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## **CONSULTATION DOCUMENT**

**First phase consultation of Social Partners under Article 154 TFEU on a possible action  
addressing the challenges related to fair minimum wages**

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#### 1. INTRODUCTION

Environmental sustainability, productivity gains, fairness and macro-economic stability will be the four dimensions of our economic policy in the years to come. Fair working conditions are therefore at the heart of a social market economy that works for people. Citizens expect that the Union provides them high levels of wellbeing, while the economy moves towards greener and more digital growth models.<sup>1</sup> President von der Leyen's determination "*to strive for more when it comes to social fairness and prosperity*"<sup>2</sup> is a political commitment to act on these expectations.

Adequate wages are key for ensuring fair working conditions and decent living standards for European workers. Set through collective agreements or legal provisions, minimum wages help to protect low-wage workers and prevent in-work poverty. As emphasised in Principle 6 of the European Pillar of Social Rights on Wages (the implementation of which is a shared responsibility of Member States and EU institutions) "*(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 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*". Diverse performances across and within Member States in achieving this contradict the promise of shared economic prosperity and undermine the objective of upward convergence. They are therefore a matter of concern at European level.

President von der Leyen has announced that "*a legal instrument to ensure that every worker in our Union has a fair minimum wage*" will be proposed, as part of "*an action plan to fully implement the European Pillar of Social Rights*", building on the conviction that "*the dignity of work is sacred*" and minimum wages "*should allow for a decent living*".

In her Political Guidelines, she 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*". Collective bargaining is an essential element of the social market economy promoted by the EU and a strong foundation for good wage setting. The respect for national traditions and for social partners' autonomy is also underlined by

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<sup>1</sup> See Special Eurobarometer 471 on "Fairness Inequality and Intergenerational mobility", March 2018, and Special Eurobarometer 486 on "European 2019", March 2019.

<sup>2</sup> "A Union that strives for more. My agenda for Europe." Political Guidelines for the next European Commission 2019-2024.

European Parliament in its recent resolution<sup>3</sup> on employment and social policies in the euro area.

**The purpose of this document is to consult the social partners, in accordance with Article 154(2) of the Treaty on the Functioning of the European Union (TFEU), on the possible direction of EU action to address the challenge of ensuring fair minimum wages for workers in the Union.** In line with Articles 151 and 153(5) TFEU as well as the constant case-law of the European Court of Justice (ECJ)<sup>4</sup>, any possible EU action in the field of minimum wages would not seek to harmonise directly the level of minimum wages across the EU. It would also respect national traditions, social partners' autonomy and the freedom of collective bargaining. It would not seek to establish a uniform mechanism to set minimum wage and would not establish the level of pay which falls within the contractual freedom of the social partners at a national level and within the relevant competence of Member States. Therefore minimum wages would continue to be set either through collective agreements or legal provisions, in full respect of national competencies and social partners' contractual freedom. In particular, an 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.

This consultation has been adopted alongside a Communication on 'a strong Social Europe for just transitions'. The Communication sets out a vision for upgrading the EU's social market economy and fostering the implementation of the European Pillar of Social Rights as means to ensure that the transitions of climate-neutrality, digitalisation and demographic change are socially fair and just.

## 2. WHY MINIMUM WAGES MATTER

**Despite the moderate wage growth in recent decades in some Member States, the situation of low wage workers has worsened and wage inequalities have increased.** A number of these workers have seen their wages relative to others and the purchasing power of their wages deteriorating. About one in six workers in the EU earns a low wage<sup>5</sup> and this share has been on a rising trend. It rose on average in the EU from 16.7% to 17.2% between 2006 and 2014<sup>6</sup>, with significant increases in some countries. In-work poverty has seen a similar trend, increasing, between 2005 and 2018, from 8.1% to 9.6%.<sup>7</sup>

**Workers with low levels of education, in service-related occupations or in elementary occupations are likely to be more affected** than those with higher education or those working in other professions. Furthermore, small companies in all countries tend to employ a higher proportion of low-wage workers.

**Among low-wage workers, those under non-standard forms of employment are particularly exposed to the risk of in-work poverty.** The surge of non-standard work (including temporary employment, part-time and on-call work, as well as temporary agency

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<sup>3</sup> EP resolution on employment and social policies in the euro area. Available at: [https://www.europarl.europa.eu/doceo/document/TA-9-2019-0033\\_EN.html](https://www.europarl.europa.eu/doceo/document/TA-9-2019-0033_EN.html)

<sup>4</sup> See in particular Case C-268/06, Impact, point 123-124

<sup>5</sup> In statistical terms, low wages are defined as those less than two thirds of the national median wage.

<sup>6</sup> Latest data, Eurostat, Structure of Earnings Survey [earn\_ses\_pub1s].

