

# Minimum wage and the EU: Happily ever after?

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*Credit: Yuri DYACHYSHYN / AFP*

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# Executive summary

Once deemed a pipedream, a concrete plan for a European framework on minimum wages might finally be in the cards. In fact, the European Commission will soon come out with an updated proposal, following its official commitment to introduce a legal instrument on minimum wages and a first round of consultations earlier this year.

But before it can become a reality, the EU will have to overcome several obstacles. Firstly, it should design an ambitious European framework that delivers real and concrete progress for low-wage workers and is sufficiently flexible to accommodate the very diverse wage-setting regimes present across the EU. Secondly, it must deal with the opposition to EU interventions in wage-setting and convince sceptics of the economic, social and political benefits of having such a European framework.

By promoting decent minimum wages for all through the creation of a legal instrument, the EU would help improve the current social climate. At the same time, it would contribute to the development of the EU's caring dimension, which is crucial to curb the growing distrust in EU institutions, which has been fuelled further by the COVID-19 crisis. Lastly, it would also prove that the Commission's immediate crisis-related measures will not undermine its long-term ambition for a Social Europe. Now more than ever, the EU needs to prove its worth to those who have benefitted the least from the technological progress, globalisation and expanding wealth of the last four decades.

The Commission's current approach offers a solid starting point to tackle multiple social challenges and achieve several objectives at once (i.e. the promotion of decent living, the convergence of social realities across the EU). However, to achieve the creation of an egalitarian wage structure and political consensus, and support decent living standards, the Commission will need to present concrete instruments and demonstrate a great deal of political agility, as indicated in the table below. Above all else, these should be the guiding principles in the Commission's efforts towards reaching an agreement on the European framework for minimum wage.

## OUTLINE OF RECOMMENDATIONS FOR THE EUROPEAN COMMISSION

### OBJECTIVE: CREATE AN EGALITARIAN WAGE STRUCTURE AND SUPPORT A DECENT LIVING

#### Recommendations

1. Combine two instruments (i.e. relative and absolute indicators) into one.
2. As regards relative indicators, use the net remuneration of workers and compare it to national median earnings.
3. As regards absolute indicators, use the Pillar as the operational framework to define the 'European way' of decent living, and base the development of the absolute indicators on a common methodology for a minimum decent living wage.

### OBJECTIVE: ACHIEVE POLITICAL CONSENSUS

#### Recommendations

4. Create an instrument that provides both ambition and flexibility simultaneously.
5. Ensure the legal prevalence of collective agreements and social partners' autonomy in collective bargaining systems.
6. Implement the instrument gradually.
7. Strive for full coverage of all workers and ask member states to report regularly on the level of coverage of collective agreements and/or minimum wage regulation.
8. Make the issue of adequate minimum wage key elements of the European Semester and country-specific recommendations.

# Introduction

The von der Leyen Commission has reopened one of the most fundamental yet controversial debates in the spheres of EU employment and social policies by announcing the introduction of a legal instrument that will ensure fair minimum wages throughout Europe. On 14 January, Nicolas Schmit, European Commissioner for Jobs and Social Rights, launched the first phase of a consultation process for this instrument, and thus embarked on a long and bumpy road that follows the provisions of the EU Treaties (i.e. Article 154(2) TFEU). He asked social partners to express their views on the need for action at the EU level and indicate whether they are willing to enter negotiations or not. A more concrete proposal on the scope and shape of this legal instrument, initiating the second consultation phase, is to follow soon.

After three decades of inconclusive discussions, and the inability to collectively agree on *whether* and *how* policy on decent minimum wages could benefit from the Union's action, the political sensitivity of the topic is indisputable. The European Commission's decision to put it on the negotiations table is, therefore, a sign of political courage that reflects its desire for a more 'social Europe'.

The initiative is made all the more relevant by several elements which have increased the possibility of a positive outcome. In fact, an official commitment has been made at the highest political level: the then Commission President-elect Ursula von der Leyen promised in July 2019 to come up with a legislative proposal in the first hundred days of her mandate. Furthermore, providing the EU with such a legal instrument is the logical follow-up to the European Pillar of Social Rights (EPSR).

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**The EU response must combine ambitious crisis management instruments which mitigate the immediate effects of the COVID-19 crisis with a deeper and longer-term reflection about how the EU can reinforce the European social model.**

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Despite such a favourable context, the COVID-19 crisis has since altered the EU's political agenda, including its social dimension. As required by the urgency of the global pandemic, EU priorities in the employment and social fields have been redirected to mitigate the direct effects of the health crisis. Thus, the EU has announced and initiated several other new instruments, and introduced some changes to already existing ones. For

instance, the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument has been created to protect workers against lay-offs and wage cuts. Other examples include amendments to Regulation 223/2014 on the Fund for European Aid to the Most Deprived, and the introduction of increased flexibility in the use of structural funds. In this newly dire context, the proposal for fair minimum wages has been delayed and become a secondary political issue.

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Regardless of the delay, the current context could actually offer the EU a window of opportunity for success. The crisis has emphasised the need for a common socioeconomic response, given the close interdependency of European economies which limits the impact of national measures. The EU response must combine ambitious crisis management instruments which mitigate the immediate effects of the COVID-19 crisis with a deeper and longer-term reflection about how the EU can reinforce the European social model.

In fact, this crisis brings to the fore important disparities among workers, which will be exacerbated further by the inevitable economic recession. One of these disparities concerns decent wages. To date and on average, 9.2% of workers in EU countries with a statutory minimum wage earn below their national minimum wage, either because they fall outside the scope of the statutory minimum wage regulation or are subjected to special minimum wage rules.<sup>1</sup> The number of workers who are not covered by collective agreements in countries without statutory minimum wages could also be added to this figure.

