Fears and hopes around future minimum wages

Christine Aumayr-Pintar, 15 January 2020

As one of their '100 days in office' initiatives, the new European Commission intends to propose an initiative for an EU minimum wage. The aim is that by 2024 every worker in the EU should earn a fair and adequate wage, no matter where they live. And despite the Commission's assurance that this would not alter national traditions of wage-setting, emotions are already running high – particularly among Scandinavian countries, which have collectively agreed sectoral minimum wages – not statutory. Unions from Central and Eastern EU Member States, on the other hand, tend to regard the initiative as a step towards gaining more substantial pay. Member States take different approaches to minimum wage-setting and there is no 'blueprint' as to which regime generates a more desirable outcome.

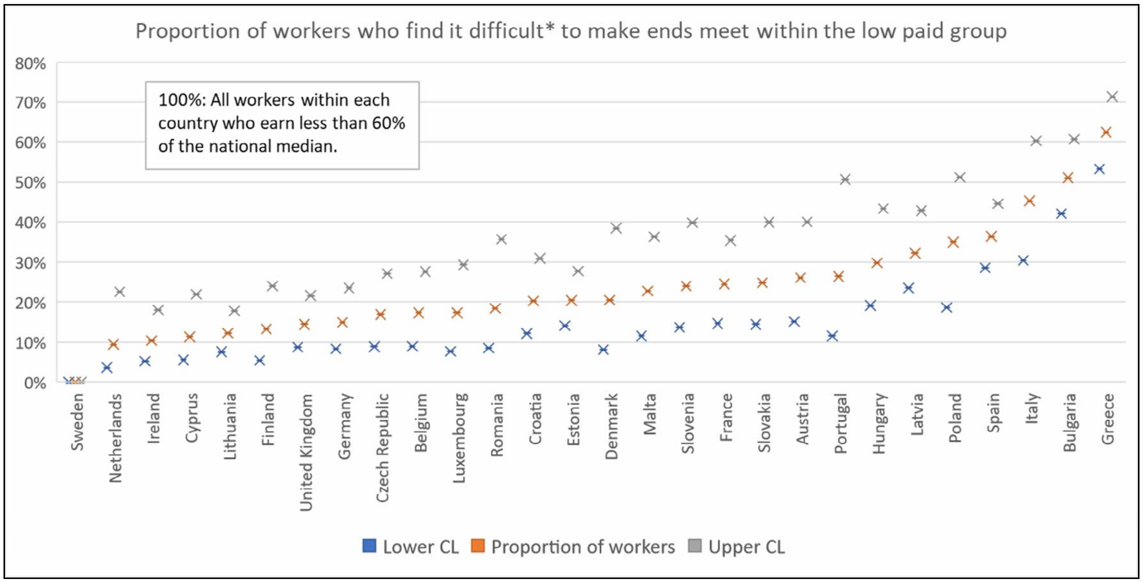
What minimum wages do and don't do

Minimum wages have multiple functions: from the worker's perspective, they can rule out exploitative low pay and possibly limit wage inequalities, particularly among workers in the lower part of the wage distribution; from the company's perspective, they can ensure a level playing field between companies.

Article 6 of the European Pillar of Social Rights has a worker-focused perspective at its core – using terms such as 'fair', 'decent standard of living', 'the needs of the workers and their families' and the prevention of 'in-work poverty' – while embedded in the context of national economic and social conditions and aiming to safeguard access to employment.

From earlier research, two main findings can be distilled: minimum wages probably do not harm employment a lot [1] (at least not substantially as a whole), but they tend to have a more limited impact on fighting in-work poverty [2]. The latter is dependent on household composition, complemented by the national system of benefits, taxation and social security contributions. The figure below illustrates just that: among the low-paid worker group – those earning less than 60% of the national median – the proportion of workers who find it difficult to make ends meet ranges from zero in Sweden to around 60% in Greece.

The question as to whether minimum wages are adequate is thus closely linked to the question of whether wages in general are adequate to ensure a decent living. It is therefore important to observe what impact minimum wage policy will have on wages in general.



*'Thinking of your households total monthly income, is your household able to make ends meet..?' This relates to net income after benefits and transfers, and would also take the partner's earnings into account' *Difficult: Sum of those answering 'with difficulty' and 'with great difficulty'.*
Source: Eurofound based on 6th EWCS.

