

Should the minimum wage be regulated on union level: The case of the European union

Monika Moraliyska

ABSTRACT: *The purpose of this article is to examine the issue connected with the European Union's plan to regulate the minimum wages in the Union's member states. In October 2020, the European Commission presented a draft directive on the EU minimum wage, which aims to ensure decent wages for all workers in the whole Union. The article's tasks are to assess the current state of minimum wage in the EU, the expected effects of the directive and the main challenges related to its implementation. The main results include an analysis of the proposal for regulation, presentation of different approaches for defining the minimum wage, and cost-benefit analysis of its implementation.*

Key words: *minimum wage, regulation, social Europe, European Union*

I. INTRODUCTION

The debate in the EU on the minimum wage has been going on for decades and the proposal for a directive is to some extent its outcome¹. The right to adequate minimum wages is enshrined in Principle 6 of the European Pillar of Social Rights, the establishment of which was announced jointly by the European Parliament, the Council of the EU on behalf of all Member states and the European Commission in Gothenburg (Sweden) in November 2017. One of the goals of this new pillar of social rights is to ensure adequate wages for EU workers. However, the directive does not contain a precise definition of how to calculate the minimum wage, which has given rise to big debates.

The discussions included issues such as the level of the minimum wage, its scope (given the numerous exceptions and national traditions), the procedures and criteria for its regular adaptation, and the involvement of trade unions and employers' associations in its setting. However, given the large differences in the EU, neither the introduction of a single European minimum wage nor the harmonization of the different minimum wage regimes in the member states would be appropriate and effective.

What is and what is not included in the proposed directive? The main idea is to define common criteria for fair minimum wages at European level, applied at national level according to prevailing customs and practices. The main challenge is to define the criteria for an appropriate minimum wage. Another obstacle is the risk that the new regulation can have negative effects on collective bargaining in individual member states, in which it is responsible for setting wages and has been working successfully.

Some EU employers' organizations, which oppose the minimum wage regulation in the public hearings organized by the European Commission, refer to the principle of subsidiarity and interpret European legislation as one that does not give the EU a mandate to intervene in the field of pay and wages [6]. The unions, on the other hand, are divided between being in favor of higher wages and the possibilities for achieving this at EU level. However, most unions, as well as some employers, see potential benefits from having a clear framework and regular updates of the minimum wage.

The present paper tries to analyze the advantages, disadvantages, problems and expected effects from the minimum wage regulation on EU level.

¹ The proposal for a directive on minimum wages was proposed by the European Commission on 28 October 2020. It is based on Article 153 (1) (b) of the Treaty on the Functioning of the European Union (TFEU) on working conditions and was drawn up following a two-stage consultation with the social partners (in February and June 2020). The Commission proposal was submitted to the European Parliament and the Council for approval, and once it is adopted, the member states will have two years to transpose it into national law. The goal is all workers in the EU receive a fair and adequate wage by 2024, regardless of where they live.

II. WHY HAS THE EU INITIATED LEGISLATION IN THE FIELD OF MINIMUM WAGE

The proposal of the European Commission for a directive regulating the minimum wage in the European Union has come after efforts and obvious difficulties of the EU and its member states to solve numerous social problems. These social problems and challenges have been explored, analysed and summarized by the author of the present research below.

First of all, it is the EU's institutions' understanding that the minimum wage should guarantee a "decent life". The EU states it believes that its role is to ensure that all workers in the EU earn enough to make a living (despite its limited competences in the social sphere, as provided by the EU treaties). The main goal formulated by the European Commission is: "to ensure that every worker in our union has a fair minimum wage that allows for a "decent life wherever they work"[2].

It should be noted here that some of the oldest EU Member states have a long tradition of guaranteeing a national minimum wage for the lower paid workforce, but others such as Germany, Ireland and many of the countries that have joined the EU in 2004 or after, introduced minimum wage legislation much later, and six of the EU Member states as of 1 January 2020 still do not apply a national minimum wage.

The need for the minimum wage regulation is confirmed by the statistical data showing a very high share of low-paid workers in the EU. It is clear that the low wages in the Union have not grown at the same rate as other wages in many member states in recent decades. This contributes to an increase in the share of the working poor and limits the ability of low-wage workers to cope with possible economic and social shocks. An adequate minimum wage protection has the potential to increase productivity and competitiveness and contribute to maintaining domestic demand by further increasing business revenues and compensating for higher labor costs.

