

Directive on adequate minimum wages

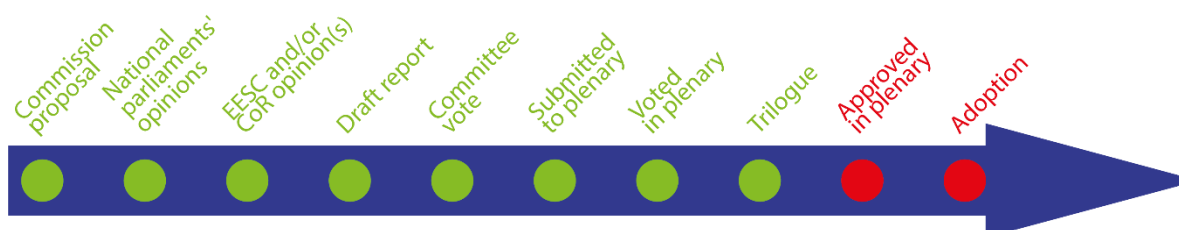
OVERVIEW

Wage policy in the EU is a patchwork of different national traditions and legal frameworks. As a result, minimum wage levels diverge considerably, and leave many workers unprotected. While setting minimum wages is the competence of EU Member States, the EU has a supporting and complementary role.

In October 2020, the European Commission proposed a directive seeking to improve the adequacy and increase the coverage of minimum wages, while also strengthening collective bargaining as the main instrument to ensure fair wages and working conditions. It is the first time that the Commission has initiated legislative action on minimum wage protection, leaving Member States to define the specific minimum wage levels. The ensuing debate focused on how far-reaching and binding the concrete EU requirements for national minimum wages should be.

The European Parliament adopted its position in November 2021, and the Council in December 2021. Interinstitutional negotiations concluded on 6 June 2022 with a provisional agreement that must now be confirmed by the Parliament and Council.

Proposal for a directive of the European Parliament and of the Council on adequate minimum wages in the European Union		
<i>Committee responsible:</i>	Employment and Social Affairs (EMPL)	COM(2020) 682 28.10.2020
<i>Rapporteurs:</i>	Dennis Radtke (EPP, Germany) Agnes Jongerius (S&D, Netherlands)	2020/0310(COD)
<i>Shadow rapporteurs:</i>	Monica Semedo (Renew, Luxembourg) Mounir Satouri (Greens/EFA, France) Dominique Bilde (ID, France) Anna Zalewska (ECR, Poland) Özlem Demirel (The Left, Germany)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	First-reading vote in plenary	



Introduction

In November 2017, the EU institutions jointly proclaimed the [European pillar of social rights](#), setting out the EU's commitment to fair wages for workers (principle 6). Implementation of this principle has been supported through monitoring within the [European Semester](#) and the [social scoreboard](#).

At the start of her mandate, European Commission President Ursula von der Leyen promised to present a legal instrument to ensure that workers in the EU have a fair minimum wage. She reiterated her pledge in her first [State of the Union](#) address in September 2020.

Following a two-stage consultation with the social partners, the European Commission put forward a [proposal](#) for a directive on adequate minimum wages in October 2020. The initiative is part of a broader [action plan](#) to implement the European pillar of social rights, and has two main objectives. First, it aims to ensure that workers across the EU are protected by adequate minimum wages, allowing for a decent living wherever they work. Second, it intends to strengthen collective bargaining as the main instrument to ensure fair wages and working conditions. Given the limited EU competences, the proposal neither prescribes specific minimum wage rates nor obliges Member States to introduce a legally binding instrument. While setting minimum wages remains a national competence, the Commission wants to ensure that wage-setting is not partial or uneven, and supports upward social convergence to the benefit of the EU economy as a whole. The European Parliament and the Council decide as co-legislators on an equal footing.

