



Adequate Minimum Wages in the European Union

Minimum Wages: International Experiences and Evaluation
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Outline

1. Relevance of the EU Directive on Minimum Wages
2. Comparison of minimum wages across EU Member States
– adequacy and coverage
3. Main content of the EU Directive
4. Expected social and economic impacts of the EU Directive
5. Key takeaways and next steps

1. Relevance of the EU Directive on Minimum Wages

High share of low-wage workers

High **in-work poverty** with about one out of ten workers affected

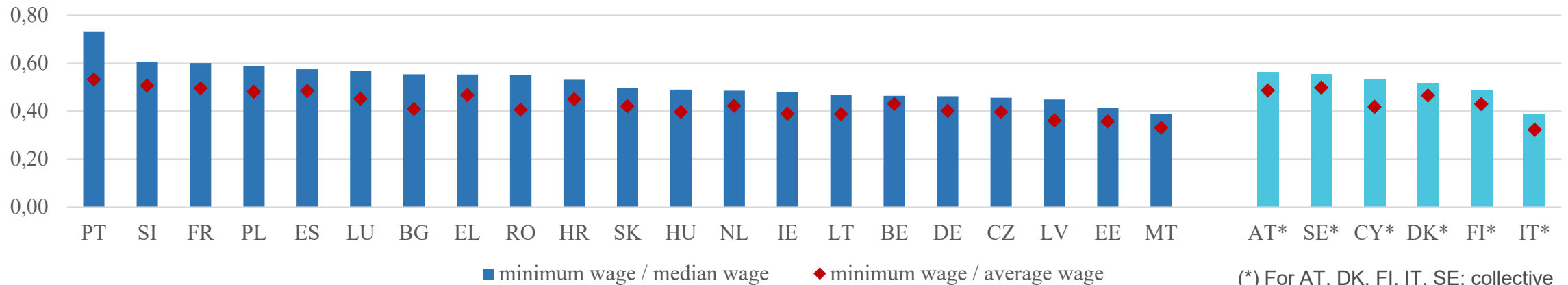
Impact of **Covid-19 crisis** on sectors with a higher share of low-wage workers (e.g. retail and tourism)

More recently: **erosion of purchasing power** of workers due to **high inflation**, especially for low wage earners

2. Comparison of minimum wages across EU Member States

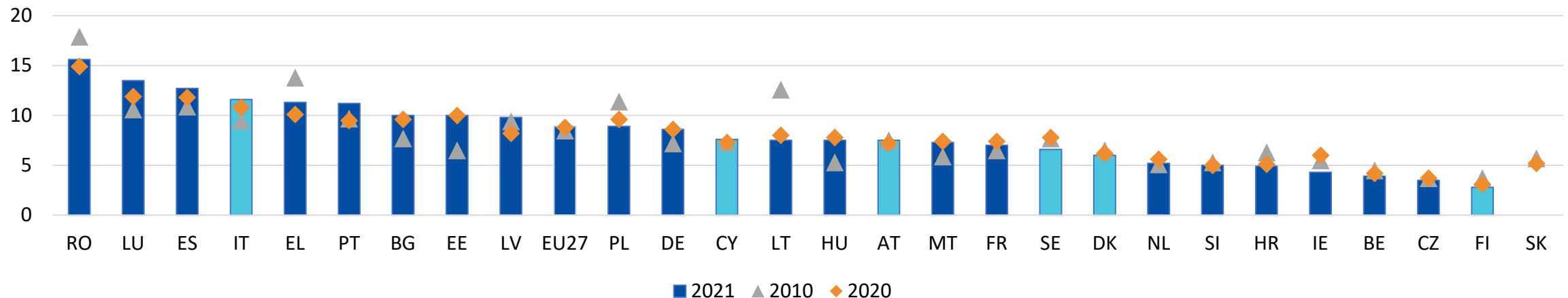
a) Adequacy of minimum wage protection

Minimum Wages as a % of national gross median and average wage (2021)