The EU must pay particular attention to these workers for three reasons:

1. Low-income groups display a higher level of distrust towards the EU than any other socioeconomic group. They often feel that EU policies, which are often perceived as the vehicle of neoliberal ideology more generally,<sup>2</sup> have worsened their living standards.
2. This trend of Euroscepticism is likely to be amplified further by the current COVID-19 health crisis and its economic fallout. The socioeconomic consequences are likely to become even more

adverse for vulnerable workers due to their already precarious situation.

3. EU citizens' level of anxiety about their future is increasing, and trust in EU institutions has deteriorated, particularly in several traditionally pro-EU member states like France, Italy and Spain.<sup>3</sup>

These three reasons highlight the fundamental need to strengthen the caring dimension of EU policies in such difficult times and stress the positive role the EU can play in protecting its most vulnerable. Such actions have become imperative in a context where the legacy of the austerity measures supported by the EU in the aftermath of the 2008 economic and financial crisis has resurfaced in people's minds, with Eurosceptic forces acting as their echo chambers.

By promoting decent minimum wages for all through the creation of a legal instrument, the EU would help improve the current social climate and provide a concrete solution to low-wage workers who benefit the least from productivity gains, technological advances, globalisation and wage increases. This window of

opportunity, the best in 30 years, is very narrow, however, as the risk of political deadlock remains extremely high.

To maximise the chance of obtaining a European framework for fair minimum wages and guaranteeing its positive impact on workers simultaneously, the Commission must ensure that the immediate crisis-related measures do not undermine its longer-term ambition for a more social Europe. To do so, it should build its proposal on two major parameters:

1. The EU instrument for fair minimum wages should offer a general framework that combines relative and absolute indicators (as based on the EPSR's social rights) and provides national governments and social partners with sufficient leeway to shape it to their national specificities.
2. In order to achieve consensus among member states and render the initiative politically acceptable, the proposal must address the fears of its opponents, not least by offering flexibility and a real legal guarantee for countries with collective bargaining systems.

## 1. Minimum wage and the EU: A history of trials and tribulations

Previous attempts to establish a European policy on minimum wages were doomed to fail, resulting in a long, timid relationship between the Union and its commitment for minimum wages. The complete fulfilment of this already fickle alliance is held back further by hardliners.

### 1.1 A HISTORY OF TIMID LOVE...

A proposal for a European policy on minimum wage first entered the public debate following the adoption of the 1989 Community Charter of Fundamental Social Rights for Workers, which referred to fair remuneration. Since then, the Charter has been used as a reference point in discussions advocating equitable wages. To support this endeavour, the Commission published an opinion in 1993 which urged member states to improve labour market transparency relating to wages, ensure that the right to an equitable wage is respected and invest in human resource development.<sup>4</sup>

Minimum wages have also been on the European Parliament's radar for decades. For instance, due to a continuous increase of poverty and social exclusion in Europe – income poverty grew from 15% in 2001 to 16.6% in 2008<sup>5</sup> –, it passed a resolution in 2008 to ensure that minimum wages prevent income poverty and guarantee a decent standard of living. To this end, it called for an EU target of minimum wages equalling 60% of the relevant (i.e. national or sectoral) average wage.<sup>6</sup> In 2016, it reiterated its request, publishing another resolution

which urges national governments to introduce minimum wages that were consulted with social partners.<sup>7</sup> Finally, the debate on minimum wages in the EU received great attention during the 2019 European Parliament elections, with candidates from the Socialists & Democrats, Greens, Renew Europe and European United Left rallying support for this cause.

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**Despite institutional actors' clear support for a European policy on minimum wage, the Union's actions have so far been limited to some voluntary mutual learning activities.**

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Nevertheless, despite institutional actors' clear support for a European policy on minimum wage, the Union's actions have so far been limited to some voluntary mutual learning activities among EU countries.<sup>8</sup>

Against this backdrop, the 2017 proposal for an interinstitutional proclamation endorsing the EPSR, which calls for the implementation of 20 social principles, represents a long-awaited breakthrough. Not

only because it demands, via its Principle 6 (as did the documents mentioned earlier), that workers be given the right to fair wages to establish a decent standard of living,<sup>9</sup> or stipulates that adequate minimum wages shall be ensured and in-work poverty prevented. It is also because all the member states endorsed it, thereby opening a window for concrete actions at the Union level.

However, although the EPSR is important symbolically, it neither specifies how adequate minimum wages should be established nor proposes concrete steps to achieving the objective. Thus, member states' efforts to comply with Principle 6 are very uneven.

## 1.2 ...HIJACKED BY HARDLINERS

The opposition to EU interventions in wage-setting relies on various arguments: EU competences are absent from the area of pay; EU interventions would supposedly impact competitiveness and job creation negatively; EU interventions would feed a race to the bottom; or the European Court of Justice would be assigned the power to overrule national labour laws, thus limiting trade unions' ability to negotiate collective agreements.

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**The presence of hardliners are mainly explained by the great diversity of wage-setting mechanisms in the EU and some member states' desire to protect their systems from EU interference.**

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Each of these arguments is used by different stakeholders, thus reflecting various interests and positions within the opposition. As regards business associations, they argue that a European instrument for

minimum wages would not account for each member state's economic landscape and could have adverse effects on competitiveness, hiring or quantity of work.

