

SOLIDAR Position Paper

EU initiative on minimum wages

Introduction

In December 2019, Commissioner for Jobs and Social Rights, Nicolas Schmit, announced that he would put forward a proposal for an EU minimum wage.¹ Six months later, the need for a European initiative on minimum wages is more evident than ever as the COVID-19 crisis makes us re-evaluate the value of work and highlights that essential workers are often left underappreciated, underpaid and with precarious contracts. At the beginning of 2020, the European Commission launched a two-stage consultation on a possible action addressing the challenges of ensuring that every EU Member State has in place a decent minimum wage.² This briefing paper sets out the importance of a decent minimum wage, the current status of the consultation and

what the Commission is proposing. Finally, it also presents SOLIDAR's position on the matter.

Why is there a need to discuss EU minimum wages?

Over the years, the share of people in the European Union living at risk of poverty despite being employed has risen from 8.3% in 2010 to 9.5% in 2018.³ Currently around one in six workers are low-wage earners and this is a rising trend.⁴ Minimum wages are a powerful tool for making sure that workers have enough income to cover their costs of living. They will furthermore be crucial in the recovery of our economies from the COVID-19 crisis and in building a more resilient economy for the future.

¹ Rios, B. (2019) Schmit to unveil EU minimum wage proposal in January:

<https://www.euractiv.com/section/middle-ground-politics/news/schmit-to-unveil-eu-minimum-wage-proposal-in-january/>

² 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:

https://ec.europa.eu/commission/presscorner/api/files/attachment/860459/Consultation_fair_minimum_wages.pdf.pdf

³ Eurostat (2020) In-work at-risk-of-poverty rate by age and sex - EU-SILC survey:

<http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

⁴ 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:

https://ec.europa.eu/commission/presscorner/api/files/attachment/860459/Consultation_fair_minimum_wages.pdf.pdf

The majority of EU Member States (21 out of 27) have a statutory national minimum wage in place, with the exception of Austria, Cyprus, Denmark, Finland, Italy and Sweden.⁵ In these countries, minimum wages are agreed sector by sector by the social partners through collective agreements. The coverage of the minimum wage thus depends on the coverage of collective bargaining. Workers in non-organised sectors, that tend to be more vulnerable to begin with are often excluded. The share of non-covered workers is estimated to be 2% in Austria, close to 10% in Sweden and Finland, close to 20% in Italy and Denmark and about 55% in Cyprus.⁶ The share of people earning the minimum wage also varies significantly between countries, from 5% of workers in Belgium and Malta, to up to 20% in Portugal and Romania.

With the freedom of movement for workers in the EU and an increasing number of posted workers, cross-border workers and the free movement of goods and services, the effects of national and regional minimum wage policies do not stop at the border. A common European approach to minimum wages can help assure that countries do not compete on the basis of cheap labour. Not only will this cause a race to the bottom, it also disincentivises technological innovations that would increase our overall welfare. To protect the

long-term sustainability of the European union and ensure economic convergence between the Member States, it is essential that all workers are remunerated fairly and any competition is based on quality.

Decent minimum wages also improve the bargaining position of low-wage workers, improving their working conditions. This will specifically benefit atypical and marginalised workers as well as women who are more likely to be in low-paid work. In addition, fair minimum wages can increase incentive for workers to seek employment in the formal economy. Finally, increased minimum wages will boost purchasing power and as a result benefit the economy as a whole.

The International Labour Organisation has found that any claims that an (increased) minimum wage would lead to more unemployment have never materialized in countries that have introduced or raised the minimum wage, especially in developed countries.⁷

An EU legal instrument on minimum wages would ensure that all Member States put in place a minimum wage that covers all workers. However, this still does not tell us anything about the adequacy of this minimum wage. Gross minimum wage levels in the European Union vary considerably. As the map demonstrates, minimum wage

⁵ European Commission (2020) Disparities in minimum wages across the EU: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200203-2>

⁶ European Commission (2020). Second phase consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages:

[https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C\(2020\)3570&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2020)3570&from=EN)