In 2018, the share of low-paid workers in the EU is 15,2%, i.e one in six employees in the European Union is underpaid. This value traditionally varies significantly by country - the highest share is observed in Latvia (23,5%), Lithuania (22,3%) and Estonia (22,0%), and the lowest - in Sweden (3,6. %), Portugal (4,0%) and Finland (5,0%)²[4].

On second place, the minimum wage is an instrument to fight poverty and social inequality³. The overall share of people in risk of poverty and social exclusion in the EU is relatively high. In 2017, 112.8 million people in the EU lived in households at risk of poverty or social exclusion⁴, which is 22.4 % of the population. And 16.9 % of the population in the EU were at risk of poverty after social transfers in 2017[5].

In addition to the high share of the working poor, the negative impact of periodic crises in the EU must be added, in which some workers are usually more affected by the crisis, especially the young, the low-skilled and those in temporary employment.

Rising poverty leads to rising inequality, as well. Income inequality is increasing largely due to the growing polarization of the labor market - employment in middle-paid (or middle-skilled) occupations is declining and the share of low-paid and high-paid (or skilled) occupations is increasing at the same time. Another reason for the increased inequality is the decline in collective bargaining [6]. In this sense, setting adequate minimum wage levels is expected to ensure a dignified life for workers, maintain domestic demand, strengthen incentives to work and reduce the working poor and income inequality. In addition, the increase in the minimum wage will lead to reduction in the gender pay gap because more women than men are employed at the minimum wage.

On third place, there is not a big progress in terms of convergence of minimum wages in the EU. Similar to most social indicators in the EU, the minimum wage shows large variations in the different member states, which by 1 July 2020 reach a difference of almost 7 times between the country with the lowest and highest minimum wage⁵(312 euros in Bulgaria compared to 2142 euros in Luxembourg)[7]. The significant variations prove an unsatisfactory level of social convergence between EU countries.

The EU Member states are classified into three groups based on the level of their national gross monthly minimum wages: Group 1, in which the national minimum wages by January 2020 are lower than EUR 500 per month (Bulgaria, Latvia, Romania and Hungary); Group 2, in which the national minimum wages as of January 2020 are at least EUR 500 but less than EUR 1000 per month (Croatia, Czech Republic, Slovakia, Estonia, Lithuania, Poland, Portugal, Greece, Malta and Slovenia) and Group 3, in which the national minimum

²According to Eurostat, "Low-wage earners" are defined as those employed (excluding apprentices) who earn two-thirds or less of the average gross hourly income in a given country [4].

³The Europe 2020 strategy promotes social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and social exclusion till 2020.

⁴At risk-of-poverty persons have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers[14].

⁵ Minimum wages are presented as monthly rates (in euros) of wages as gross income, i.e. before withholding income tax and social security contributions due from employees[12].

wages as of January 2020 are at least EUR 1,000 per month (Spain, France, Germany, Belgium, the Netherlands, Ireland and Luxembourg)⁶.

On fourth place, there is a need for a mechanism for regular updating of the minimum wage levels in the EU. In recent years, there has been a trend of relatively weak wage increases in most EU countries, and groups representing workers say purchasing power and the standard of living have declined. National minimum wage levels do not change every year and the adjustment does not always lead to an increase in the minimum wage.

The minimum wage is also considered an instrument to support economic recovery after the Covid 19 pandemic, because when set at appropriate levels, the minimum wage could help workers accumulate a financial buffer and use it during a crisis.

III. COST-BENEFIT ANALYSIS OF THE MINIMUM WAGE DIRECTIVE

The most important positive effect of the directive is likely to be the fact that it provides for all workers in the EU to have minimum wage protection ("Everyone should have access to minimum wages either through collective agreements or through statutory minimum wages" [8]).

The proposal for a Directive of the European Commission is expected to contribute to better living and working conditions in the Union by intervening on three axes: 1/ Improved adequacy of statutory minimum wage— member states with statutory minimum wages are obliged to apply adequate statutory minimum wages, clear criteria for updates and effective involvement of the social partners; 2/ Promoting collective bargaining in both: in Member states where the protection of the minimum wage is provided exclusively by collective agreements and in those with statutory minimum wages. The directive stimulates the development of collective bargaining, especially in countries where it includes less than 70% of the workers; 3/ Better monitoring in the member states by the European Commission, which will ensure more efficiency.