<sup>7</sup> Eurostat based on the EU-SILC survey [ilc\_iw01].

work) in many Member States as a result of a growing weight of services in the economy, technological change and the emergence of new business models may increase the risk of in-work poverty among some workers. Since the workers concerned tend to earn lower wages than permanent full-time workers, this also contributes to wage inequality. Some emerging new forms of work may further reinforce these trends. While they can have positive effects by making it easier for people to become economically active and by increasing the flexibility for workers and firms, they can also pose risks because they do not always provide the same protections as standard forms of work, including minimum wages.<sup>8</sup>

**Minimum wages protect workers with low wages and low bargaining power.** They can help the pay of low-wage earners to keep up with productivity developments. Adequate minimum wages reduce in-work poverty and wage inequality at the lower end of the wage distribution. Since more women earn wages at or around the minimum wage than men, improvements in the adequacy of the minimum wage also support gender equality. Minimum wages moreover help make work pay, strengthening the incentives to work. In particular, they can promote the participation of women in the labour market, thus ensuring higher contributions to the social protection systems and contribute over time to decreasing the pension gender gap. At the same time, other policies can also help to address wage inequality and in-work poverty. Education and skills policies contribute to ensuring that workers are equipped with the skills needed in the economy, allowing them to have access to better paid jobs. Employment protection legislation affects incentives to create different forms of work (including permanent and temporary jobs, as well as self-employment). Finally, tax and benefit systems directly influence the tax burden and the net incomes of low-wage workers.

**From an economic perspective, appropriate minimum wage increases support overall wage growth.** They have a spillover effect on the wages slightly above the minimum wage, and thereby on aggregate wage growth. They may reduce the turnover of workers in the low-wage sector and reinforce the incentives for firms and workers to increase productivity and invest in their human capital. In some countries, they are linked to overall remuneration in the public sector, thus influencing indirectly wage levels. Adequate minimum wages can support domestic demand and thus the resilience of the economy, especially in an economic environment characterised by persistently low inflation. At the same time, minimum wage increases need to take into account the economic environment and possible effects on employment and competitiveness. Possible negative effects include increasing the risk of firms cutting labour costs by outsourcing work, including self-employment, delocalising low productivity activities, or not fully complying with minimum wage provisions (e.g. by moving work to the shadow economy) .

**22 Member States have statutory national minimum wage and 6 others have wages determined via collective bargaining (including, in some cases, minimum wages).** Today the share of workers earning the minimum wage in the EU is estimated at levels that vary from below 5% (e.g. in Belgium and Malta) to around 20% (in Portugal and Romania) (see figure 1 in Annex).

**Many workers are currently not protected by adequate minimum wages in the EU.** In some cases, minimum wage floors cannot be considered as adequate. In others, there are major gaps in the coverage of minimum wages. Moreover, statutory minimum wage setting mechanisms face challenges in a number of EU countries, notably when there is an insufficient involvement of social partners or a lack of a clear framework for minimum wage

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<sup>8</sup> OECD (2018): “The emergence of new forms of work and their implications for labour relations”, Paper presented at the 1st Meeting of the G20 Employment Working Group.

updates. These problems, and their consequences, are discussed in more detail in the following section.

**Collective bargaining is central to wage-setting as it sets the terms of employment and working conditions of a large share of workers and tends to reduce wage dispersion.**

Countries with a higher collective bargaining coverage tend to have a lower proportion of low paid workers. Between 2000 and 2015, collective bargaining coverage has decreased in many EU Member States, from an estimated average of 68.5% to 59.5%, with particularly strong declines in Central and Eastern Europe. This has been driven by the structural shifts of economies towards less-unionised sectors, notably services, and by a sharp decline in trade union membership related to the increase of atypical and non-standard forms of work. In the Member States where minimum wages are set through collective bargaining and the level of coverage is still very high, they cover or give access to most workers. Among the countries with a statutory national minimum wage, the coverage of collective bargaining is very diverse, ranging from less than 20% in Estonia, Lithuania and Poland to above 80% in Belgium, France and the Netherlands.

### 3. THE CHALLENGES

#### Wage adequacy

**Minimum wages are considered adequate if they are fair vis-à-vis the wage distribution in the country and if they provide a decent standard of living. Minimum wage adequacy also needs to be assessed in relation to the economic conditions of each country.**

**To see how the level of minimum wages relates to the wage distribution, gross minimum wages are usually compared to the gross median or average wage.**<sup>9</sup> In 2018, the highest wage floors as compared to the median wage were observed in some countries with collective bargaining systems (Denmark and Italy close to 80%) while in other countries minimum wages mostly ranged between 40% and 60%. Other countries with higher minimum wages included Bulgaria, France and Portugal, while lower minimum wages were observed in countries such as Czechia, Estonia and Spain (see Figure 2 in annex).<sup>10</sup> Comparisons to the average wage are somewhat lower as the average wage exceeds the median wage since it is affected by very high earnings.

