



## EU economic governance from a Parliamentary perspective

# EUROPEAN PARLIAMENTARY WEEK 2020

### Background Note

### Fair minimum wages

#### **EU faces increasing in-work poverty**

Despite the overall positive development of economic growth and employment, wage inequalities and in-work poverty are increasing in the EU. About one in six workers in the EU (17.2 % in 2014) earns a low wage, ranging from 25.5 % in Latvia and 24.4 % in Romania to 2.6 % in Sweden according to [Eurostat](#)<sup>1</sup>. The proportion of employed persons at risk of poverty<sup>2</sup> has risen continually, from 8.3 % in 2010 to 9.6 % in 2016 according to [Eurostat](#). The [risk of being trapped](#) in low-wage employment is highest for low-skilled workers in service-related occupations and elementary occupations not having a permanent, full-time employment contract. Further, it is slightly higher for men than for women.

#### **Better protection through a European minimum wage ranking high on the EU policy agenda**

During the 20th century the [living wage concept](#), i.e. an income that allows an employee a basic but socially acceptable standard of living, found its way into various international documents and conventions, such as the [Constitution of the International Labour Organisation](#) of 1919, which referred explicitly to 'the provision of an adequate living wage'. Later on, demands for a 'fair' or 'decent' wage were included, for example, in the [UN Universal Declaration of Human Rights](#) of 1948, the [International Covenant on Economic, Social and Cultural Rights](#) of 1966 and [ILO Convention N° 131](#) on Minimum Wages of 1970. In Europe, similar provisions can be found in the [European Social Charter of the Council of Europe](#) of 1961, the [EU Charter of the Fundamental Social Rights of Workers](#) of December 1989 and, most recently, the [European Pillar of Fundamental Social Rights](#) of 2017. In all these documents a living wage is defined as a fundamental social right for all workers.

The [policy debate on a European minimum wage](#) goes back to the 1990s when the EU discussed the implementation of the EU Charter of the Fundamental Social Rights of Workers of December 1989, according to which all workers in the EU 'shall be assured of an equitable wage, that is, a wage sufficient to enable them to have a decent standard of living', also called a 'fair' or 'decent' wage. The issue has, however, never been transformed into concrete policies. Yet the EU has a longstanding practice of issuing, at least formally, non-binding policy recommendations on pay issues in the context of the [European Semester](#).

European action has been pushed by the proclamation of the [European Pillar of Social Rights](#) by the European Parliament, the European Council and the European Commission in November 2017. One of its

<sup>1</sup> Eurostat plans the next update in December 2020.

<sup>2</sup> Low-wage earner: <2/3 national median wage; median: value separating the higher half from the lower half of the population; at risk of poverty (relative poverty): household income <60 % national median income after social transfers.

twenty principles (principle 6) confirms the commitment to the right of workers to *'fair wages that provide a decent standard of living'* taking into account national conditions:

*European Pillar of Social Rights – Principle 6: Wages*

- 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 provides for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.
- c) All wages shall be set in a transparent and predictable way according to national practices

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

In 2019, the new European Commission put policies to promote minimum income policies even higher on the agenda. In his campaign to be Commission President for the Socialists and Democrats, Frans Timmermans, Executive Vice-President of the Commission, called for each EU Member State to have a minimum wage equivalent to 60 per cent of the median salary in that country. Commission President Ursula von der Leyen committed herself to *'put forward a legal instrument to ensure that every worker in our Union has a fair minimum wage'* within the first 100 days when presenting the [Political Guidelines](#) for her candidacy to the European Parliament in July 2019. During his hearing at the Parliament, the Commissioner-designated, Nicolas Schmit, confirmed this [commitment](#). At the same time, he stressed that such a legal instrument or frame for minimum wages does not mean setting one single EU-wage level and that the variety of regimes for setting minimum wages including collective agreements providing for decent wages, will not be called into question, thus following the model of existing EU labour law.

### **European Parliament repeatedly called for establishing national minimum wages**

In 2008 already, the European Parliament in [a resolution](#) to promote social inclusion and combat poverty called on the European Council to agree a common EU target for minimum wages. This target should ensure a remuneration of at least 60% of the relevant average wage, repeated in its [2016 resolution](#) on social dumping. The 2017 resolution on the European Pillar of Social Rights recommends *'the establishment of wage floors in the form of a national minimum wage' without specifying any target*. In its most recent [resolution on employment and social policies](#) of October 2019, the Parliament underlines *'the need for ... reforms that create quality employment by adopting measures to ensure adequate minimum wages and fair remuneration'*, calling on the Commission to implement the commitments taken by the Commission President and the Commissioner for Jobs and Social Rights.

### **State of play in the Member States: Diversity of regimes and levels**

In a recent analysis of minimum wage regimes across Europe, [Eurofound](#) identifies broadly two categories:

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

As of July 2019, the minimum monthly levels range from less than EUR 300 in Bulgaria to more than EUR 2 000 in Luxembourg, according to [Eurostat](#). The disparities in minimum wages across the EU Member

States are decreasing over time. Further, they are considerably smaller once price level differences are taken into account: minimum wages in Member States with lower price levels become relatively higher when expressed in purchasing power standard, and relatively lower in Member States with higher price levels.

### **State of play: European Commission launches public consultation**

As part of its [initiative](#) to further implement the European Pillar of Social Rights, on 14 January 2020, the European Commission launched a consultation of Social Partners under Article 154 TFEU as first step of the compulsory two-stages procedure in the field of social policy interventions under Article 153. The first round focuses on the assessment of the need for and scope of European policy action. At any point, the social partners can signal a willingness to negotiate this between themselves. If they do not wish to do so, the Commission will consider the appropriate follow-up. If a need for action at EU level has been identified, a second-stage consultation of EU social partners on the envisaged content of an EU initiative will be held.