Context

The International Labour Organization ([ILO](#)), in the 1970 [Minimum Wage-Fixing Convention](#), recognised that minimum wages, when set at adequate levels, protect disadvantaged workers' income, help ensure a decent living, and limit the fall in income during bad times.¹

Minimum wage protection can be provided through collective agreements, statutory minimum wages set by law, or a combination of both. EU countries differ in terms of the level of minimum wages and workers' coverage by collective agreements. This is partly due to diverging income levels and labour market models. As of 2022, most EU Member States (21) have a statutory national minimum wage in place, although its level, adjustment mechanisms and coverage [vary](#). Denmark, Italy, Austria, Finland and Sweden have minimum wages set within [collective agreements](#), while Cyprus has statutory rates for different occupations. In about half of the Member States with statutory minimum wages, some groups are [exempted](#) (young workers, workers with disabilities, seasonal workers). Coverage is often fragmented or incomplete, even in countries with wages set by collective agreements. Minimum wage rates can vary considerably within one country.

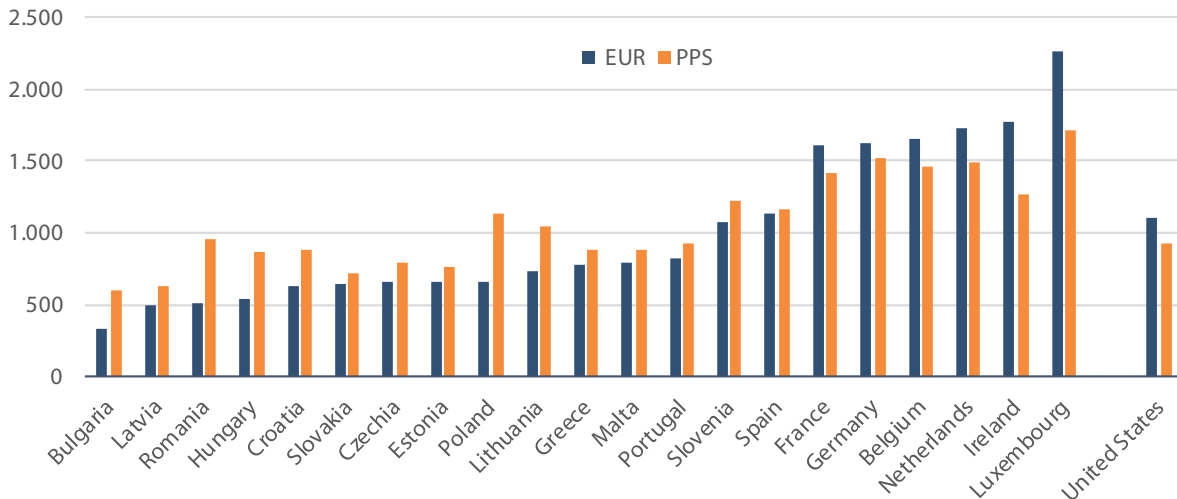
Minimum wages have a spillover effect on the wage structure overall. Other important factors to be considered include the percentage of workers paid at the minimum-wage level; trends in wage development, price levels and purchasing power; and the level of minimum wages in relation to the overall wage distribution in the country. For minimum wages to be fair, they should be adequate not only in relation to the wage distribution in the country, but also in real-price terms, to allow for a decent standard of living, while safeguarding the sustainability of the companies that provide quality jobs.

Low wages² have not kept up with other wages in many Member States, deepening in-work poverty, wage inequality, and the capacity of low-wage earners to cope with economic distress. [By 2020](#), statutory minimum wages were lower than 60 % of the median wage, or 50 % of the average wage in almost all Member States, leaving workers at risk of poverty in at least 16 EU countries, while workers in six countries were worse off than in 2010. [Evidence](#) showed that the EU countries with the lowest collective bargaining levels had the lowest wages.

Existing situation

[Eurostat data](#)³ confirm that, as of 1 January 2022, statutory monthly minimum wages⁴ varied widely across EU Member States, from €332 in Bulgaria to €2 257 in Luxembourg (Figure 1). In 13 EU countries, statutory monthly minimum wages were below €1 000, while in six countries, they were above €1 500. In comparison, the federal minimum wage in the United States stood at €1 110. After adjustments to price differences across countries (expressed in purchasing power standards – PPS), the disparities were considerably smaller. Nevertheless, the highest minimum wage was almost three times higher than the lowest. The minimum wage in PPS for the United States was 920.