Boosting minimum wages

The most recent round of minimum wage increases have been – due not least to a still favourable economic development – relatively high across the board. Some EU Member States have increased their gross minimum wages quite substantially in the recent past or announced they would do so. In several cases, this was explicitly or implicitly linked to a percentage of wages: Spain had an increase of 22% for 2019 and the new government's intention is to move towards 60% of average wages until 2024, while the Polish government announced – ahead of the 2019 elections – that they would increase wages from PLN 2,250 in 2019 to PLN 4,000 by 2024 (again, a rise projected to more than 60% of average wages [3]).

Elsewhere, the UK has just reached their target of 60% of the median wage and is now aiming for 66%, while Croatia legislated in 2019 to set minimum wages as 'an upward share of average wages'. The Slovak parliament has taken a different approach with its minimum wage legislation, effective from 1 Jan 2020: if social partners cannot agree on the level of minimum wage for 2021 (up to a certain deadline), this will automatically be set as 60% of the average nominal wage of the previous year.

To what extent some of these envisaged increases might have originated in the shadow of the EU initiative is speculative, but cannot be ruled out either.

- Data: Statutory minimum wages - Minimum wages in the EU in 2020

Needs-based approaches

A different, 'needs-based' approach is currently under discussion in Slovenia and Romania. Under a new law, from January 2021, calculation of the minimum wage in Slovenia will be based on a formula where the minimum remuneration for full-time work will have to exceed the calculated minimum cost of living. In Romania, the 'Law for a minimum consumer basket for a decent living' has been under discussion in parliament throughout 2019. These two approaches, while not explicitly labelled as such, can be regarded as being closely related to the 'living wage' concept and discourse. To date, living wages – aimed at guaranteeing workers and their families a decent level of living and social participation – are in place (on a voluntary basis and in addition to the statutory minimum wages) only in two EU countries: Ireland and the UK .

- Romania: Law for a minimum consumer basket for a decent living
- Publication: Concept and practice of a living wage

Fear and hope and a lot of speculation

While it is not clear what the Commission will propose exactly (although the figure of 60% of median wages figures high in the discussion), there has been some speculation over the past six months as to what it might entail: One level for all? A one-size-fits-all wage-setting? One common percentage of median wages – or something else?

In any case, the announced initiative has triggered emotions, fear and hope among social partners and in some Member States. The most vocal are representatives from Denmark and Sweden, where the social partners fear that their collective bargaining system will come under pressure and where not only any statutory solution to replace the autonomous collective bargaining, but also any other form of interference, will be rejected. On the other hand, the main unions from Central and Eastern EU Member have joined forces and written a letter to ETUC to express their support for an EU minimum wage, combined with an initiative to promote collective bargaining.

On 15 January 2020, the European Commission launched the first phase of social partner consultation according to Article 154 TFEU and has confirmed that ' *EU Action would not seek the introduction of a statutory minimum wage in countries with high coverage of collective bargaining and where wage setting is exclusively organised through it'* .

- European Commission: First phase consultation of social partners on Fair Minimum Wages in the EU
- DN Debatt: Regeringen måste stoppa EU-förslaget om minimilön
- Berlingske.dk: Europæisk mindsteløn truer den danske model

Shift of focus to adequate and needs-based minimum wages?

In the years following the economic crisis of 2009 and beyond, the minimum wage policy was one of restraint – 'allow minimum wages to develop in line with productivity' – with a view to safeguarding employment and restoring macroeconomic imbalances through internal devaluation. Many Member States had frozen their minimum wages or only increased them very moderately. The new economic and political context has now shifted the narrative somewhat towards the perspective of the worker and their families. This is set against the context of declining unemployment, increasing labour shortages and migration from east and south to west – but is supported politically from left and right, especially in the months ahead of elections.

The EU minimum wage initiative now has the potential to give additional impetus to this shift of focus and ascertain that the levels of minimum wages in each Member States are reviewed in line with their adequate levels for workers. Having a ‘fair’ minimum wage in turn also implies that they should be fair for companies and continue to increase in line with productivity developments. It may also support an upward convergence of wages in the EU, if it helps to lift wages in the most low paid countries.