BusinessEurope's response to the Commission's first consultation phase highlights that there is room to discuss European coordination of minimum wages. However, it also specifies that it should be done broadly to increase prosperity, convergence and social cohesion via already existing instruments (e.g. the European Semester), rather than by imposing strict rules on countries.<sup>10</sup>

Meanwhile, most trade unions responded positively to the Commission's minimum wage initiative. In fact, the European Trade Union Confederation indicated that it is, in principle, open to commencing negotiations with employers. However, it did also ask the Commission to clarify its position on several elements first, not least the guarantee not to undermine social partners' autonomy.<sup>11</sup>

It is also important to note the lack of consensus among European trade unions on the need for EU action in this field. The different stances and presence of hardliners are mainly explained by the great diversity of wage-setting mechanisms in the EU and some member states' desire to protect their systems from EU interference. Sweden and Denmark are the figureheads of this resistance. Hence, several trade unions are pushing against this new EU initiative. They argue that legally binding requirements would significantly distort the quality and efficiency of their social dialogue, could include a target that is too low or would reduce the incentives for both workers and employers to pursue social dialogue.<sup>12</sup>

The difficulty of coordinating very diverse wage-setting regimes is clearly one of the reasons why a European policy on minimum wages is yet to come to fruition. Broadly speaking, two wage-setting systems can be identified in the EU: one is based on statutory minimum wages and is used in 21 member states, while the other relies on collective bargaining agreements and is in effect in 6 countries. However, digging under the surface,

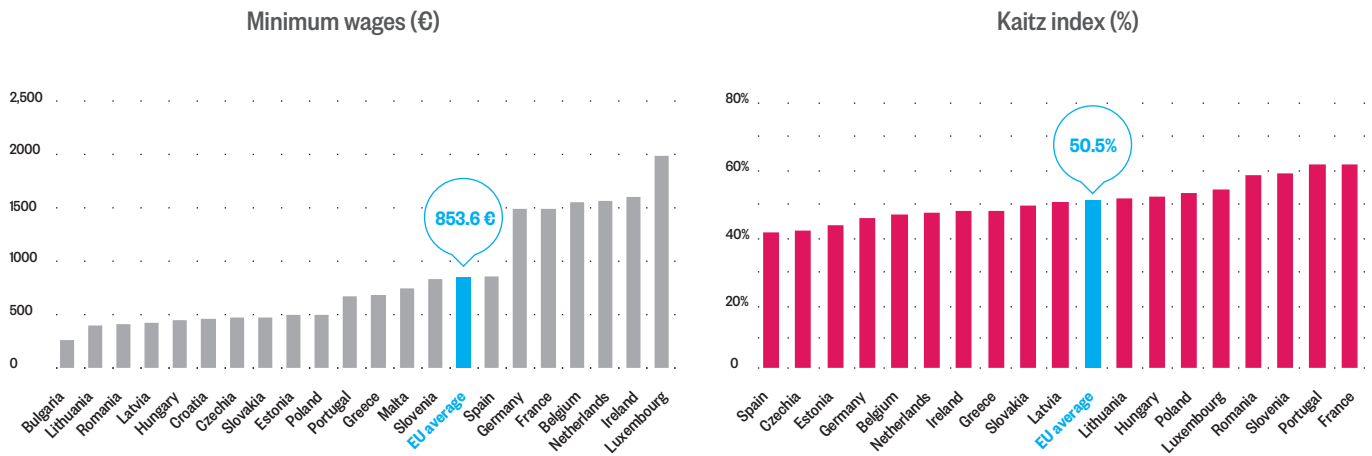
**Table 1. Wage-setting systems in EU member states (2018)**

System	Countries
Minimum wages set by sectoral collective agreements	Cyprus, <sup>13</sup> Denmark, Italy, Sweden*
Minimum wages set by national (cross-sectoral or inter-occupational) agreements between trade unions and employers	Austria, Finland
National minimum wage set by collective agreements, but extended and made binding by law or ministerial decree	Belgium, Estonia
National minimum wage set by the government following non-binding tripartite consultations	Bulgaria, Czechia, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia*, Spain
Minimum wages set by expert committees	Germany*, Ireland
Minimum wage set by the government and bound by a fixed rule	Croatia, Luxembourg, Malta, Netherlands
Minimum wage set by the government and based on a fixed rule or target (e.g. growth, employment, poverty), but subject to the government's discretion	Slovenia*, Greece, France
Minimum wage set by the government without a fixed rule	Romania

Source: Visser (2019)<sup>14</sup>

Fig. 1

### MINIMUM WAGES IN EUROPE (2018)



Source: Authors, based on Eurostat and Organisation for Economic Co-operation and Development<sup>15</sup>

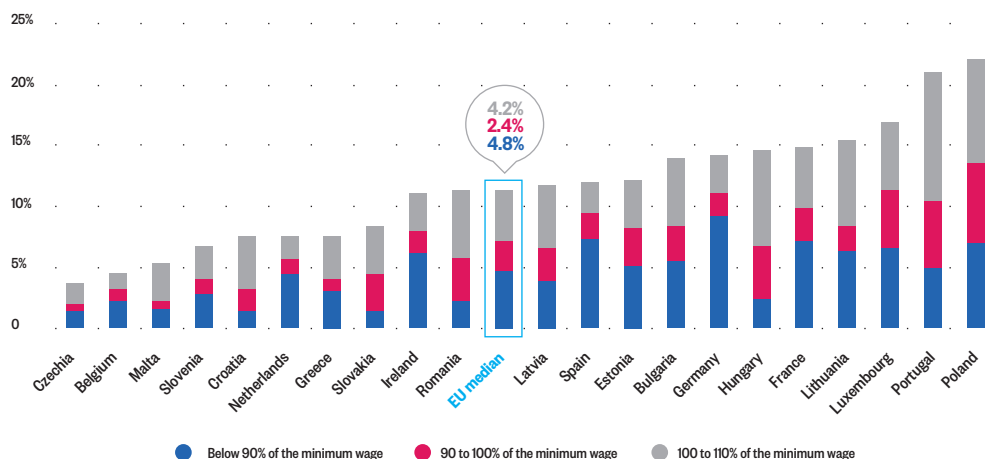
more variations can be found when considering the degree of social partners' involvement, deployment of technocratic committees, or use of social indicators and discretionary decisions by the government. Following these criteria, another eight unique systems can be identified (see Table 1).