Figure 1 – Statutory monthly minimum wages, January 2022



Source: Eurostat, [Monthly minimum wages](#); EARN_MW_CUR. Before deductions of tax and social security contributions. Currencies converted to EUR. Denmark, Italy, Cyprus, Austria, Finland and Sweden have no national minimum wage.

However, [nominal minimum wages](#), combined with the purchasing power at a given moment, do not take into account inflation, the evolution of national minimum wages, their convergence, or the incidence of low pay among employees. Internationally used adequacy indicators, such as the Kaitz index, compare the minimum wage with the median wage or the average wage.⁵

The 2020 [European statutory minimum wage map](#) by the European Trade Union Institute combines the absolute levels of minimum wages with their relative level, as a percentage of the median and the average full-time wage, and information on the country-specific mechanisms to adjust minimum wages. The map shows a geographical split between western Europe (minimum wages per hour of more than €9), Malta, Slovenia and Spain (€4-6), and the rest of central and eastern Europe (less than €4).

The [Nordic countries](#) have no statutory minimum wage. In Denmark and Sweden, collective agreements are the only mechanism for setting minimum wages, binding only for the parties that have signed them. Finland also uses an extension mechanism, which ensures that collective agreements also apply to companies that did not sign the agreement, to cover all workers at industry level. The resulting [coverage](#) is around 80-90% of employees across the three countries.

[Research](#) shows gaps in terms of coverage, adequacy to ensure decent living, updates limited to the compensation of inflation, and the neglect for regional disparities in living costs. Some reasons behind this problem are common to both systems, such as declining trends in collective bargaining and the lack of compliance with existing national provisions. The systems using statutory minimum wage also suffer from the lack of clear and stable criteria for setting and updating minimum wages, weak involvement of social partners, lower rates used for some groups ('variations'), and the use of deductions (justified for instance by the cost of equipment) and exemptions. The [Covid-19 crisis](#) has made minimum income stabilisation all the more urgent.

The European Foundation for the Improvement of Living and Working Conditions ([Eurofound](#)) [observes](#) that, amid the pandemic-related economic uncertainty, most Member States cautiously raised minimum wages from 2020 to 2021. A year later, with markets recovering, the growth in statutory rates for 2022 was stronger, in particular in central and eastern European countries. For Eurofound, the debate on adequacy of minimum wages should not be limited to discussing the level of minimum wages in relation to other wages, as discussing technicalities can miss the real issue: whether workers earning the minimum wage can afford a decent living and provide for dependants.

Parliament's starting position

Over the years, Members of the European Parliament have proceeded from debating low income and minimum wages repeatedly, to calling on the Commission and Member States for action. The Parliament, in its January 2017 [resolution](#) on a European pillar of social rights, recommended the establishment of wage floors in the form of a national minimum wage, where applicable.

In its October 2019 [resolution](#) on employment and social policies of the euro area, the Parliament called on the Commission to put forward a legal instrument to ensure that every worker in the EU has a fair minimum wage, which can be set according to national traditions, or through collective agreements or legal provisions.

In its October 2020 [resolution](#) on the employment and social policies of the euro area 2020, the Parliament called on the Commission to identify barriers to social dialogue, and present an EU framework for minimum wages to eliminate in-work poverty. The initiative should respect national traditions, autonomy of national social partners, and well-functioning collective-bargaining models.

In its December 2020 [resolution](#) on a strong social Europe for just transitions, the Parliament insisted that statutory minimum wages should be set at a level above a decency threshold, with full involvement of social partners, as this helps eliminate in-work poverty, and guarantee an income for every worker above the poverty level, while reflecting the variations in costs of living.

In its February 2021 [resolution](#) on reducing inequalities with a special focus on in-work poverty, the Parliament called on the Member States to adapt their national legislation where it hampers both collective bargaining and the right to associate, negotiate and conclude collective agreements, and to respect and enforce the right to fair minimum wages, where applicable.

Council and European Council starting position

In Germany, the coalition agreement between Christian and social democrats committed in 2018 to develop an EU framework for minimum wages and national minimum income schemes. These issues were consequently reflected in the German Presidency [programme](#) (second half of 2020).