References

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2. *Matsaganis et al (2015), The interaction between minimum wages, income support, and poverty . Research note 10/2015.*
3. *Shotter, J. (2019), Poland’s ruling party pledges big minimum wage rise to woo voters , Financial Times, 9 October 2019.*

To have or have not: A statutory minimum wage

Christine Aumayr-Pintar, 22 JUly 2019

Cyprus and Italy are currently considering the introduction of a universal minimum wage floor by law. With this move, they would be joining 22 other EU Member States that already have one in place. In the remaining Member States – Austria, Denmark, Finland and Sweden – and in Norway, too, minimum wage rates are stipulated in sectoral collective agreements. This article reviews some examples of how EU countries set their minimum wages, why they opted for one or the other approach, and what impact their decision has had.

Spoiler alert: There is no one best-practice blueprint. Wage setting is deeply embedded in each country's economy and its institutional and industrial relations landscape, and outcomes do not – necessarily or exclusively – depend on what system is chosen.

Different strokes for different folks

Statutory minimum wages play different roles for the countries in the EU. For some – mainly the eastern European countries – they are essentially the only instrument for central social actors to influence wage setting in an otherwise fragmented company-level wage-setting environment. For other Member States, such as Belgium or Spain, they serve as an additional tool and establish a lowest floor, but they have relatively limited practical relevance given the higher levels of pay fixed within an extended set of sectoral collective agreements. With almost no exceptions, countries have favourability clauses that ensure that collective agreements cannot go below legal minima, so collective agreements and statutory minimum wages tend to be complementary to each other.

While by definition the legal minimum wage is brought into effect by law (or an equivalent regulation), the process for making or agreeing rate changes varies across the EU. Many countries have tripartite peak-level forums in which the government either consults the social partners on a set proposal, or in which it provides room for them to negotiate, and if no agreement is reached, it then unilaterally determines the level. In a few countries, there are bipartite or tripartite ad hoc negotiations or consultations with the social partners. Other countries have independent expert committees that research and monitor, consult a variety of stakeholders, and then make recommendations on rate increases. Additionally or alternatively, some countries have opted for fixed rules or formulas in which they link the statutory minimum wage to other wages or to economic developments. [1]

Cyprus and Italy contemplate their options

Cyprus and Italy are currently considering the introduction of a statutory wage floor. Cyprus has a set of statutory minima based on occupation. For instance, after six months of service, a monthly minimum wage rate of €924 applies to jobs including shop sales assistant, general office clerk and teachers' aide. These minima have been frozen since 2013. A decreasing number of other workers are covered by sectoral or company-level collective agreements, in parallel with an increasing number of workers who are not covered. In 2018, the newly inaugurated president announced his intention to introduce a universal wage floor, subject to the condition that the unemployment rate falls below 5%. The government has sought to obtain different proposals and is currently conducting a phased study. The social partners in Cyprus are divided over the issue, with the trade unions – in principle – being in favour, while the employers are against.

Italy currently sets minimum wages within sectoral collective agreements, which cover 80% of Italian workers. At the same time, it has been found that compliance with the collectively agreed minima is relatively low, particularly among smaller companies and in southern Italy. [2] With the Italian Jobs Act of 2015, the Renzi government introduced the possibility of setting a statutory minimum wage, a move criticised by both sides of industry. The issue was brought to the fore in 2018 when the new government parties Lega Nord and the Five Star Movement announced their intention to introduce an hourly statutory minimum wage for workers and sectors not covered by collective agreements. They proposed a law (No. 658) to the Senate's Labour Commission that stipulated a minimum gross hourly rate of €9 as a universal baseline or, if more favourable, the rate of the national sectoral collective agreements. A rate of €9 per hour would amount to around 80% of the median wage in Italy, according to calculations from the OECD, and thus be the most 'generous' level, in relative terms, across Europe.

Notes on the late adopters

Just three countries have in the past two decades made a major change to their wage-setting framework by introducing a legal minimum wage: the United Kingdom in 1999, Ireland in 2000 and Germany in 2015. In Germany, the move was motivated by the continuous decline in collective bargaining coverage, down to less than 60% on average and substantially less than that in some eastern German regions. This situation was similar to that of the United Kingdom in the 1990s, where the wage councils were abolished in 1993, and the earnings of the lowest-paid workers became decoupled from those of other workers, growing much less than average. In Ireland, the introduction was 'a social policy commitment to protect workers considered to be most vulnerable and at risk of exploitation and protect against poverty'. [3] Each of these 'newcomers' opted for an expert-based approach to adapting the rate, one that involves the social partners .