Besides the different wage-setting systems, the level of minimum wages also varies significantly across the EU, ranging from €1,998.6 a month in Luxembourg to €260.8 in Bulgaria in 2018.<sup>16</sup> The different minimum wages' relationship to the overall wage distribution (i.e. Kaitz index) also differs greatly, from 61.6% of the median wage in France to 41.2% in Spain, again in 2018 (see Figure 1).

Moreover, another important element of member state variation is the number of workers who earn wages at or around the minimum wage. As indicated in Figure 2, it varies from 3.7% in Czechia to 22.2% in Poland, with the European median at 11.4%. The relative value of the minimum wage (i.e. as a percentage of the median wage) and share of workers earning a salary equal or close to the minimum wage indicate the potential impact of raising minimum wages. In some countries, a large percentage of workers depend on the minimum wage, even if it is set below an adequate threshold. For example, 11.9% of workers in Spain earned a salary close to the minimum wage in 2016. The minimum wage in question only represented 37.7% of the median.<sup>17</sup> In such countries, raising the minimum wage to an adequate level would benefit a large number of workers drastically.

Fig. 2

### EMPLOYEES EARNING AROUND MINIMUM WAGE IN EUROPE (% , 2016)



Source: Authors, based on Aumayr-Pintar, Rasche and Vacas-Soriano (2019)<sup>18</sup>

## 2. The Commission’s approach: A promising strategy to tackle multiple social challenges

The approach presented in the European Commission’s consultation document for the first phase represents a solid basis, as it considers the diversity and complexity of wage-setting mechanisms in Europe.<sup>19</sup> Additionally, the approach serves multiple objectives, which can be grouped into two categories: (i) making work a springboard for decent living; and (ii) boosting social convergence.

### 2.1 CATEGORY 1: MAKING WORK A SPRINGBOARD FOR DECENT LIVING

Four objectives are mentioned in the consultation document: (i) ensuring fair minimum wages; (ii) providing adequate coverage; (iii) establishing clear criteria for (re)calculating minimum wages; and (iv) increasing the involvement of social partners. Developing a policy which combines these four objectives provides a smart starting point as it addresses the different challenges and flaws of national minimum wage policies comprehensively.

#### OBJECTIVE 1

Ensuring fair minimum wages is crucial, given growing wage inequalities and a worsening situation for low-income workers. This partly explains the recent increase of in-work poverty in 16 out of 28 member states from 2008 to 2018, and from 8.6% to 9.4% at the EU level.<sup>20</sup> The proportion of low-wage workers (i.e. those earning less than two-thirds of the national median wage)

is also following a similar trend, increasing from 16.7% to 17.2% across the EU between 2006 and 2014.<sup>21</sup>

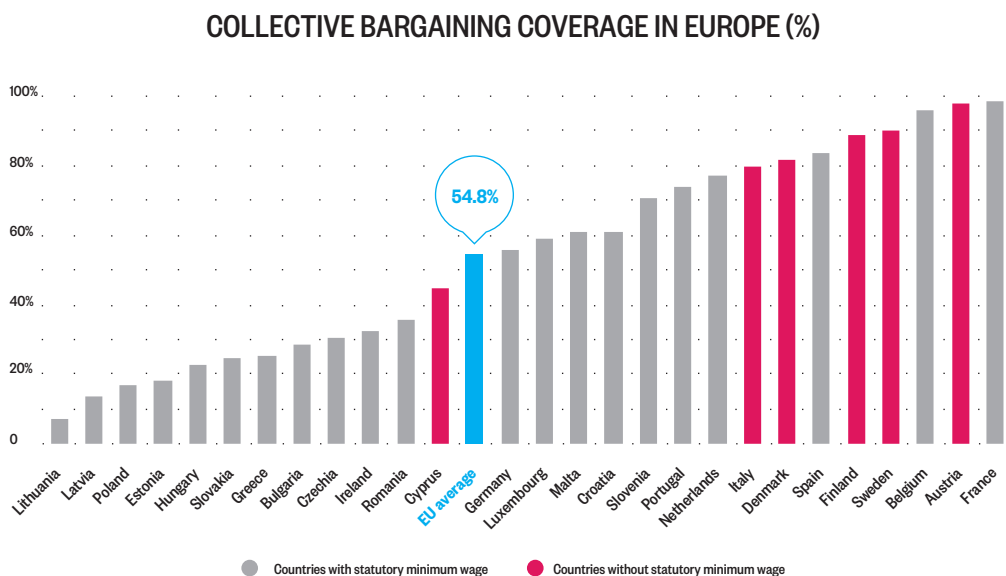
Furthermore, the development of new business models and the deployment of atypical work in poorly regulated sectors can expose workers to lower social standards. In 2018, compared to standard employees, atypical workers suffered from higher levels of in-work poverty; 15.6% for part-time workers and 16.2% for temporary workers.<sup>22</sup> Thus, many workers in Europe do not earn a decent minimum wage which meets their basic needs. As indicated in Figure 1, only 2 out of the 18 countries (i.e. France and Portugal) have a minimum wage that exceeds the 60% threshold of the median wage.

**The development of new business models and the deployment of atypical work in poorly regulated sectors can expose workers to lower social standards.**

#### OBJECTIVE 2

To achieve decent living for all workers, providing adequate coverage is also fundamental. Most workers in countries with statutory minimum wages are

Fig. 3



Source: Authors, based on Organisation for Economic Co-operation and Development, *Workers’ Participation* and Christofides (2019)<sup>25</sup>



covered, although exceptions (e.g. youths, apprentices, long-term unemployed, public sector employees) are built into some national laws. The issue is, therefore, more prevalent in countries which rely on collective bargaining. Although most boast high shares of protected workers (i.e. 80% to 98%), collective bargaining coverage only reaches 45% in Cyprus (see Figure 3, page 8).