The October 2020 [Council decision](#) on guidelines for the employment policies affirmed that Member States should ensure proper involvement of social partners, to make wages adequately responsive to productivity developments, and provide for fair wages that enable a decent living. Respecting national practices and the social partners' autonomy, all workers should have fair wages and benefit, directly or indirectly, from collective agreements or adequate statutory minimum wages.

The [Portuguese Presidency](#) (first half of 2021) paved the way to the Porto social commitment. Meeting in [Porto](#) in May 2021, EU leaders agreed to continue deepening implementation of the European pillar of social rights at EU and national level. In the resulting [declaration](#), they committed to reduce inequalities, defend fair wages, fight social exclusion, and tackle poverty.

Preparation of the proposal

As stipulated in Article 154 of the Treaty on the Functioning of the European Union (TFEU), the Commission consulted the social partners in two steps. The [first consultation](#) (14 January – 25 February 2020) concerned the need for an initiative on minimum wages, and its possible

direction. The [second](#) one (3 June – 4 September 2020) focused on the envisaged proposal's content and legal instrument. While the initiative's objectives and possible content were broadly shared, some employers' organisations questioned the added value of EU regulatory action. Trade unions and employers' organisations neither agreed on the issue of binding minimum requirements, nor were they ready to enter into negotiations to conclude an agreement at the EU level.

The Commission surveyed public opinion in the 2019 [Eurobarometer 92](#) and exchanged views with the Member States through [Council committees](#). It also contracted [several studies](#) from external experts, complementing them with simulations of the economic, social and fiscal impacts of minimum wages, and [analytical input](#) from the Commission's Joint Research Centre.

In the [impact assessment](#) (IA) accompanying the proposal, the Commission considered three 'packages' of measures against the baseline scenario. All included the active support from Member States to enhance collective bargaining on wage setting; strengthen enforcement of wage clauses in collective agreements and existing statutory minimum wages; ensure compliance with collectively agreed wages and statutory minimum wages in public procurement; and improve monitoring and data collection mechanisms.

The three packages differed in terms of the role played by social partners in the minimum wage setting system and – for Member States with national statutory minimum wages – in the degree of governments' discretion in setting and updating minimum wages. (For more detail, see the [EPRS initial appraisal](#) of the Commission IA.)

The changes the proposal would bring

The [proposal](#) is based on [Article 153\(1\)\(b\)](#) TFEU, which covers working conditions, but excludes interventions relating to pay. The proposal's objectives are, first, to ensure that minimum wages are set at adequate levels and workers have access to minimum wage protection; and second, to strengthen collective bargaining as the main instrument of ensuring fair wages and working conditions.

To increase collective bargaining coverage, the Commission proposed that all Member States promote the social partners' capacity to engage in collective bargaining on wage-setting, and encourage negotiations on wages. In addition, Member States in which collective bargaining covers less than 70 % of workers would have to provide a framework for collective bargaining, and establish an action plan to promote it.

Member States would have to ensure that minimum wages apply in the performance of public procurement or concession contracts. To monitor coverage and adequacy of minimum wages, Member States would have to collect data and report them to the Commission annually. Furthermore, they would have to guarantee workers both the right to redress (including compensation) and protection against adverse treatment or consequences, and set penalties for infringements.

In addition, Member States with statutory minimum wages would have to ensure that their national criteria for setting and updating the statutory minimum wage⁶ are clear and stable, and include regular updates. Moreover, they are asked to establish consultative bodies for issues relating to statutory minimum wages. While EU countries may allow different rates of statutory minimum wage for specific groups of workers, these variations and deductions have to be justified, proportionate, non-discriminatory, and kept to a minimum. Member States would have to strengthen social partner involvement in statutory minimum wage-setting and updating, and enhance workers' access to statutory minimum wage protection through compliance and enforcement. According to the Commission, the proposed directive must neither reduce the existing level of worker protection nor stop Member States from adopting rules more favourable to workers. Member States would have two years to comply.