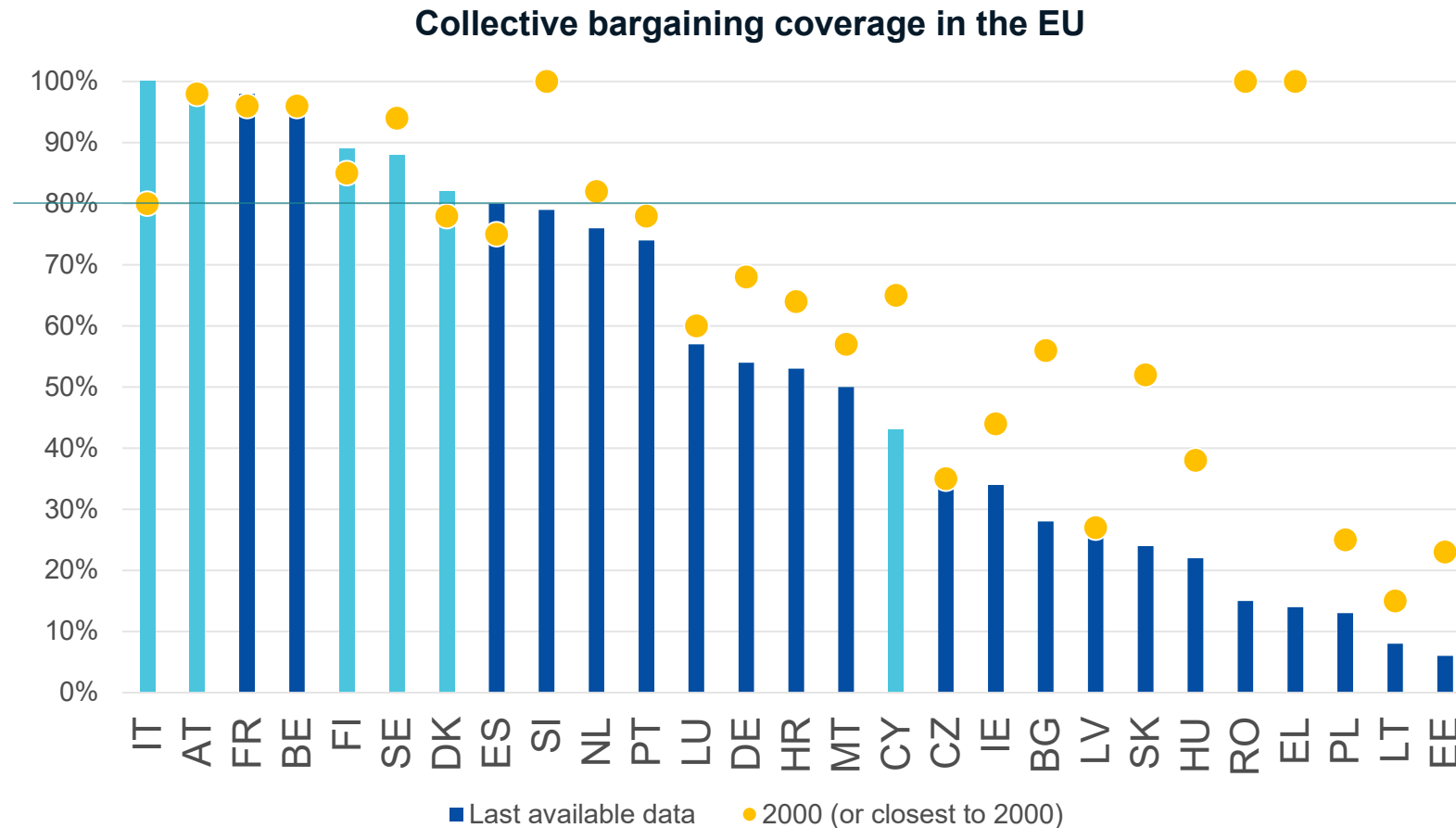


(*) For AT, DK, FI, IT, SE: collective agreements covering low-paying jobs; for CY: occupational statutory minimum wages.

In-work poverty rates per Member State (2010, 2020 and 2021)