### OBJECTIVE 3

Establishing clear criteria for updating wages frequently and regularly is necessary, given that some national governments rely on discretionary decisions in wage-setting. While some countries set targets and indicators to determine their minimum wages, others subject it to non-socioeconomic factors, such as their political contexts. In fact, deciding to raise the minimum wage might be influenced by the political orientation of the ruling government and can occur just before an important election to influence voters.

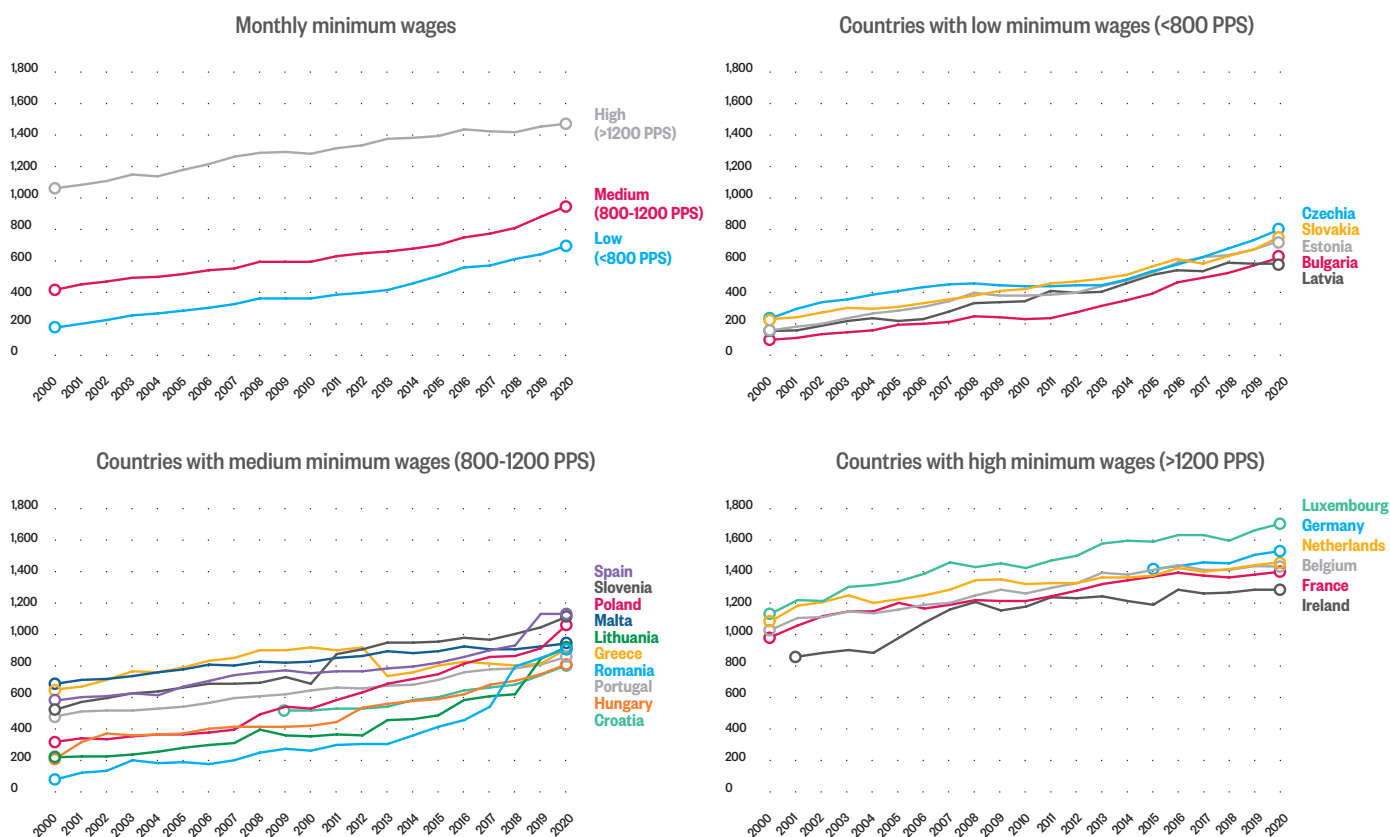
### OBJECTIVE 4

The consultation document stresses the importance of increasing the involvement of social partners, as effective social dialogue is the best way to promote fair wages while simultaneously considering economic realities. Minimum wage-setting currently does not require the involvement of social partners in 10 member states.<sup>24</sup> In the remaining 17, only a majority of 9 has non-binding consultation.<sup>25</sup>

**While some countries set targets and indicators to determine their minimum wages, others subject it to non-socioeconomic factors, such as their political contexts.**

Fig. 4

#### MINIMUM WAGE DEVELOPMENTS IN EU COUNTRIES (PPS, 2000-2020)



Source: Authors, based on Eurostat<sup>26</sup>

## 2.2 CATEGORY 2: CONVERGING SOCIAL REALITIES

The Commission consultation document mentions that one of the positive outcomes of a European framework on fair minimum wages would be an upward convergence in working conditions across the EU. This represents a clear objective of the EPSR.

In this respect, Commissioner Schmit has highlighted that a European minimum wage framework would ensure a level playing field for businesses, where competition is based on productivity and innovation rather than differences in labour costs.<sup>27</sup>

In recent years, EU member states experienced some form of wage convergence, not least due to significant increases in countries experiencing meagre minimum wages. Thus, the ratio between the group of countries

with the highest value of statutory minimum wages and the group with the lowest has diminished over time, from 6.07 in 2000 to 2.11 in 2020 (see Figure 4, page 9).

