

EU seeks views on the minimum wage

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Against a background of growing polarisation, it is worth remembering the model of social dialogue that allows us each year to debate and reach thousands of agreements that start from different and distant positions and interests.

The European Commission's consultation on minimum wages and the recent agreement in Spain have put wages back at the centre of public debate.



European Commission: First-stage consultation of social partners on Fair Minimum Wages in the EU

The moderate growth in wages, the increase in the number of workers on low pay and the tensions relating to competition based on wage costs are some of the issues set out in the Commission's consultation. The objective to boost purchasing power where economic circumstances allow is difficult to question. What is positive is that this issue is being addressed through dialogue.

The starting point for any debate on wages should stem from a common understanding of what the minimum wage can (and cannot) do. The main aim is to guarantee workers a minimum wage, who, because of low qualification levels or poor bargaining power, can have very low earnings.

To what extent can increases in the minimum wage push less productive workers – who are precisely those who need to be protected – into unemployment? Most studies show that there is no significant impact on overall employment levels. Workers on the minimum wage are a relatively small group, and most of these jobs seem to be holding up. By disaggregating the data for certain groups of workers (young, low-skilled, temporary and so on), we do see negative impacts in some cases, such as in Slovenia. Some studies show an increase in the black economy linked to certain occupations and sectors. In other examples, such as Germany, the total number of employees was not affected, but the wage increase was offset by a drop in the number of hours worked.

Examples of bigger increases, such as in Hungary, show similar results, with a limited impact on the overall employment rate but affecting around 30,000 jobs when extra costs cannot be built into prices or be absorbed by profit margins. In the case of Spain, which started from a fairly low level of around 40% of the median salary three years ago, a rise was expected in a phase of economic growth. Pending more robust evaluations, the findings from various analyses are not so different, indicating a limited impact on

overall employment but showing visible effects in certain sectors and occupations.

Does the minimum wage reduce poverty? While its role in income is clear, its effect on poverty reduction is limited. Poverty reduction depends more on unemployment levels or on the number of family members (and income). Poor workers are often self-employed or work part-time, and a minimum wage has little impact. Disposable income also depends on taxes, contributions, social assistance and public services. Policies aimed at guaranteeing an income that ensures decent living standards need to consider wages alongside these other policies.

How to determine an adequate minimum wage? Relative indicators, such as percentages of the median or average salary, are among the most frequently used. They are mainly useful to illustrate wage inequality but say little about purchasing power. In Spain, 60% of the median wage allows for a much lower standard of living than the same wage level in richer economies such as Sweden or Holland. A different approach is to determine the income based on the cost of living. This is the case, for example, with the so-called 'living wage' in the United Kingdom and Ireland, which offers a means to differentiate the income required to live in large cities from that required in other parts of the country. Other issues are the extent to which increases in the cost of living can be transferred to a company without affecting employment and business and whether specific costs (housing, energy, transportation, etc.) can be addressed through wage policies or other measures.

What difference will the European Union initiative make? The EU will not set a common minimum wage, but we can expect that it will try to establish a shared framework where minimum wages can be determined at the national level. It could agree on common criteria and objectives; monitor performance through a certain set of indicators; or promote that economic convergence keep in step with wage increases.

The role of social dialogue will also be relevant. The Commission's own consultation procedure recalls the importance that the EU attaches to the social partners. The Treaty requires consultation before launching any social or employment initiative so that they can guide the discussions, or even request its suspension and negotiate bilaterally. In terms of minimum wages, 22 countries currently set a standard wage (as in Spain), and in 6, it is the social partners that handle wage-setting. In the Nordic countries, for example, any state intervention is perceived as a threat to the negotiation of agreements. A European initiative would need to respect all systems and promote the role of the social partners where the minimum wage is set by the government. It would base its proposal on existing practices, such as consultation and negotiation procedures to set wages in a predictable and transparent way, or by providing technical support (through independent committees or indicator scoreboards) to facilitate an informed debate with the best data.

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