**When looking at wage adequacy, the impact of taxes and social contributions needs to be taken into account.** In 2018 the “wedge” between net wage and total labour cost ranged between 15% and 45% at minimum level (Figure 3 in annex). The magnitude of the tax wedge has an impact not only on the amount of take-home pay of minimum-wage workers but also on the employment of workers who expect to earn low wages. Indeed, workers are likely to make their decisions (e.g. on accepting a job offer) based on the net wage and compare it with other potential sources of income not earned from work to judge whether it is worth accepting a job offer. In 2018, the net minimum wage was below 60% of the net average wage in almost all Member States, and it was below 50% of the net average wage in

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<sup>9</sup> The median wage is the wage earned by the person in the middle of the wage distribution. Exactly one half of people earn less than this person. The median wage is usually estimated based on earnings (or income) surveys, on the distribution of monthly earnings of full-time workers.

<sup>10</sup> Information on collectively agreed wage floors for low-paid occupations, which are comparable to statutory minimum wages, were collected by Eurofound (2019): “Minimum wages in 2019: Annual review”, Publications Office of the European Union, Luxembourg.

about half of them. Employers are likely to make hiring decisions based on total labour cost (including social contributions payable by employers).

**Assessing the take-home pay of minimum-wage earners in relation to income levels that protect against poverty can give an indication of whether minimum wages can support a decent living.** There are several possibilities to assess the adequacy of minimum wages : one possibility is assessing minimum wage to an “absolute” reference such as a “living wage”<sup>11</sup>, as currently calculated in Ireland and the UK. Another possibility is comparing the net income of minimum-wage earners to 60% of median household income, currently determined as the at-risk-of-poverty threshold in the EU. Current data shows that the minimum wage is sufficient to lift a single worker out of the risk of poverty in most, but not all, Member States. Some countries where minimum wage is not sufficient to prevent at-risk-of-poverty include countries with comparatively low minimum-to-median wage ratios (such as Czechia, Estonia, Malta, Germany), but also Latvia and Luxembourg.

**Finally, adequacy of minimum wages has to be considered in relation to the price levels in the country.** Levels of minimum wages expressed in purchasing power standards (pps) indicate the real value of wages in each country. It is notable that a number of the countries with higher real minimum wage levels use exclusively collective bargaining to set these levels (see Figure 4 in Annex). A comparison between nominal minimum wages and minimum wages in PPS indicates nonetheless that, in several Member States with relatively low minimum wages, the real value of minimum wages is actually higher than their nominal value (see Figure 4 in Annex) and thus they are likely to support better a decent living standard than expected when looking at nominal values.

**Adequacy is also affected by the existence and the extent to which lower minimum wage levels apply to specific groups.** This mainly concerns young workers in a number of countries, but also, to a lesser extent, other groups such as workers with disabilities. In some cases, variations for young workers are determined by age only, while in others they are also linked to work experience or participation in education or training. In some countries, the youth minimum wage increases gradually by age.

**As noted in the 2020 Annual Sustainable Growth Strategy, future income in Europe will depend crucially on higher productivity.** A comparison of minimum wage developments with productivity developments would indicate whether minimum-wage earners are benefiting from general economic growth in the country.

### **Wage coverage**

**In the Member States with a statutory national minimum wage, almost all workers are covered through the law.** Nevertheless, the law defines exemptions. These include, in some Member States, those in public service, young workers in education and training, relatives employed in small family businesses, and participants in active labour market policies, among others. In some of these cases, such as people in public service, separate laws cover the pay of those affected. In other cases, the justification for the exemption is their integration in the labour market. For some countries with statutory minimum wage, evidence indicates

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<sup>11</sup> This is theoretically possible at the European level, but no such concept has gained wide application in the EU, partly because of the data needs and methodological challenges related to such an approach. See, e.g., Eurofound (2018): “Concept and practice of a living wage”, Publications Office of the European Union, Luxembourg.

that there might be workers who, even if legally covered, receive *in practice* remuneration below minimum wage due to a non respect of existing rules<sup>12</sup>.

**In some of the countries with collectively agreed wages, the share of protected workers is very high, while it is lower in others.** It is estimated to range from 98% in Austria to about 45% in Cyprus.<sup>13</sup> In Denmark, Finland, Italy, and Sweden the share of workers covered by collective agreements is estimated to be between 80 and 90%.<sup>14</sup> Some of the workers not protected by minimum wages in these six countries work in high-paying professional occupations, although there appear to be gaps of coverage for vulnerable workers in some cases.