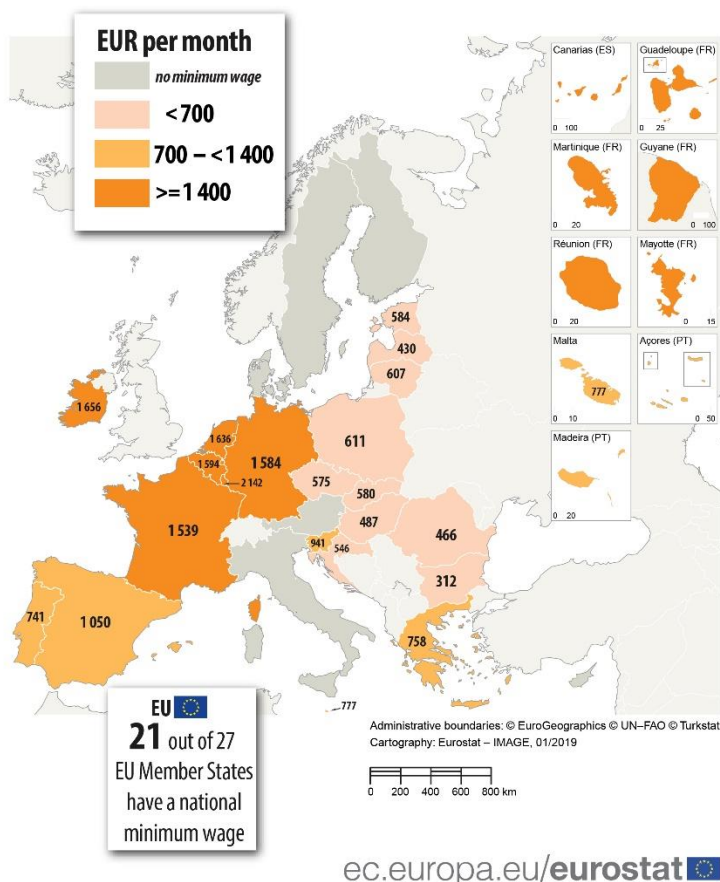
⁷ ILO Minimum wage policy guide: https://www.ilo.org/global/topics/wages/minimum-wages/monitoring/WCMS_438874/lang--en/index.htm

levels in the EU range from €312 in Bulgaria to €2142 in Luxembourg.⁸ To get a complete picture of the adequacy of minimum wages, other factors such as taxation, income subsidies, cost of living and average wages in a country (or region) also need to be taken into account. Although this does decrease the difference between Member States, the adequacy of minimum wages Eastern and Southern Europe remains low compared to Northern Europe.

As a rule of thumb, 60% of the median wage is commonly used as a benchmark for the national poverty line. According to this guideline, statutory minimum wages in 17 EU member states are so low that they leave full-time workers at risk of poverty (less than 60% of the median wage).⁹ To be effective, any European initiative on minimum wages should include provisions that ensure that a minimum wage worker earns enough to cover the real costs of living. **Civil society organisations can play an important role here, providing expertise on the true costs of living and living circumstances for the most marginalised** in a specific country or region based on their experience on the ground.

Minimum wages

January 2020



What is the Commission proposing?

Principle 6 of the European Pillar of Social Rights provides that: “(a.) Workers have the right to fair wages that provide for a decent standard of living. (b.) Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/ her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work

⁸ European Commission (2020) Disparities in minimum wages across the EU: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200203-2>

⁹ OECD, Minimum relative to average wages of full-time workers: <https://stats.oecd.org/Index.aspx?DataSetCode=M1N2AVE>

*poverty shall be prevented. (c.) All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners". On this basis, the European Commission has set out to introduce "a legal instrument to ensure that every worker in our Union has a fair minimum wage. This can be set through collective agreements or legal provisions, depending on each country's traditions."*¹⁰

This EU instrument would aim to ensure that:

- Well-functioning collective bargaining in wage-setting is in place;
- National frameworks allow for statutory minimum wages to be set and regularly updated according to clear and stable criteria;
- Social partners are effectively involved in statutory minimum wage setting to support minimum wage adequacy;
- Minimum wage variations and exemptions are eliminated or limited;
- National minimum wage frameworks are effectively complied with and monitoring mechanisms are in place.¹¹

¹⁰ Von der Leyen, U. (2019) Mission letter to Nicolas Schmit:

https://ec.europa.eu/commission/sites/beta-political/files/mission-letter-nicolas-schmit_en.pdf

¹¹ European Commission (2020) Fair minimum wages: Commission launches second-stage consultation of social partners:

https://ec.europa.eu/commission/presscorner/detail/en/ip_20_979

What the European Commission is *not* proposing

The European Commission is explicitly not proposing to set one minimum wage for the entire European Union. It also does not want to impose national minimum wages from EU level nor harmonise minimum wage setting systems.

Current status

In the first step of the two-stage consultation process, social partners were asked to give their view on a possible action, addressing the challenges of ensuring that every EU Member State has in place a decent minimum wage.¹² It soon became clear that especially Nordic countries are not favourable towards a European instrument on minimum wages. With their wage setting systems successfully based on social dialogue and collective bargaining, the Nordic Social Partners are critical to a European legal instrument that risks to harm this system and dismantle the basis for a well-functioning and widely accepted system of Social Dialogue in their countries.

Nevertheless, based on the first round of consultations, the European Commission has concluded that a European instrument on minimum wages would indeed be desirable.

¹² 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:

https://ec.europa.eu/commission/presscorner/api/files/attachment/860459/Consultation_fair_minimum_wages.pdf

To relay the fears of the Nordics, both Commission President Von der Leyen and Commissioner Schmit have emphasised on numerous occasions that they want the setting of the minimum wage to be in line with national traditions and expressed their support for collective bargaining in countries where this is the norm. In her Political Guidelines, Von der Leyen also underlined that “minimum wages should be set according to national traditions, through collective agreements or legal provisions. I am a firm believer in the value of social dialogue between employers and unions, the people who know their sector and their region the best”. A possible compromise would be a system in which countries that reach a certain threshold of collective bargaining coverage are exempt from the obligation of introducing a statutory minimum wage and other countries are supported to encourage collective bargaining.