Then impact assessment of the directive includes a quantitative analysis of a scenario based on a hypothetical increase in minimum wages to 60% of gross average wages. It shows that this would improve the adequacy of minimum wages in about half of the Member states, which would positively affect between 10 and 20 million workers. In several countries, improvements in the protection of the minimum wage would lead to a reduction in the share of the working poor population, a reduction in pay inequality by more than 10% and a reduction in the gender pay gap by around 5%. The gender pay gap is also likely to decline, as the majority of minimum wage earners (around 60% in the EU) are women [8].

Some experts think that the European initiative to regulate the minimum wage could make a significant contribution to reducing poverty and income inequality in the EU, as well as lead to wider political implications by reviving the idea of a 'social Europe' [9].

On the other hand, if the minimum wage is set too high, it reduces the preconditions and incentives for rewarding employees for their productivity, and may lead to job losses, informal work or reduced working hours for some workers [10]. OECD also pays attention to the fact that the purchasing power of the minimum wages represents a more accurate indicator than the nominal minimum wage in evaluation of the workers' living conditions.

The expected negative economic effects include increased labor costs for companies, higher prices and, to a lesser extent, lower profits. However, the impact on companies is expected to be mitigated by increasing the consumption of low-wage earners, which will support the domestic demand. Overall, the possible negative impact on employment is expected to be limited to 0,5 - 1% of the total employment [8].

Another important question concerns the weakened role of collective bargaining in the EU. In both public consultations held by the European Commission, the strongest opposition to the proposed minimum wage regulation came from the social partners in the Nordic countries, who feared that any kind of EU minimum wage regulation could undermine their national wage-setting models, which are based on sectoral collective bargaining.

These fears do not correspond to the stated in the directive, which argues that the well-functioning collective bargaining is important to ensure that workers are protected by adequate minimum wage. Just the opposite - the directive calls for measures to (further) increase the scope of collective bargaining, in particular by

⁶However, the differences in minimum wages in EU Member States are significantly smaller if taking into account differences in price levels: minimum wages in Member States with lower price levels become relatively higher when expressed in the purchasing power standard (PPS), and relatively lower in Member States with higher price levels. While the differences in the levels of minimum wages between the EU Member States with the highest and lowest minimum wages are in a ratio of 1:6,9 (the highest minimum wage is 6.9 times higher than the lowest), when expressed in PPS the ratio is 1:2,9 (the highest minimum wage is 2,9 times higher than the lowest expressed in the PPS) [11].

supporting the capacity of the social partners and promoting wage negotiations between the social partners. If the scope of collective bargaining is below 70%, member states will have to provide a framework for creating conditions for collective bargaining, by law or by agreement with the social partners, and draw up an action plan to promote collective bargaining [8].

IV. HOW SHOULD THE MINIMUM WAGE BE SET

The most difficult problem to be solved after the directive is approved is how the countries will set the level of minimum wages. The directive does not provide a definition, but only stipulates that the minimum wage must ensure a decent standard of living. The challenge is in the specific definition of a "decent standard of living".

A balanced approach is necessary because a minimum wage is a redistributive tool with both benefits and costs. If set high enough, minimum wages can increase the earnings of low-paid workers, reduce the number of "working poor", reduce the gender pay gap in the lower part of the distribution, and reduce overall wage inequality (or limit its increase). If set too high, minimum wages can be counterproductive, setting off price inflation, harm employment, and turn out to be unenforceable by small and medium enterprises [10].

One option is to apply the Living wages approach. Its main goal is to ensure that every worker can have a decent life through their pay. The approach involves the calculation of an approximate wage for different types of households (and regions), which is needed to cover a certain basket of goods and services that guarantees an acceptable standard of living. Although the composition of such a basket is specific to the time and place, it usually includes the costs of: low-cost meals, basic housing, clothes and shoes and other decent living expenses, such as transport, care and education for children, health, recreation and cultural activities, communication and personal care [11].