### **Involvement of social partners in setting statutory minimum wages**

**The involvement of social partners in the minimum wage-setting process appears to be ineffective in some Member States with statutory minimum wages.** While social partners have a central role in collective bargaining systems, there are considerable differences in the role played by social partners in adjusting statutory minimum wages (see Table 1 in Annex). In some countries, the update of the minimum wage usually follows a numerical formula and social partners are consulted in case the update deviates from it. In other countries, the views of social partners are taken into account by specialised commissions that make a recommendation about updates in the minimum wage. In a large group of countries, the government takes the decision after a bilateral or trilateral consultation process. However, in some of these countries the involvement of social partners is insufficient or not institutionalised at all. This may result in minimum wage setting not being based on a full set of information, reflecting all relevant economic and sectoral conditions, nor sufficiently articulated with collective bargaining processes. In turn, it could lead to minimum wage changes having negative effects for workers and firms.

### **National mechanisms guiding the adjustments of statutory minimum wages**

**Statutory minimum-wage setting is not always based on clear and stable criteria, and updates do not follow a reasonable frequency or regularity in some countries.** Labour market and economic conditions, overall wage and price developments are the most common criteria in national legislations to guide minimum wage setting. However, in a few Member States no criteria have been established to guide minimum wage changes. In some cases, the frequency or regularity of minimum wage updates is defined in national legislation. Yet, in others, even if a regular practice may exist, the frequency or regularity of adjustments is not set by law.<sup>15</sup> This can lead to minimum wage changes that cannot be anticipated by workers and firms. There is evidence<sup>16</sup> that, in such systems, updates of the minimum wage tend to be less regular and frequent, which may lead to an erosion of its value. Minimum wage updating in such systems appears to be more related to the political cycle and updates appear to have more significant negative employment effects, in particular for low wage groups.

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<sup>12</sup> A survey of recent evidence on non-compliance, see Eurofound (2019): “Minimum wages in 2019: Annual review”.

<sup>13</sup> It should be noted that, although Cyprus does not have a statutory national minimum wage, it does have statutory occupational minimum wages in nine low-paid occupations which are typically not covered by collective agreements.

<sup>14</sup> Existing evidence is based on survey estimates while a systematic (e.g. administrative) data collection is lacking.

<sup>15</sup> See analysis of European Commission (2016): “Labour market and wage developments in Europe: Annual Review 2016”, Directorate-General of Employment, Social Affairs and Inclusion.

<sup>16</sup> Ibid.

#### 4. CURRENT EU ACQUIS AND INSTRUMENTS

**One of the overarching aims of the Union is to promote the well-being of its citizens.** To this end, it is committed to work for the sustainable development of Europe, based on a highly competitive social market economy, aiming at full employment and social progress (Art 3 TEU). In doing so, the Union promotes gender equality (Art 8 TFEU), combats discrimination (Art 10 TFEU), and takes into account the promotion of a high level of employment, adequate social protection, the fight against social exclusion, and a high level of education and training when defining its policies (Art 9 TFEU). The Charter of Fundamental Rights of the European Union, in its Article 31 entitled 'Fair and just working conditions', recognises the right of every worker to working conditions which respect his or her health, safety and dignity.

**Against this background, the Union and its Member States aim at promoting employment, improved living and working conditions, and dialogue between management and labour** (Article 151 TFEU). In particular, the Union supports and complements the activities of Member States in the field of working conditions (Article 153 TFEU) and within the limits posed by Article 153(5) TFEU. This has resulted in the adoption of various EU initiatives that have an indirect impact on pay.

**Over time the Commission has presented initiatives banning discrimination on employment and working conditions, including on wages.**<sup>17</sup> The principle of equal pay has always been an important part of the fundamental values of the European Union since the founding treaties prohibited unequal pay for men and women. The 1975 Directive on Equal Pay for Work of an Equal Value addressed pay discrimination on the basis of gender. EU policy action related to equal pay and the reduction, or elimination, of the gender pay gap has since then evolved through a number of initiatives, even if none of them has specifically targeted minimum wages. In 2000, the Employment Equality Directive extended the protection against discrimination provided under EU law beyond gender. Amongst others, the Directive prohibits discrimination on the grounds of age, although exceptions are allowed. This is relevant for setting minimum wages, notably when defining possible exceptions or variations.