That being said, Figure 4 also indicates that, even when calculated in purchasing power terms, the catch-up process still displays important gaps in the level of minimum wages, with a ratio of 2.94 between the two most extreme values (i.e. Luxembourg and Bulgaria). Thus, the minimum wage remains exceptionally low in certain member states and continues to lag behind growth and productivity developments. For instance, while Lithuania’s minimum wage has grown by 182% between 2000 and 2018, its productivity rose by 247%. This differentiated evolution reveals the inability of the labour markets to self-adjust fast enough. It also highlights the need to introduce European mechanisms which ensure a coherent relation between minimum wages and productivity.

# 3. Recommendation for making the Commission’s initiative a success

The European Commission must place two key considerations at the heart of its future proposal for fair minimum wages if it is to succeed. Firstly, it must ensure that the parameters of the EU instrument achieve its initial objectives of offering decent living to low-wage

workers while simultaneously curbing wage inequalities. Secondly, it must build consensus and convince the hardliners to gain the necessary political support of member states.

**Table 2. Outline of recommendations for the European Commission**

Objectives	Recommendations
Create an egalitarian wage structure and support a decent living	<ol style="list-style-type: none"> <li>1. Combine two instruments (i.e. relative and absolute indicators) into one.</li> <li>2. As regards relative indicators, use the net remuneration of workers and compare it to national median earnings.</li> <li>3. As regards absolute indicators, use the Pillar as the operational framework to define the ‘European way’ of decent living, and base the development of the absolute indicators on a common methodology for a minimum decent living wage.</li> </ol>
Achieve political consensus	<ol style="list-style-type: none"> <li>4. Create an instrument that provides both ambition and flexibility simultaneously.</li> <li>5. Ensure the legal prevalence of collective agreements and social partners’ autonomy in collective bargaining systems.</li> <li>6. Implement the instrument gradually.</li> <li>7. Strive for full coverage of all workers and ask member states to report regularly on the level of coverage of collective agreements and/or minimum wage regulation.</li> <li>8. Make the issue of adequate minimum wage key elements of the European Semester and country-specific recommendations.</li> </ol>

### 3.1 FULFILLING A TWOFOLD OBJECTIVE: A MORE EGALITARIAN WAGE STRUCTURE AND DECENT LIVING

Fulfilling the twofold objective of a more egalitarian wage structure and decent living should serve as a compass guiding the Commission’s definition of what is fair and adequate. By doing so, the EU proposal should:

- ▶ combine two instruments – relative and absolute indicators – into one; and
- ▶ turn the EPSR into an operational framework which defines the ‘European way’ of decent living and develop a common methodology on a minimum decent living wage which determines the selection of absolute indicators.

Much has already been done to determine the fairness of minimum wages, resulting in using a relative indicator to prevent a wage distribution that is too dispersed and unequal. While there is a general agreement on the level of this indicator (i.e. 60%), there are ongoing discussions and pre-existing divergent practices on whether it should relate to the median or average wage, and the national gross or net.

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### **A high relative value of the minimum wage is not a shield against poverty.**

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While the Commission should not lose sight of its political objective amidst the technical aspects, it must do its utmost to ensure an effective and positive impact on low-wage workers. When choosing between the mean and median, the Commission should use median wages as a reference point as they are less sensitive to changes at the ends of the wage distribution and therefore less prone to sudden developments. In other words, the drastic increase in the wages of one group of workers would influence the average more than the median. Thus, the median would provide a more accurate representation of central tendency than the average.

As regards the gross versus net debate, it is important to highlight the different levels of tax and benefits that apply to low-wage earners across Europe. It is best to use the net indicator not only for the sake of comparing, but also because what truly matters is net-take home pay.

Taking all this into consideration, the upcoming EU initiative should look at the net remuneration of low-wage workers and compare it to national median earnings. Using a relative indicator bears the benefit of establishing a clear and easy-to-communicate target which can serve as a reference point for gradual implementation and upward convergence. However, using a relative indicator alone will not lift certain workers out of poverty and offer them a decent life.

In fact, a high relative value of the minimum wage is not a shield against poverty. In countries where wages are low in general, a relatively high share of the median national wage does not mean that people will meet their basic needs. Thus, introducing absolute indicators to complement the relative one is necessary to assess workers' ability to afford a decent life. The difficulty then is in defining what a decent life entails concretely. Establishing such a definition at the European level is challenging (although not impossible) given the significant price differences in the EU and important variations on how this concept is perceived from one country to another.

There is nonetheless a credible answer to the detractors of a European approach to decent living. In fact, the

EPSR provides an ideal framework for developing a common methodology which defines the 'European way' of decent living. Translating the Pillar into an operational framework that can guide national and European policies would, therefore, be a logical follow-up to the 2017 interinstitutional proclamation.

The Commission must kickstart this work with member states and mandate national governments to set up expert groups which assess the costs of having access to the social rights listed in the Pillar. To give an example, Principle 11 of the EPSR gives the right to affordable childcare. However, placing a child in an early childcare structure is rarely provided for free and comes at a price instead, thus representing a significant burden on many household budgets. The cost of childcare differs from one member state to another and is influenced by many national factors. Furthermore, each social right cannot be easily translated into monetary terms as some point to an action to be fulfilled by public policies.<sup>28</sup>

Despite the complexity of this exercise, the EPSR should nevertheless serve as a reference framework for developing a common methodology for a minimum decent living wage (i.e. allowing workers to enjoy a socially acceptable standard of living). The level of minimum wages will reflect national realities.