In the IA, the Commission estimates that the new rules will lead to higher minimum wages in about half of EU countries, and help reduce wage inequality and in-work poverty, while improving work incentives. Increased coverage of collective bargaining is expected to stimulate wage growth in all Member States. Stronger monitoring and enforcement, together with limited variations and deductions, should help ensure that fewer workers receive sub-minimum wages. For firms, the new rules would mean increased labour costs and prices as well as lower profits. The Commission estimates that only about 25 % of the economic cost of higher minimum wages is borne by firms, and the rest by consumers. Impacts on total EU wages and overall competitiveness would be moderate to small; the possible negative impact on employment, and impacts on administrative burden, are expected to be [limited](#). Minimum wage increases could improve the balance of public budgets (below 0.1 % of gross domestic product – GDP). Moreover, as about 60 % of minimum wage earners are women, the rules should support gender equality and help reduce the gender pay gap.

Advisory committees

The European Economic and Social Committee ([EESC](#)), in its [opinion](#) of 25 March 2021 on the proposed directive (rapporteurs: Milena Angelova, Group I – Employers, Bulgaria; and Cinzia Del Rio, Group II – Workers, Italy), agrees with the proposal's overall objectives. While admitting the existence of divergent views within the EESC, the opinion supports the objective of increasing collective bargaining coverage. It agrees with the proposed target of 70 %, and setting binding indicators for assessing the adequacy of statutory minimum wages. Moreover, the opinion recommends that the Member States' reports be examined and assessed, with proper social partner involvement.

The European Committee of the Regions ([CoR](#)), in its [opinion](#) of 7 May 2021 (rapporteur: Peter Kaiser, PES, Austria), stresses the issue's strong regional dimension, warning of differences in the number of people depending on minimum wage in urban and rural areas. According to the opinion, this requires innovative approaches to help local and regional authorities obtain the necessary funding in their budgets. The CoR also proposes to strengthen the references to indicators recognised internationally, and require that no categories of workers be excluded from statutory minimum-wage protection.

National parliaments

By the scrutiny deadline of 21 January 2021, the national parliaments of [Denmark](#), [Malta](#) and [Sweden](#) submitted [reasoned opinions](#), arguing that the proposal fails to comply with the subsidiarity principle. All three questioned the legitimacy of the Commission's legislative action based on Article 153 TFEU. While agreeing with the directive's objectives, they considered that these could be achieved more effectively at national level. Moreover, they were of the view that the proposal lacks a clear transnational dimension justifying an EU directive, and interferes with national mechanisms for wage formation. Furthermore, the three Member States feared that the directive would open the door to European Court of Justice (ECJ) interpretations.

Stakeholder views⁷

The social partners are [divided](#) on the issue: while most trade unions are in favour of the initiative, but would like to see it go further, employer organisations are mostly critical and would prefer a non-binding recommendation.

The European Trade Union Confederation ([ETUC](#)) welcomed the proposal as a positive step. It suggested further [changes](#), namely to: 1) include a reference to the threshold of decency below which statutory minimum wages cannot fall (for ETUC, 60 % of the median wage and 50 % of the average wage) in the directive's legal provisions, as opposed to the introductory 'recitals' part; 2) abolish deductions and exclusions of certain workers, such as domestic workers and young people; 3) ensure, through the action plans to increase collective bargaining, the respect of the right to collective bargaining, and address real-life problems such as 'union busting'; and 4) to ensure that

money spent by public bodies (about 14 % of GDP) goes to companies that pay fair wages. However, Nordic trade unions criticised the ETUC for supporting the Commission's approach, considering it a serious threat to the Nordic [labour market models](#).⁸

[BusinessEurope](#), speaking for enterprises and national business federations, [warned](#) that a directive would give the ECJ jurisdiction on issues of national competence, potentially leading to many ECJ rulings. Contesting the Commission's view, BusinessEurope argued that the proposal would weaken social partners, causing damage in those countries in which social partners are mostly responsible for setting wages. Furthermore, BusinessEurope observed that the focus on adequacy disregards the impact on employment, recalling that the pandemic has left many small businesses weakened and less able to absorb increased costs than is assumed in standard economic models (used in the Commission's IA). BusinessEurope also feared the likely increase in undeclared workers, with neither rights nor obligations such as paying taxes and social security.

The European Association of Craft, Small and Medium-Sized Enterprises ([SMEUnited](#)) supported the aim to make work pay. However, the association [disagreed](#) with the choice of a legally binding instrument, unclear in form and content, and its interference with national collective bargaining systems. The association suggested making indicative reference values optional rather than obligatory, and warned against a strong increase of labour costs for SMEs in the post-pandemic economy.