**Wages are also a building block of other initiatives.** For example, the Commission Recommendation on active inclusion of 2008<sup>18</sup> puts the promotion of quality jobs, including through pay and benefits, working conditions and access to lifelong learning, at the centre of EU and Member States' action, with a view to preventing in-work poverty. The Recommendation does not include specific provisions on minimum wages. Yet, fair wages - and minimum wages in particular - are at the core of the concepts of job quality and decent living standards for all. Their design is key to find the right balance in supporting fair working and living conditions while at the same time preserving the labour market attachment and employability of those on low-wage jobs. The European Semester, the process of economic policy coordination, has also regularly analysed wage policies in several Member States.

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<sup>17</sup> Directive 2000/78/EC against discrimination on grounds of religion or belief, disability, age or sexual orientation in employment and occupation; Directive 2000/43/EC against discrimination on grounds of racial or ethnic origin; and, Directive 2006/54/EC on equal treatment for men and women in matters of employment and occupation.

<sup>18</sup> Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32008H0867>



**The European Pillar of Social Rights emphasises the role of minimum wages in combatting poverty for those on low wages and supporting incentives to work, while safeguarding access to employment and competitiveness.** The Pillar also underlines the importance of appropriate minimum wage setting mechanisms, including through well-established consultation procedures “*according to national practices and respecting the autonomy of the social partners*”.

**The Union has mainly supported the implementation of the Pillar’s Principle on Wages through the European Semester.** In this framework, the Guidelines for the employment policies of EU Member States adopted in 2018<sup>19</sup> provide that, while respecting national practices, Member States and social partners should ensure adequate minimum wage levels, taking into account their impact on competitiveness, job creation and in-work poverty (Guideline 5). Also, tailored policy guidance on minimum wages has been provided to some Member States through the country-specific recommendations. The EU is also committed to accelerating progress towards achieving the United Nations’ Sustainable Development Goals (SDG)<sup>20</sup>, including ending poverty in all its forms everywhere (SDG 1), promoting economic growth, full and productive employment and decent work for all (SDG 8), and reducing inequality within and among countries (SDG 10)<sup>21</sup>. The refocusing of the European Semester will help us achieve the Sustainable Development Goals (SDGs).

Finally, a benchmarking exercise on minimum wages has been launched to support structural reforms and convergence towards best performers. The aim is to establish a broad framework by which policies and outcomes related to statutory minimum wages can be compared across the EU. The framework is now being discussed with Member States.<sup>22</sup>

**Finally, EU countries have taken commitments related to minimum wages under the instruments of the International Labour Organisation’s (ILO) and the European Social Charter of the Council of Europe.** With the participation of the EU institutions and EU Member States, the 109<sup>th</sup> International Labour Conference adopted the ILO Centenary Declaration for the Future of Work<sup>23</sup> in Geneva in June 2019. The Declaration states that “*All workers should enjoy adequate protection in accordance with the Decent Work Agenda, taking into account [...] an adequate minimum wage, statutory or negotiated.*” All EU Member States have ratified ILO Convention N° 98 on the Right to Organise and Collective Bargaining<sup>24</sup>. Fourteen EU countries have ratified ILO Convention N° 154 on Collective Bargaining<sup>25</sup>, which requires the promotion of collective bargaining to all workers and employers adapted to national circumstances. Ten EU countries have ratified ILO Convention N° 131 on Minimum Wage Fixing<sup>26</sup>, which requires the establishment of a system of minimum wage fixing that shall have the force of law, while an additional nine had ratified

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<sup>19</sup> Council Decision (EU) 2018/1215 of 16 July 2018 on guidelines for the employment policies of the Member States.

<sup>20</sup> Cf. COM(2016) 739 final.

<sup>21</sup> Available at: <https://sustainabledevelopment.un.org/?menu=1300>

<sup>22</sup> Discussions are taking place within the Employment Committee (EMCO) of the Council of the European Union, in particular within its Indicators Group (EMCO-IG).

<sup>23</sup> Available at: [https://www.ilo.org/newyork/news/WCMS\\_713396/lang--en/index.htm](https://www.ilo.org/newyork/news/WCMS_713396/lang--en/index.htm)

<sup>24</sup> Available at:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C098](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C098)

<sup>25</sup> Available at:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_INSTRUMENT\\_ID:312299](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312299)

<sup>26</sup> Available at:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C131](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C131)

the older Convention N° 26 on Minimum Wage Fixing Machinery<sup>27</sup>, which has a narrower scope.<sup>28</sup> Furthermore, the European Social Charter, ratified by all Member States, recognises the right of workers to a “fair remuneration sufficient for a decent standard of living for themselves and their families”. To achieve this goal the Charter, in its Article 4 on ‘The right to a fair remuneration’, recognises the role of statutory minimum wages as well as freely concluded collective agreements.