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### **The EPSR provides an ideal framework for developing a common methodology which defines the 'European way' of decent living.**

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National expert groups should represent social partners adequately if they are to play a central role in the elaboration of a minimum living wage. Such groups could act as an essential component of the future roadmap the Commission plans on launching in 2021, to facilitate the Pillar's implementation at the national level. In fact, this would foster a stronger buy-in to the EPSR from national stakeholders, particularly policymakers and social partners; credit member states' commitment to it; and turn it into a concrete and operational instrument.

Combining absolute and relative indicators is, therefore, necessary to fulfil the two complementary objectives of decent living and an egalitarian wage structure. In turn, both objectives are relevant for building a more social Europe.

## **3.2 ACHIEVING POLITICAL CONSENSUS**

The Commission has taken the right step forward to building consensus by refusing to harmonise the level of national minimum wages or the mechanisms that

determine them. However, it seems that these promises have not yet softened current positions nor reassured the opponents. Thus, the thorny question remains: How does the EU ensure an impactful policy while preserving diverse national wage-setting mechanisms?

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**It is imperative that the EU instrument only provides a minimum wage floor, sticks to the principle of minimum requirements, and includes a strong non-regression clause.**

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In order to achieve this, the EU initiative must ensure two things:

- ▶ the creation of an instrument that provides for both ambition (i.e. for countries with high labour standards) and flexibility (i.e. for countries where they can be improved) simultaneously; and
- ▶ the legal prevalence of collective agreements and social partners' autonomy in collective bargaining systems.

Trade unions in countries with relatively high minimum wages apprehend that a minimum threshold could discourage social partners from engaging in negotiations because some would prefer defaulting on the lower social standard. A similar fear concerns the possibility of the EU interfering in national and/or sectoral wage policy in times of economic crisis, as was the case during the 2008 financial crisis when the Commission made financial help to some member states dependent on them lowering their minimum wages.

Against this background, it is imperative that the EU instrument only provides a minimum wage floor; sticks to the principle of minimum requirements, as stated in the Treaties in the area of employment and social policies; and includes a strong non-regression clause, as requested by trade unions. Such a clause would ensure that the EU does not lower the level of ambition provided in collective bargaining or minimum wage regulation. In other words, it would prevent EU intervention that comes in the form of a downward adjustment of minimum wages in the case of economic turmoil.

Additionally, to reflect the complexity of using both absolute and relative minimum wage indicators adequately, the EU instrument must aim for gradual implementation and not demand an automatic raise. It should give national governments enough time to set up expert groups, and to national social partners to engage in the process, thereby ensuring that national economic realities are taken into account.

As for respecting national practices, it is important to not introduce a collective bargaining minimum coverage threshold (i.e. determining how many workers collective agreements should cover). If it were introduced, it could dissuade employers from entering negotiations and therefore be detrimental to any social dialogue. In fact, a coverage threshold would be dangerous in the sense that it would deliberately leave parts of the economy – not least sectors which are predisposed to low wages and precarity – out of collective agreements.

Instead, the EU instrument on minimum wage should strive for full coverage of all workers and ask member states to report on the levels of coverage in their collective agreements and/or minimum wage regulation regularly. In addition to the implementation rules foreseen by the EU legal instrument on minimum wage, these reports should feed into the country reports which contribute to the European Semester. This would ensure that the issue of adequate minimum wages is considered when drafting the country-specific recommendations.

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Moreover, the EU initiative must ensure that sectors regulated by collective agreements are exempted from the EU legal instrument. Therefore, an EU framework with multiple indicators (i.e. relative and absolute ones combined) would only apply to workers in sectors that are not covered by collective agreements and promote the full coverage of collective bargaining. The EU would stick to its promise to promote social dialogue by respecting collective agreements, create a juridical framework where collective bargaining can coexist with statutory minimum wages, and focus on sectors where workers are subjected to low-pay exploitation. What matters most is the outcome: A European minimum wage for all workers, regardless of the sector in which they work.

Finally, building up political consensus – not least by stressing the benefits for all – is key. The sensitive debate on a European framework on minimum wages is a unique occasion to foster constructive discussions about the importance of and need for economic and social convergence in Europe. It would not only provide economic actors with a more level playing field in the Single Market but also prove that the EU can protect its most vulnerable and rectify low-income groups' gloomy image of the European project.

# Conclusion

The European Commission's approach represents a solid starting point to establishing an impactful and considerably thought-through European framework on minimum wages, thus creating a historic opportunity for the EU to become more equal and improve the working conditions of its low-paid workers.

It would also bring some positive prospects to the future of the European project at a time when all minds are in crisis management mode, trying to stop the spread of COVID-19 and limit its harmful effects. By reinforcing its caring dimension, the EU would anticipate the impact the current crisis will have on its political landscape, as the socioeconomic consequences are likely to provide fertile ground for radical and Eurosceptic voices. In fact, although there is still no clear signal that anti-EU forces have massively benefited from the crisis, such developments remain a possible scenario to be avoided.

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**The sensitive debate on a European framework on minimum wages is a unique occasion to foster constructive discussions about the importance of and need for economic and social convergence in Europe.**

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The success of the upcoming Commission's proposal will, therefore, be determined by its ability to address the fears of its opponents and convince them of the great benefit such an initiative would have on the long-term prospects of the European project, especially in today's context. This will require a great deal of political agility at a time when national policymakers have their eyes fixed on the immediate effects of the COVID-19 crisis.