In the second stage¹³ of the consultation process, that started on 3 June 2020, social partners are invited to provide further input on what a European minimum wage instrument should entail. They are asked to give their views on the objectives, possible avenues and legal basis for EU action as well as their willingness to enter negotiations between social partners. The next step will be that either social partners start negotiations with the objective to come to an agreement under Art. 155 TFEU, or the European Commission will present its own

proposal. If social partners decide to start negotiations between themselves, the European Commission will suspend its work on this topic.

SOLIDAR’s position

SOLIDAR stresses that there are three essential elements that need to be present for a European initiative on minimum wages to be effective. **Firstly, with our feet historically strongly rooted in the trade union movement, SOLIDAR always supports collective bargaining as the ideal method for wage setting.** Countries with a high level of collective bargaining coverage tend to have better working conditions and a higher standard of living overall. Furthermore, wage agreements between social partners can be tailored to the specific circumstances of the sector and tend to come as less of a shock and have smaller employment effects. In those countries with a well-functioning collective bargaining system the integrity of the parties should be respected and guaranteed. Indeed, as Commissioner Nicolas Schmit said initially, “the proposal shall not try to fix something that is not broken”. It is important also for the acceptance of EU proposals on a national level that the social parties feel respected and heard, without the imposition of State interference where there were none. Hence, we are glad the European Commission seems to recognise the inherent value of collective bargaining and to respect the integrity of existing social dialogue

¹³ European Commission (2020). Second phase consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages: [https://eur-](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2020)3570&from=EN)

[lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C\(2020\)3570&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2020)3570&from=EN)

mechanisms, however, we regret the exclusion of wider civil society in the discussions around minimum wages and living conditions. Civil society organisations work closely with those in society who are most marginalised and often underrepresented by traditional social partners, many of whom would be directly affected by a change in minimum wages. Therefore, SOLIDAR insists that any EU action on minimum wages, is accompanied by increased respect, support, and encouragement of collective bargaining as well as of a broader civil dialogue in all Member States.

However, it is also important to acknowledge that the coverage of collective bargaining in some Member States is at such a low level that the vast majority of workers are left unprotected. In these cases, statutory minimum wages are a very effective way of making sure that all workers can count on a minimum wage that allows them to live their life in dignity. Here we call on the solidarity of those who already enjoy the benefits of strong social dialogue and adequate minimum wages, to do what is necessary to give workers across the EU a decent standard of living while we continue to respect the diversity of national arrangements and strengthen collective bargaining systems in all Member States.

Secondly, all workers should be protected by a wage floor. This means an EU instrument should not leave room for exceptions such as we currently see in some countries for young workers, disabled workers, relatives employed in small family businesses, and participants in active labour market policies, among others. It also means

that the minimum wage should apply to atypical workers, including temporary workers, part-time workers, and platform workers. In addition, also in countries where collective bargaining is well-established, there needs to be some form of an assurance for workers in sectors that are not covered by collective agreements, to prevent segmentation of the labour market. The fact that the European Commission at the moment still leaves room for the exclusion of certain groups or occupations lest justified, is worrisome.

Finally, a minimum wage will only be effective in ensuring a decent standard of living if it covers the real costs of living. Standardised indicators such as a percentage of the median wage or a certain purchasing power can only partially approach the true costs of living. Therefore, it is important to seek the expertise of trade unions as well as civil society organisations working with low-income people on the ground to determine the true costs of living and living circumstances. Thus, SOLIDAR once more underlines the importance of collective bargaining, processes of social dialogue and the involvement of wider civil society in the setting of the minimum wage.

SOLIDAR welcomes ambitious EU action on minimum wages, but stresses that we should not try to fix national systems that are not broken. Strong collective bargaining systems and well-functioning social dialogue mechanisms are the preferred basis for settling conflicts and agreeing on wage levels. However, decent minimum wages are an additional strong basis that will allow for us to rebuild resilient economies that put people's wellbeing first. However, we

maintain that decent minimum wages alone are not enough and that they should be complimented by adequate and universal minimum income schemes to protect and cover those who fall between the cracks of our labour markets and social protection schemes.

Especially in the light of the effects COVID-19 has had on people's lives and livelihoods as well as our economies and societies, we call on the European Commission to explore options for a European initiative that strengthens existing social dialogue mechanisms, collective bargaining schemes, minimum income possibilities in addition to the minimum wages.

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Further reading

Eurofound (2019) Minimum wages in 2019: Annual review:

https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19028en.pdf

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:

https://ec.europa.eu/commission/presscorner/api/files/attachment/860459/Consultation_fair_minimum_wages.pdf

European Commission (2020). Second phase consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages: [https://eur-](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2020)3570&from=EN)

[lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C\(2020\)3570&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2020)3570&from=EN)

ETUC (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:

https://www.etuc.org/sites/default/files/document/file/2020-02/ETUC%20REPLY%20to%20the%20First%20Phase%20Consultation%20of%20Social%20Partners%20under%20Article%20154%20TFEU%20on%20a%20possible%20action%20addressing%20the%20challenges%20related%20to%20fair%20minimum%20wages_0.pdf