In Germany, the decision on the first rate of €8.50 per hour – passed in parliament with the support of the Social Democrats and the Green Party – was a political one and criticised by the social partners. However, the social partners have an important role in setting the rate, as the Mindestlohnkommission (Minimum Wage Commission) calculates increases based on average developments of collectively agreed wages. The commission makes its recommendation by balancing the appropriate protection of workers with ensuring a fair and functioning labour market for companies, while not harming employment. The introduction in 2015 was phased in, with exceptions for some sectors and groups of workers, to allow for a gradual adaptation and to prevent job loss. The evidence so far shows that the introduction does not seem to have harmed employment overall, but it did reduce the working hours of full-time minimum-wage workers, thus lowering their incomes.

Equally, in the United Kingdom, research commissioned by the Low Pay Commission (LPC) by and large shows no general negative employment effects. The minimum wage has also resulted in better pay increases for the lowest paid than anyone else, and about 30% of workers have benefited directly or indirectly from it. Another question the UK actors have pondered are the great regional differences in purchasing power: for instance, London is a much more expensive place in which to live than rural regions in Wales, and a one-size-fits-all minimum rate is difficult to set. This has triggered a living-wage campaign, run by the Living Wage Foundation. This organisation calculates a living wage rate based on the minimum wage needed to cover the essentials of life for a family in London and the rest of the United Kingdom. Companies sign up to paying this wage on a voluntary basis. Meanwhile, the UK government in 2016 set a target for the LPC: to increase the minimum wage –now called the 'national living wage' – towards 60% of the median wage by 2020. The LPC monitors progress on this and its impact very closely.

Another question currently in focus in the United Kingdom is that of non-compliance. Even though it is hard to measure and estimate, recent research shows that it is not negligible, with about 23% of workers who are entitled to the minimum wage receiving less than it.

- Mindestlohnkommission: List of finalised projects and reports
- Department of Public Expenditure and Reform, Ireland: Social Impact Assessment 2018 – National Minimum Wage
- GOV.UK: 20 years of the National Minimum Wage – A history of the UK minimum wage and its effects
- GOV.UK: Non-compliance and enforcement of the National Minimum Wage - April 2019

Some continue without

In those other countries without a statutory minimum wage, various actors have regularly revisited the idea of introducing one. But these debates have usually been short lived.

In Austria, due to compulsory company membership of the Federal Economic Chamber (WKO), nearly all employees are covered by collective agreements, and the rates set by these agreements remain very low. In 2017, the then Chancellor Christian Kern urged the social partners to set a minimum wage of at least €1,500 per month in their collective agreements, or the government would consider introducing a statutory minimum wage. Despite some political support for the suggestion, the majority of industry stakeholders and political parties were in favour of maintaining the existing system. In response, the peak social partner organisations commissioned their members and trade unions to develop a roadmap for introducing a minimum wage of €1,500 for all employee groups by the end of 2019, in order to avoid a unilateral legislative initiative on the issue.

The Scandinavian Member States – Denmark, Finland and Sweden – also function without a statutory minimum wage but manage levels through a large number of well-coordinated sectoral collective agreements. Further negotiations may take place at local company level on wages and working conditions, and overall wage levels are relatively high. All attempts to initiate a debate on the introduction of a legal floor have been met with resistance, particularly from the trade union side. Collective bargaining coverage continues to be high, as in Italy, through extension. Whether and to what extent those workers who are not covered by collective agreements are also low-wage earners is not really known – a bit surprising for countries with a usually extraordinary research evidence base. But there is ground to believe that the numbers of non-covered and low-paid workers are not large, as companies who do not participate in collective bargaining nevertheless orient their practices around collective agreements. In addition, in Denmark, trade unions have the legal right to demand that companies negotiate or apply collective agreements should they be found to underpay workers. Recent cases where underpayment was detected and the offenders brought to court largely concerned foreign companies in the construction sector.

Norway is another interesting case, as it has – in comparison to the other countries without a statutory minimum wage – comparatively low collective bargaining coverage: 'only' around 70%, although this varies substantially by sector. It also differs in that the employer organisations in the voiced more enthusiasm for the introduction of a statutory minimum wage. They saw it as a means to re-establish a level playing field in the context of rising competition from companies employing foreign workers at lower pay rates. The Norwegian answer was to extend sectoral agreements to all companies in sectors where underpayment was most widespread, including, for instance, construction, cleaning and fish-processing. This seems to have paid off: a recent study by Trygstad et al found that the share of cleaners receiving less than the collectively agreed minimum rate dropped from 31% to 9% after the first year of the extension, and to 5% five years later. [4]

Why introduce a legal minimum wage?