- <sup>1</sup> Based on authors' calculations. See *Eurostat*, "[Employees by sex, age and occupation \(1\\_000\)](#)", lfsq\_eegais (accessed 27 May 2020). Aumayr-Pintar, Christine; Matthias Rasche and Carlos Vacas-Soriano (2019), [Minimum wages in 2019 – Annual review](#), Dublin: European Foundation for the Improvement of Living and Working Conditions.
- <sup>2</sup> The results of the Brexit referendum in 2016 or the French referendum on the Treaty establishing a Constitution for Europe in 2005 are illustrative of this strong divide between socioeconomic groups, and low-income groups' lower level of support for the European project.
- <sup>3</sup> European Foundation for the Improvement of Living and Working Conditions (2020), [Living, working and COVID-19 dataset](#), Dublin.
- <sup>4</sup> Commission of the European Communities (1993), [Commission Opinion on an equitable wage](#), COM (93) 388 final, Brussels.
- <sup>5</sup> *Eurostat*, "[At-risk-of-poverty rate by poverty threshold, age and sex – EU-SILC and ECHP surveys](#)", ilc\_li02 (accessed 16 March 2020). Cut-off point: 60% of median equivalised income after social transfers.
- <sup>6</sup> European Parliament (2008), [European Parliament resolution of 9 October 2008 on promoting social inclusion and combating poverty, including child poverty in the EU](#), 2008/2034(INI).
- <sup>7</sup> European Parliament (2016), [European Parliament resolution of 14 September 2016 on social dumping in the European Union](#), 2015/2255(INI).
- <sup>8</sup> There are many examples of knowledge sharing on minimum wages under the European Commission's Mutual Learning Programme. See e.g. Christofides, Louis N. (2019), [Peer review on "Minimum wages – extending coverage in an effective manner" – Host country discussion paper](#), Brussels: European Commission.
- <sup>9</sup> European Parliament, Council and European Commission (2017), [Interinstitutional Proclamation on the European Pillar of Social Rights](#), 2017/C 428/09.
- <sup>10</sup> BusinessEurope (2020), "[Response to first phase social partner consultation on a possible action addressing the challenges related to fair minimum wages](#)", Brussels.
- <sup>11</sup> European Trade Union Confederation (2020), "[ETUC Reply to the First Phase Consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages](#)", Brussels.
- <sup>12</sup> Swedish Labour Market Council for EU Affairs (2020), "[Letter to the Commission on the first stage consultation on minimum wages](#)", Stockholm.
- <sup>13</sup> Cyprus relies on sectoral agreements made between social partners. However, it did establish statutory minima for certain occupations.
- <sup>14</sup> Visser, Jelle (2019), "[ICTWSS Database, version 6.1](#)." Amsterdam: Amsterdam Institute for Advanced Labour Studies. This table is representative of 2018. However, if data for 2018 was missing for a member state, the most recent data was used. An asterisk implies that 2017 data was used instead.
- <sup>15</sup> *Eurostat*, "[Minimum wages](#)", tps00155 (accessed 23 March 2020); Organisation for Economic Co-operation and Development, "[Minimum relative to average wages of full-time workers](#)" (accessed 26 May 2020). N.B. Values for Bulgaria, Malta and Croatia are missing.
- <sup>16</sup> *Eurostat*, "[Monthly minimum wages – bi-annual data](#)", earn\_mw\_cur (accessed 26 May 2020).
- <sup>17</sup> Organisation for Economic Co-operation and Development, "[Minimum relative to average wages of full-time workers](#)" (accessed 26 May 2020).
- <sup>18</sup> See Aumayr-Pintar, Rasche and Vacas-Soriano (2019), *op.cit.*
- <sup>19</sup> European Commission (2020), [First phase consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages](#), C(2020) 83 final, Brussels.
- <sup>20</sup> *Eurostat*, "[In-work at-risk-of-poverty rate by age and sex - EU-SILC survey](#)", ilc\_li02 (accessed 26 May 2020).
- <sup>21</sup> *Eurostat*, "[Low-wage earners as a proportion of all employees \(excluding apprentices\) by age](#)", earn\_ses\_pub1a (accessed 28 February 2020).
- <sup>22</sup> *Eurostat*, "[In-work at-risk-of-poverty rate by full-/part-time work - EU-SILC survey](#)", ilc\_iw07 (accessed 26 May 2020); *Eurostat*, "[In-work at-risk-of-poverty rate by type of contract - EU-SILC survey](#)", ilc\_iw05 (accessed 26 May 2020).
- <sup>23</sup> Organisation for Economic Co-operation and Development, "[Collective bargaining coverage](#)" (accessed 01 April 2020); *Workers' Participation*, "[Collective bargaining](#)" (accessed 01 April 2020); Christofides (2019), *op.cit.* The graph was created using the most recent available data: 2014: Hungary, Ireland, France. 2015: Lithuania, Poland, Estonia, Finland. 2016: Latvia, Slovakia, Greece, Czechia, Germany, Slovenia, Portugal, Italy, Denmark, Spain, Sweden. 2017: Luxembourg, Netherlands, Belgium, Austria. 2019: Cyprus.
- <sup>24</sup> Germany, Ireland, United Kingdom, Croatia, Luxembourg, Malta, the Netherlands, Slovenia, Greece, France, Romania. See Visser (2019), *op.cit.*
- <sup>25</sup> Bulgaria, Czechia, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia (2017), Spain. See *ibid.*
- <sup>26</sup> *Eurostat*, "[Monthly minimum wages – bi-annual data](#)", earn\_mw\_cur (accessed 23 March 2020). 2019 data is used as a reference point to form the three categories of countries.
- <sup>27</sup> Progressive Alliance of Socialists and Democrats (2020), "[S&D EMPL Workshop: Decent minimum wages across Europe – FR](#)", YouTube, 05 February 2020.
- <sup>28</sup> See e.g. Principle 19 of the European Pillar of Social Rights, which calls for the provision of appropriate housing assistance for those in need and protection against forced eviction.

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- ▶ Making European welfare states and social protection systems ‘future-fit’ in the light of ongoing labour market transformation.
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