In its [Consultation document](#), the Commission stresses the added value of fair minimum wages as these contribute to preventing in-work poverty and reducing wage inequality, help to make work pay, can promote protection of low-wage earners and the participation of women in the labour market and tend to support domestic demand. Given diverse performances across and within Member States, the Commission identifies this policy area as '*a matter of concern at European level*'. There exists evidence of gaps in coverage, lack of clear criteria for setting statutory minimum wages, inconsistent and irregular updating of minimum wage levels independent from the mechanism for wage-setting (law, collective agreements or mix). The Commission points out that the current state of play endangers the implementation of the rights set out under principle 6 of the European Social Pillar on wages (see above), thus undermining the objective of upward convergence in the EU.

The consultation document also indicates components of an adequate minimum wage without specifying concrete targets. Components include a link to the national gross median (or average) wage; the take-home pay after deduction of taxes and social contributions; a link to income levels that protect against poverty (e.g. living wage or 60 % of median household income); taking into account purchasing power; the comparison of minimum wage developments with productivity developments to explore whether minimum-wage earners benefit from economic growth. Another dimension presented is coverage with a view to exemptions from statutory minimum wage set by law (e.g. young people, disabled, sectors) and with a view to the share of workers covered by collectively agreed wages.

In terms of the legal basis for possible European action, the Commission refers in particular to Art 9 [TFEU](#) committing the Union to the promotion of employment and the fight against social exclusion, the [Charter of Fundamental Rights](#) (Art 31 'fair and just working conditions'); Art 151 TFEU to implement measures in the field of social policy and Art 153 defining fields of intervention such as working conditions and combating social exclusion. The Treaty excludes, however, pay (Art 153.5). Against this background, the Commission points to examples where European legal instruments have been adopted including pay, such as the [Directive on Equal pay for Work of an Equal Value](#) (1975) or the [Council Recommendation on active inclusion](#) of 2008 promoting quality jobs including through pay and benefits. Adequate minimum wage levels also form part of the [Employment Guidelines](#) adopted by the Council in 2018. Further, a number of [EU countries \(10\)](#) have ratified [ILO Convention No 131](#) on Minimum Wage Fixing having the force of law.

Taking the view that an EU initiative on fair minimum wages could be appropriate, the Commission presents as main objectives to set an adequate level in light of national economic and social conditions, to effectively protect workers in the EU, to effectively involve social partners in the adjustment of minimum wages, to encourage the conclusion of collective agreements and to ensure that statutory minimum-wage setting is guided by national frameworks based on clear and stable criteria with reasonably frequent and regular updates. Such an action would be of EU added value along four axes: 1) ensuring fair minimum wages for

workers; 2) political momentum for improvement at national level; 3) help Member States to achieve upward convergence in working conditions; 4) increase purchasing power of low earners, thus stimulating domestic demand.

At this stage of the procedure, the Commission does not specify which type of European legal instrument could be envisaged. Yet, references to existing European legal acts relating directly or indirectly to pay imply that a Directive setting minimum standards or a Council Recommendation could be an option.

### Stakeholder positions on the establishment of a European Minimum diverge

Stakeholder positions vary with regards to European initiatives to enhance (fair) minimum wages. The [European Trade Union Confederation](#) (ETUC) in its most recent [resolution on Priorities for the Coordination of Collective Bargaining and Wage Policies](#) sets a benchmark of 60% of the national average / median wage for the lowest minimum wage level, in order to ensure a decent life for all wage earners and their families. In order to reach such objectives, the ETUC will support the ETUC member organisations upon request in their demands for the introduction of transparent mechanisms of minimum wage setting, support minimum wage policies in line with the ETUC benchmark, monitor the development of wages and minimum wages at national level and develop clauses for collective agreements to combat precariousness and create more security of income.

Responding to the launch of the Commission's public consultation on 14 January 2020, ETUC calls in particular for strengthening collective bargaining not mentioning other possible European interventions. Whilst acknowledging that *'increasing statutory minimum wages to 60% of the median wage, the official poverty wage threshold, is a basic requirement'* [ETUC considers](#) that *'(this) is not enough'*. Pointing to numerous violations of the right to collective bargaining in EU Member States, ETUC stresses that *'all working people must have the right to join a trade union and bargain collectively with employers for fair pay'*. It calls upon the Commission to lead by example through ensuring that public contracts are only open to companies that recognise and negotiate wages with trade unions.

The Social Platform, the European Platform of social NGOs, supports establishing minimum wages which effectively protect against poverty whilst maintaining incentives to take up employment. In its [position paper](#), it sets three preconditions for an adequate minimum wage: 1) it should be higher than what is considered an adequate minimum income; 2) it should be at least 60% of national median wage; 3) it should be set in a non-discriminatory way and irrespective of contract type and for all sectors of the economy.

Reacting to the Commission initiative, employers oppose any EU legislation on minimum wages. [BusinessEurope](#) underlines that *'wage-setting [...] is a national competence'* and *'best done by social partners at national level'*. It considers the European Semester as the adequate tool to implement the European Pillar of Social Rights. Overall, the need for fairness should be combined with a view to productivity gains, competitiveness and macro-economic stability.

#### **Some framing questions for the debate**

Are there some key measures that should be taken at EU level in order to reduce in-work poverty?

What could be a suitable EU instrument to strengthen fair minimum wages in your country?

How could the EU strengthen the involvement of social partners?