earning the minimum wage, and its level of increase.

Detailed and regular studies are therefore necessary to assess the various consequences that changes in the minimum wage level have. The Portuguese ministry of labour, solidarity and social security conducted an in-depth analysis in 2019, to mark 45 years of the minimum wage in Portugal. The report – National Minimum Wage 45 years later – presents detailed figures on employees covered by the minimum wage, the impact of minimum wages updates on the purchasing power of employees and on employment, for different sectors and types of employees. Other data can be found in the research report produced for the Irish Low Pay Commission by the Economic and Social Research Institute, 'The impact of a change in the national minimum wage on the distribution of hourly wages and household income in Ireland'. The analysis of the effect of the 2016 increase in the Irish national minimum wage shows that it increased the wages of low-paid workers and reduced hourly wage inequality. Spill-over effects were also observed, however, suggesting that the impact of minimum wage changes on aggregates such as employment, hours worked or labour costs requires further monitoring.
EXPERT READING ON THE TOPIC


ENDNOTES

1 Governmental organisations can subscribe to 'The LINK' newsletter by writing to the EPRS Linking the Levels Unit.


4 Slovak National Council, Letter from the Secretary General, September 2020, printed copy.


6 Recording of SMEUnited event 'A fixed EU minimum wage – a necessity or a burden for SMEs?', June 2020.


8 Wage formation in Sweden, Document from the Swedish ministry of Employment, October 2019, printed copy.


17 According to the *Minimum Wage Act* (Official Gazette, No 118/18).

18 Lithuanian Ministry of Social Security and Labour, Reply email, July 2020.


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