## 5. EU ADDED VALUE

**EU action would contribute to ensuring fair minimum wages for workers in the Union.** Whilst there have been a number of reforms of minimum wage setting systems in some Member States, the challenges highlighted in Section 3 remain in terms of adequacy and coverage, as well as the effectiveness of minimum wage setting mechanisms, notably the involvement of social partners and the existence of clear guiding frameworks.

**An EU initiative would provide renewed political momentum for improvement by supporting ongoing efforts at national level.** The reforms adopted so far in the field of minimum wages have not always been sufficient and, in some cases, implementation is slow. Individual Member States may have refrained from adopting such reforms because of the perception or risk that this could influence their external cost competitiveness negatively and put their companies at a disadvantage. This in turn may trigger downward competition in working conditions, including minimum wages.

**An EU initiative on fair minimum wages would help Member States achieve upward convergence in working conditions.** By supporting adequate minimum wages for all workers, an EU action would help overcome increasing disparities in working conditions, especially for low-wage workers. This would contribute to ensuring a level playing field for businesses within a Single Market where competition is based on productivity and innovation.

**In line with the ambition of ensuring an economy that works for people, an EU initiative would help increase the purchasing power of low-wage earners across Member States, and thus contribute to stimulating domestic demand, whilst preserving employment and competitiveness.** To that end, collective bargaining, which is a key component of a well-functioning social market economy, plays a key role in contributing to fair working conditions for all.

## 6. POSSIBLE ACTIONS UNDER CONSIDERATION

**The Commission takes the view that an EU initiative on fair minimum wages could be appropriate, given the issues set out in this document.** An EU initiative would strive for improving working conditions, tackling in-work poverty and promoting a more level playing

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<sup>27</sup> Available at:

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C026](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C026)

<sup>28</sup> EU countries have also taken commitments related to minimum wages under the Council of Europe’s European Social Charter.

field for companies in the Single Market, whilst taking into account the diversity of national contexts and institutional settings across Member States.

A possible EU action would support Member States, within the limits set by the Treaties and the constant case law of the European Court of Justice<sup>29</sup>, to ensure that:

- **Minimum wages are set at an adequate level in light of national economic and social conditions.** Minimum wages of an adequate level have positive consequences for workers but also for firms and the economy as a whole. Wages are an important component of working conditions, therefore adequate minimum wages contribute to fair working conditions. Minimum wages reduce wage inequality and in-work poverty, even though these outcomes are also affected by other trends and policies. For firms, adequate minimum wages may contribute to a reduced turnover of staff and increased staff engagement. They may also increase the pool of workers to recruit from, as more people might seek jobs if the expected wage is higher than out-of-work benefits. At the same time, the level of minimum wages needs to take into account potential effects on competitiveness and employment, including for vulnerable groups.
- **Workers in the EU are effectively protected by minimum wages.** High coverage of minimum wages has positive consequences for workers, but also potentially for the whole economy. Minimum wages protect workers from precarious working conditions, and may reduce wage inequality. Major gaps in minimum wage coverage may contribute to labour market segmentation, especially if earnings mobility is low.
- **Social partners are effectively involved in the adjustment of minimum wages and are encouraged to conclude collective agreements.** The involvement of social partners is an element of good governance that leads to better economic outcomes. It may provide relevant information for the process of updating the minimum wages. More informed and more inclusive decision making may positively affect the working and living conditions of employees, and reduce their uncertainty related to future rights and entitlements. Reduced uncertainty may also positively affect the business environment and firms' competitiveness, and thereby ultimately have positive effects for the macro-economic performance.
- **Statutory minimum-wage setting is guided by national frameworks based on clear and stable criteria with reasonably frequent and regular updates.** Evidence shows that a clear mechanism can lead to better outcomes for workers and the economy. There is evidence that they are associated with more adequate minimum wages, but also more gradual increases.<sup>30</sup> In such systems, updates of the minimum wage tend to be more regular and frequent, preventing an erosion of its value. Minimum wage updating in such systems appears to be less related to the political cycle and updates appear to have less significant employment effects, in particular for low wage groups.

It would aim at achieving these goals while safeguarding access to employment and incentives to work and taking into account the effects on job creation and competitiveness, including for SMEs.

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<sup>29</sup> See in particular Case C-268/06, Impact, point 123-124.

<sup>30</sup> Ibid.

## 7. AIM OF THE CONSULTATION

**Under Article 154(2) of the Treaty on the Functioning of the European Union, before submitting proposals in the social policy field, the Commission must consult management and labour on the need for and possible direction of Union action.**

**The Commission will examine the views expressed by the social partners.** If, having considered those views, the Commission concludes that there is a need for action at EU level, it will launch a second-stage consultation of the social partners on the envisaged content of any proposal for action, in accordance with Article 154(3) TFEU.