[SGI Europe](#), representing enterprises that provide services of general interest, [supported](#) a recommendation rather than a directive, as well, and saw social dialogue as the best way to address issues with direct impact on employers and workers. SGI Europe raised questions about what the proposed rules will mean in practice, and how the ECJ will interpret them.

Legislative process

In the European Parliament, the Committee on Employment and Social Affairs (EMPL) took the lead. EMPL co-rapporteurs Dennis Radtke (EPP, Germany) and Agnes Jongerius (S&D, the Netherlands) put forward their [draft report](#) on 6 April 2021. The Committee on Women's Rights and Gender Equality (FEMM) issued an [opinion](#) highlighting the role of minimum wages in reducing inequality between men and women. The Committee on Legal Affairs (JURI) confirmed the [appropriateness](#) of the legal basis. The EMPL committee adopted its [report](#) on 18 November 2021.

On 25 November 2021, Parliament's plenary confirmed the committee's mandate to enter into interinstitutional negotiations (by 443 votes in favour, to 192 against, with 58 abstentions). The report raises the level of ambition significantly. It introduces an increased target of 80 % for collective-bargaining coverage (the Commission proposed 70 %); and an obligation on Member States to develop a national action plan with concrete measures and a clear timeline to reach this target. Moreover, it clarifies that it is trade unions that are responsible for collective bargaining (whereas the Commission proposed 'workers' organisations'); stops variations and limits deductions; and adds a new section seeking to ensure full respect of the fundamental rights to join a union and bargain collectively.

In the Council, the working party on social questions examined the proposal. The Member States were divided: several opposed the proposal, considering it lacked a valid legal basis, while others welcomed it as an important step to delivering on the European pillar of social rights' principle 6. On 6 December 2021, the Employment and Social Policy Council (EPSCO) reached a [general approach](#).

Negotiations between the Parliament and Council started in January 2022 and concluded on [7 June 2022](#) with a [provisional agreement](#), which now needs to be confirmed by the two co-legislators. It has been agreed that Member States with less than 80 % of the workforce protected by a collective agreement will have to set up an action plan to increase this proportion. Moreover, reference values to determine the legal minimum income level will complement existing national

reference indicators. While the possibilities for variations and deductions from statutory minimum wages have been left to the Member States' discretion, the requirement of a 'legitimate objective' for maintaining variations and deductions was added.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

[Fair minimum wages for Europe](#), Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, September 2020.

Lecerf M., [Minimum wage in the EU](#), EPRS, European Parliament, October 2020.

Lecerf M. and Rittelmeyer Y.-S. with Morichon C., [Fair minimum wages in the EU](#), pre-legislative synthesis of national, regional and local positions on the European Commission's initiative, EPRS, European Parliament, October 2020.

Konle-Seidl R., [The proposed Minimum Wage Directive](#), Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, November 2020.

Tuominen M., [Adequate minimum wages](#), initial appraisal of a European Commission impact assessment, EPRS, European Parliament, January 2021.

OTHER SOURCES

[Adequate minimum wages in the European Union](#), Legislative Observatory (OEL), European Parliament.

ENDNOTES

- ¹ ILO [Convention 131](#) enshrines the principle of universal coverage, but not as an obligation of absolute result, as states and national social partners can determine the groups of employees to be covered.
- ² Eurostat [defines](#) low-wage earners as employees earning two thirds or less of the national median gross hourly earnings.
- ³ The 2022 data were not yet available when the Commission proposal was drafted.
- ⁴ Presented as monthly wage rates for gross earnings, before deduction of income tax and social security contributions.
- ⁵ See M. Luebker and T. Schulten, [WSI Minimum Wage Report 2022](#), in particular, Chapter 5, ['The Kaitz index as a broad measure of minimum wage adequacy'](#), WSI (Institute of Economic and Social Research), March 2022.
- ⁶ The Commission proposed that the criteria should include at least: the purchasing power, the general level of gross wages and their distribution, the growth rate of gross wages, and labour productivity developments.
- ⁷ This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'European Parliament supporting analysis'.
- ⁸ As mentioned by the [Swedish Riksdag](#).

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