Research by Kampelmann et al (2013) covering 18 countries between 2007 and 2009 showed that the combination of sectorally agreed minima with high collective bargaining coverage is a functional equivalent to statutory minimum wages and that there is no evidence that one is superior to the other. [5] Higher collective bargaining coverage and a national minimum wage both tend to be associated with lower wage inequalities. Statutory minimum wages were found to cover workers more effectively than sectoral minima, but higher bargaining coverage can partially offset this. Eurofound (2014) also found that countries with a higher bargaining coverage tend to have a lower fraction of workers paid below prevailing minima. [6]

As with every instrument, policymakers should fully explain the motives behind a statutory minimum wage and assess whether there are other plausible pathways to achieving the same objectives. Where a large and increasing number of employees are underpaid relative to national standards, ensuring that every worker can earn a decent living could be one such motive. But the cause of underpayment should be established in the first place.

If it is due to low or falling bargaining coverage, a legal minimum wage could, in theory, ensure that a universal wage floor is set. This would ensure that all workers, including those not covered by any collectively agreed rates, have the right to receive a decent minimum level. If the underpayment is due to low compliance with rates set in collective agreements, however, the question is whether a legal minimum rate will be met with a greater degree of compliance and whether enforcement will improve. National authorities may, as another option, decide to enforce compliance with collectively agreed minima.

The rates within collective agreements or the market may be 'too low' for workers to ensure an adequate standard of living because companies are either unable or unwilling to pay to pay higher wages. Only in the latter case would a legal minimum be a remedy. Companies or sectors that cannot pay higher wages will sooner or later – all other things being equal – go out of business or decline. An alternative answer, however, could be that companies faced with higher wage demands start to innovate and improve their productivity. This is one aspect of the 'Swedish model', which is based on just such a high wages–high productivity path. It does require good instruments, however, to effect the transition of workers (and companies) to higher productivity.

Setting the level of the envisaged – countrywide or regionally differentiated – minimum wage rate puts a great responsibility on the shoulders of those actors entrusted with 'getting it right'. Wage levels in general have to reflect the productivity of workers and companies and should ensure a decent standard of living.

Traditional and basic economic theory suggests that a level set too high will reduce employment (in terms of volumes of labour demanded – that is, working time). It may also trigger non-compliance and shift labour – at least partially – into undeclared work, with negative consequences for taxes and social security contributions. Empirical research over the decades has detected only limited impacts on employment on average and smaller negative employment effects for groups of workers with lower productivity.

What will happen to the rates set within collective agreements? Will collective bargaining partners in lower-paid and less productive sectors orient themselves towards – lower or higher – minimum standards, or will minimum wage increases boost the rates set in agreements?

High-level support for EU threshold

These are questions that only the Cypriot and Italian actors can answer for their countries. From the EU perspective, wage setting remains a competence of the Member States, although the European Pillar of Social Rights in Article 6 states the right of workers to an adequate wage. At the same time, there has been strong support for an EU minimum wage level, and the new Commission President Ursula von der Leyen, setting out her agenda for the next five years, has committed to proposing 'a legal instrument to ensure that every worker in our Union has a fair minimum wage'. [7] She will undoubtedly have the support of other EU leaders: French President Emmanuel Macron sees an EU minimum wage threshold as a means of reducing minimum-wage-related emigration, [8] while European Commission Vice-President Franz Timmermanns argued that it would reduce the growing wealth gap. [9] German Chancellor Angela Merkel has advocated 'comparable' minimum wages in the EU that reflect the different living standards and ensure similar working conditions. [10]

Any move to introduce a binding minimum wage at either national or EU level must be guided by three criteria: a good evidence base regarding the impact of changes to the minimum wages, next to a meaningful involvement of the social partners, within a process that is transparent and predictable.

References

1. For detailed information on minimum-wage-setting mechanisms in the individual Member States, see Eurofound's Database of wages, working time and collective disputes, version 2.1 ; the relevant section is 'Setting of minimum wages'.

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3. Callaghan, N. (2018), Social impact assessment 2018 – National minimum wage , Department of Public Expenditure and Reform, p. 4.

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9. EurActiv (2019), Timmermans calls on all EU members to adopt minimum wage , 7 May.

10. Politico (2019), Merkel calls for 'comparable minimum wage' across EU , 11 June.