The questions on which the Commission would be grateful for the views of the social partners at this first stage are as follows:

- I. Do you consider that the Commission has correctly and sufficiently identified the issues and the possible areas for EU action?
- II. Do you consider that EU action is needed to address the identified issues? If so, what should be the scope of that action?
- III. Would you consider initiating a dialogue under Article 155 TFEU on any of the issues identified in this consultation?

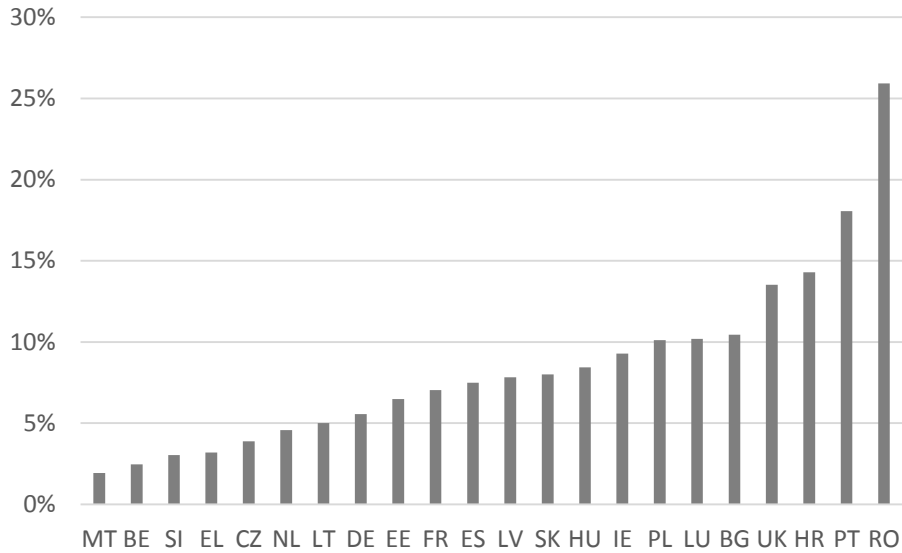
## ANNEX I: Tables and Figures

**Table 1: Minimum-wage setting institutions in EU Member States**

Statutory minimum wage							Minimum wage setting relying on collective bargaining
Institutionalised decisions					Indexation	Non-institutionalised decisions	
'Gov't following the recommendation of MW specialised body	Gov't following bilateral/tripartite consultations process		Gov't following a tripartite decision making process	Gov't extends collective agreements by legislation			
DE EL IE FR UK	BG ES HR HU LV MT	PT SI RO	LT PL SK	BE EE	BE FR LU MT NL SI	CZ	AT CY DK FI IT SE

*Source: National legislation, Eurofound, ECE expert reports.*

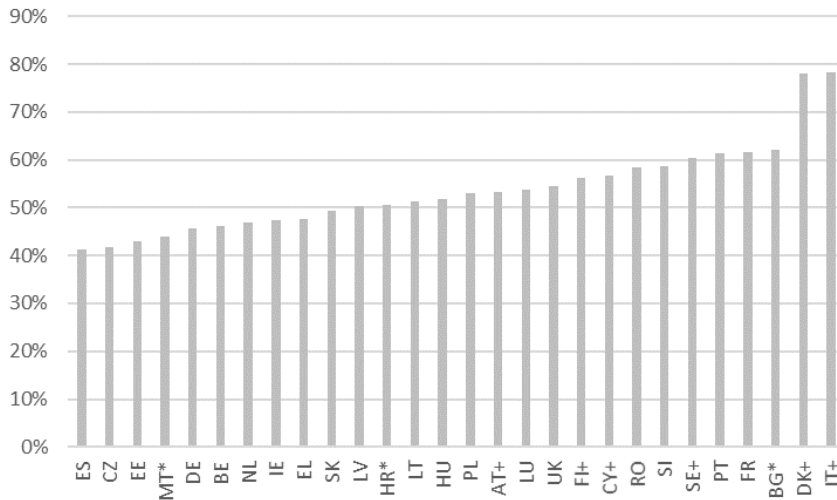
**Figure 1: Share of workers with wages at or around the minimum wage**