The International Labor Organisation also supports the idea that the needs of workers and their families can be assessed or calculated through the concept of a minimum living wage. The approach reflected in ILO Convention No. 131 calls on policy makers to take account of: a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and b) economic factors, including requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment [15].

Another option is to adopt a reference value, using the Kaitz index theory, which is an economic indicator derived from the ratio between the nominal minimum wage and the median wage. Separately, by analogy with poverty research, it is assumed that the minimum wage of 60 percent of the median wage is one that allows a full-time worker to avoid living in poverty⁷.

Most members of the European Trade Union Confederation support the goal of minimum wage at the amount of at least 60% of the median wage [12].

The ILO also states that the economic effects considered in the Living wages approach depend on the proportion of wage-earners affected by a certain minimum wage, and can be evaluated through indicators such as ratio of minimum wages/ to median wages [15].

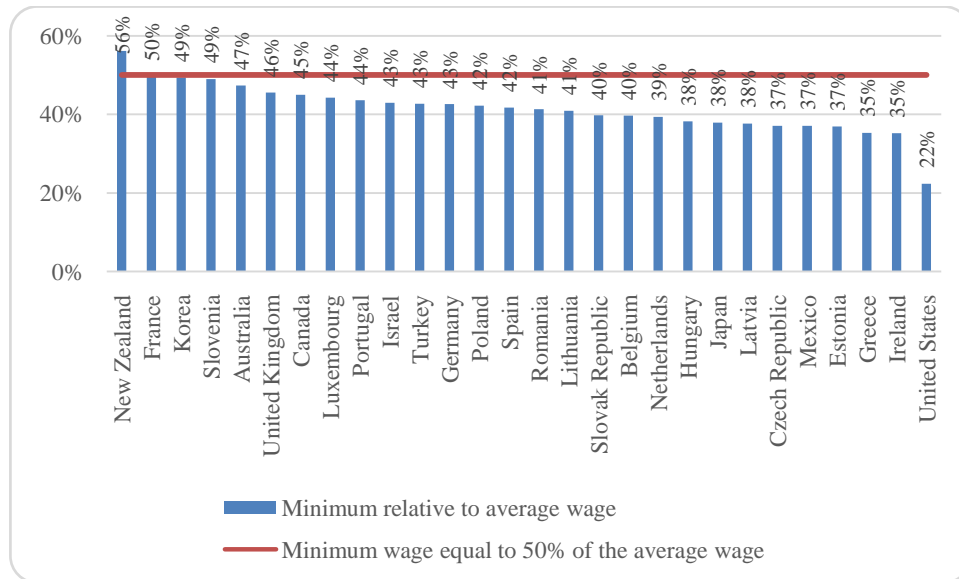
The European Commission's proposal for a directive does not require member states to increase their minimum wages to a certain level of gross average of median wages. The directive requires member states with statutory minimum wages to set clear and stable criteria for assessing their adequacy, which must take into account the purchasing power of the minimum wage, the overall level of gross wages and their distribution, the growth rate of gross wages and the development of labor productivity. However, the directive invites member states to use indicative benchmarks to guide their assessment of adequacy in relation to the overall level of gross wages. For that, it does not prescribe a specific indicator, but it states that the use of indicators commonly used at international level, such as 60% of the gross median wage and 50% of the gross average wage, can help guide the assessment of minimum wage adequacy in relation to the gross level of wages [8].

The average threshold, however, does not ensure that the minimum wage provides for an adequate standard of living. The reason is that some member states have a high level of income inequality [6], which leads to a polarized wage structure of the population (the upper part of high-income people raise the average wage, but there is a high concentration of workers at the bottom of the spectrum, which decreases the average value). As a result, the relatively high Kaitz indices do not reflect adequate minimum wage minimums. Additional criteria are needed to set a fair minimum wage, namely regulation that uses both average and median wages as benchmarks for the adequacy of minimum wages, which as indicators would be significantly more in line with the economic and social reality. Applying a double threshold (60% of the median and 50% of the average wage) would lead to

⁷People at risk of poverty are people with equivalent disposable income (after social transfers) below the at-risk-of-poverty threshold, which is set at 60% of the national median disposable income after social transfers (Eurostat, 2020e)

an increase - sometimes significantly - in the minimum wage in almost all EU countries with a statutory minimum [3].