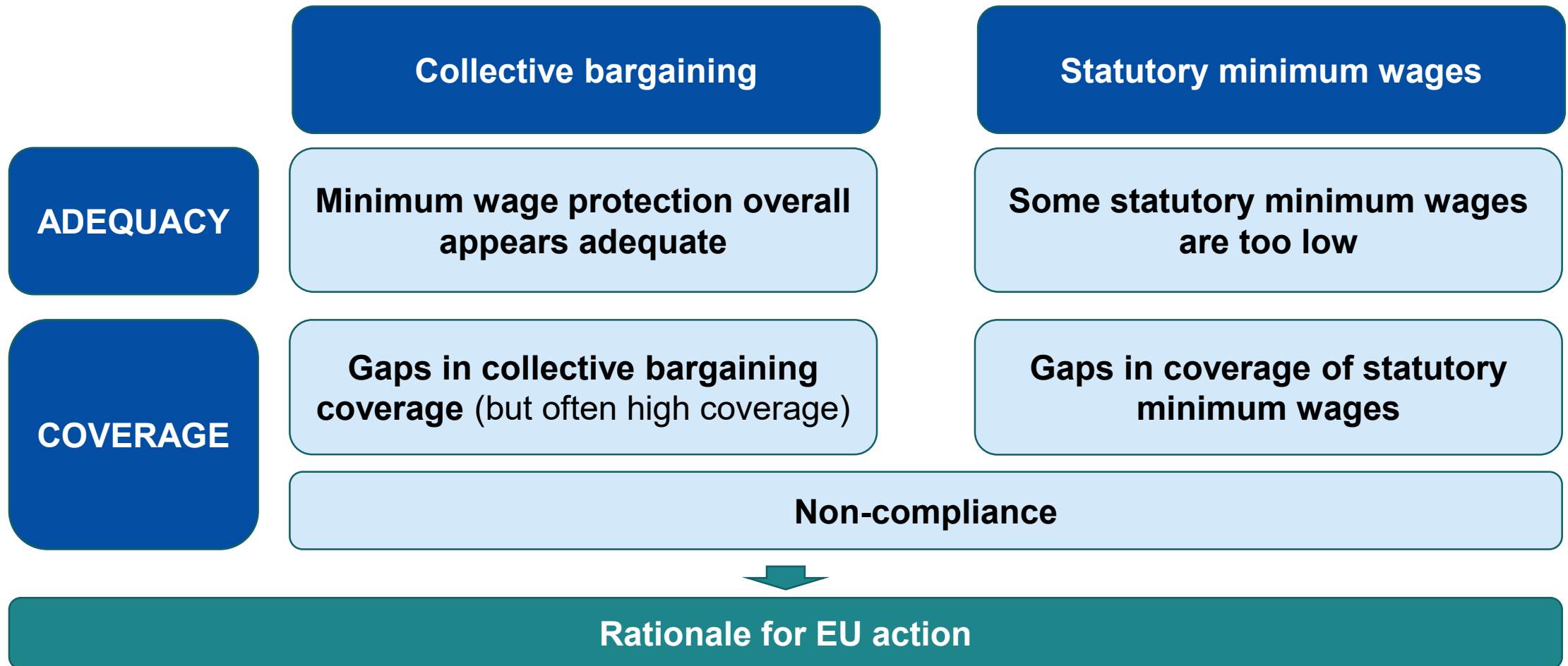


b) Coverage of minimum wage protection



- Countries with high collective bargaining coverage tend to have a **lower share of low-wage workers, lower wage inequality and higher minimum wages**
- Collective bargaining coverage has **declined in many countries in the last two decades.**

Challenges exist for the two minimum wage setting systems



Timeline leading to adoption of the Directive

- **Jan – Sept 2020:** consultation of key stakeholders
- **October 2020:** Commission proposal
- **Nov - Dec 2021:** co-legislators adopted negotiating positions
- **June 2022** – provisional agreement reached (after 8 political Trilogues)
- **October 2022** – adoption of the Directive by co-legislators

3. Main content of the Directive on adequate minimum wages

a) Objective and scope of the Directive

Objective: establish a framework at EU level for:

- adequacy of statutory minimum wages
- promoting collective bargaining on wage-setting
- enhancing effective access of workers to minimum wage protection

Scope: workers with employment contract / relationship

- as defined by national law, collective agreements or practice, with consideration to case law of the Court of Justice of the EU

b) Main provisions of the Directive

Provisions for countries with statutory minimum wages

Sound governance for **SMW setting and updating**
(clear criteria, indicative reference values, regular updates, consultative bodies)

Limited use of **variations in and deductions from SMW**

Strengthened involvement of **social partners** in SMW setting

Effective access of workers to SMW
(controls & field inspections; developing guidance to enforcing authorities)

Promotion of **collective bargaining** on wage setting
(+ extra efforts if CB coverage <80%)

Monitoring and information
(data collection; information on minimum wage protection publicly available)

Enhanced **enforcement**
(public procurement; right to redress; penalties)

Provisions for all countries

4. Expected impacts of the Directive

a) Assumption

21 Member States (*) increasing their minimum wages to certain reference values, defined as percentages of the national average and median wage:

40%, 45%, and 50% of the gross average wage

50%, 55%, and 60% of the gross median wage

Estimation of impacts using **EUROMOD** microsimulation model.

() In 2020, when the Impact Assessment was produced, Cyprus had not yet introduced its national statutory minimum wage. It was therefore categorised as a country where minimum wage protection was provided by collective bargaining.*

b) Estimated impacts (different scenarios)

Social

- At least 20% **reduction of in-work poverty** in 8 Member States
- At least 10% **reduction in wage inequality**
- **Reduction of the gender pay gap** between 10-20% in some Member States

Economic

- **Negative employment effects possible**, but likely to remain below 0.2%
- **10% minimum wage increase** to cause a **0.4% price increase**
- **75% of economic cost** borne by **consumers**, **25% by firms**

5. Key takeaways

- Adequate minimum wages are **essential to guarantee that work pays**, including in the current context of high inflation.
- **Challenges related to minimum wage adequacy and coverage identified** regardless of the minimum wage setting system.
- To address them, the **Directive on adequate minimum wages** sets a framework for adequate statutory minimum wages and promoting collective bargaining on wages.
- The Directive is expected to have **positive impacts on in-work poverty, wage inequality and the gender pay gap, with limited negative employment effects**.

Next Steps

- The Directive is **about to be published in the Official Journal of the EU** and will enter into force 20 days after publication.
- Once it enters into force, Member States will have **two years to transpose it into national legislation** i.e. until Oct/ Nov 2024.
- The **Commission will support Member States notably by setting up an expert group** to advise on the transposition (final report in Oct/ Nov 2023).
- **Member States are welcome to already take the necessary steps** to improve minimum wage protection, especially in current high inflation context, also in light of the Employment Guidelines addressed to all Member States.