*Source: European Commission based on EU-SILC 2017.*

*Note: Share of workers with wages between 80% and 105% of the minimum wage.*

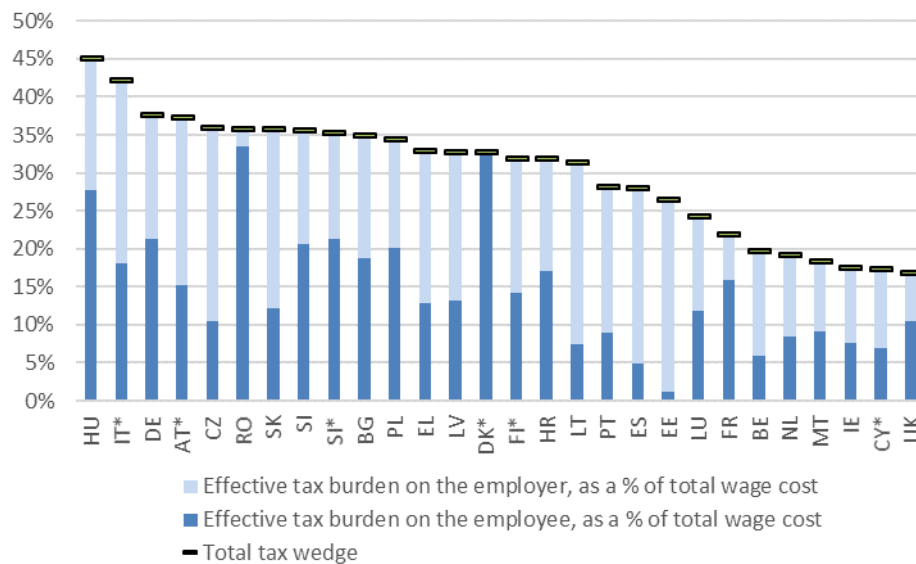
**Figure 2: Minimum wages, expressed as a percentage of the gross median wage of full-time workers, 2018**



**Source:** OECD Stats and Commission calculations based on OECD TaxBen and Eurofound data.

**Notes:** \* For BG, HR and MT, OECD Tax-Benefit data are used for the median wage. + For AT, CY, DK, FI, IT and SE, information on collectively agreed wage floors was taken from Eurofound (2019): Minimum wages in 2019 - Annual review, while information on median wages was taken from the OECD Tax-Benefit model.

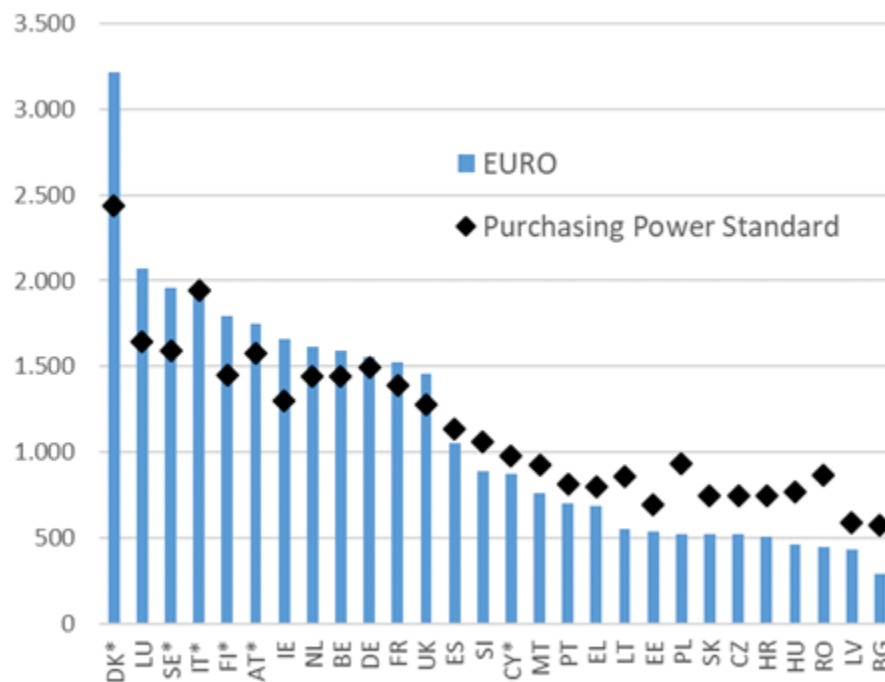
**Figure 3: The tax wedge at the minimum wage and its components, 2018**



**Source:** Commission calculations based on Eurostat, Eurofound and OECD data. Total wage cost is evaluated for a single worker with no children.

**Notes:** \* For AT, CY, DK, FI, IT and SE, information on collectively agreed wage floors was taken from Eurofound (2019): “Minimum wages in 2019 - Annual review”.

**Figure 4: Minimum wage levels, gross monthly figures, expressed in euro and Purchasing Power Standard (PPS), 2019**



**Source:** Eurostat [monthly minimum wages; earn\_mw\_cur], Eurofound and AMECO.

**Notes:** \* For AT, CY, DK, FI, IT and SE, information on comparable collectively agreed wage floors was taken from Eurofound (2019): “Minimum wages in 2019 - Annual review”, Figure 3, while information on PPS was taken from the European Commission's AMECO database.