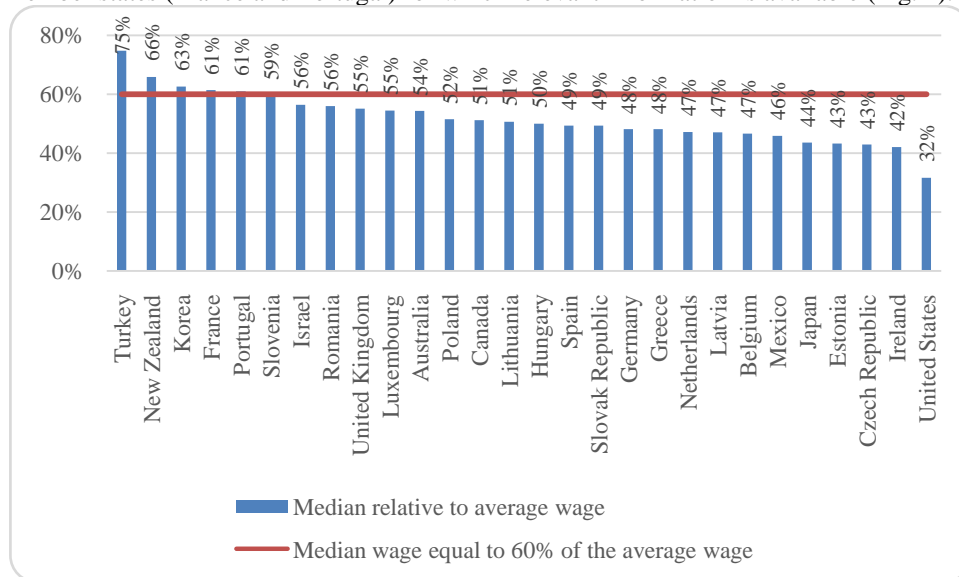
According to the OECD data, in 2019 the statutory minimum wage covered at least 50% of the average wage only in one of the 19 EU Member states (France) for which relevant information is available (Fig. 1).



Source: The author with OECD data[13]

Figure 1: Minimum relative to average wages of full-time workers, by countries in 2019

Similarly, in 2019 the statutory minimum wage covered at least 60% of the median wage only in two of the 19 EU Member states (France and Portugal) for which relevant information is available (Fig. 2).



Source: The author with OECD data[13]

Figure 2: Minimum relative to median wages of full-time workers, by countries in 2019

The data shows that the statutory minimum wage did not provide enough income for one minimum wage worker to reach the at-risk-of-poverty threshold in most EU countries, similarly to Japan, the United States and other developed countries. In addition, specific groups of workers are excluded from the minimum wage.

In the EU, the member states with high collective bargaining coverage tend to have high minimum wages and a low share of low-wage workers, but some workers do not have access to the minimum wage (the share of workers not covered is between 10% and 20% in four countries and 55% in one country) [8].

According to some researchers, in addition to the double threshold (50% of the average and 60% of the median wage), the minimum wage must also be tested in real life - for example by using a country-specific basket of goods and services. This basket should be defined jointly by the trade unions and employers' organizations that will assess whether it provides a decent standard. Moreover, there is an opinion that the general categories of elements to be included in the basket of goods and services should also be defined in a European framework directive [3].

V. CONCLUSION

The long-standing debate on a European policy on the minimum wage has its culmination. The discussion, which intensified in the light of the sharp rise in social inequality and poverty in many European countries as a result of the numerous crises, austerity and structural reforms, as well as the negative effects of the pandemic, drew attention to the fact that in some countries existing minimum wages are below the poverty line and are therefore insufficient to effectively protect low-wage workers and to prevent the "working poor" phenomenon. The fundamental social right to a "fair" and "adequate" wage, as required by the European Social Charter and the Community Charter of the Fundamental Social Rights of Workers, is being violated.

The European minimum wage policy faces major obstacles - both as a result of the diversity of national regimes and minimum wage levels, and in terms of differing views, even within European trade unions. The main challenge is related to the minimum wage definition and the approach recommended by the directive is that it should be a certain percentage of the national average or median wage. However, the value obtained does not guarantee that it will effectively protect low-paid workers. The other key issue is the need for measures to strengthen the weakened national collective bargaining systems in order to increase their coverage, as they preserve and expand national industrial relations and wage setting systems.

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