

# ACHIEVING A EUROPEAN MINIMUM WAGE?

## CLARIFICATIONS ON THE ISSUE



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### Introduction

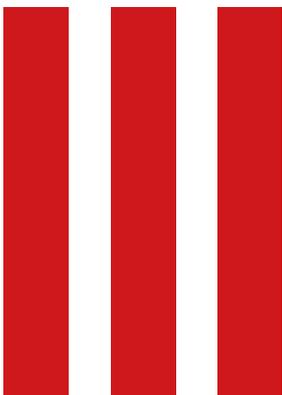
As the European elections are about to be held, the idea of introducing a European minimum wage has enjoyed a strong resurgence in public debate and is considered as a means of stepping up social convergence between countries, combatting poverty and, in doing so, accomplishing “social Europe” from the perspective of European citizens. This brief aims to contribute to the debate on this proposal, by placing the emphasis on three questions. First and foremost, the high level of disparity between national minimum wages is a reality, but we should also remember that price levels are not on a par across Europe. When price differentials are considered, the wage gap remains high but is reduced significantly. Secondly, despite the disparity between minimum wages within the European Union (EU), it must be acknowledged that an upward trend in wage convergence is currently occurring. The minimum wage is rising much more quickly in Eastern European countries than in Western Europe. Wage levels in countries with the lowest minimum wage are starting to catch up, though this does not mean that this movement cannot be stepped up. Lastly, the concept of a European minimum wage should not be understood as a single minimum wage for all countries, but rather the introduction of a common minimum

threshold, adapted to the reality in each country (a minimum wage as a percentage of the median or mean national wage). Various proposals have been put forward and it is important to understand the impact of these alternatives, based on a knowledge of the current situation in the various countries. The potential European mechanism must be crafted in light of this.

### 1. A significant minimum wage gap within the EU

The considerable discrepancies between EU Member States’ minimum wage levels are often used as an argument in favour of social convergence within the EU or to demonstrate the existence of social competition between countries. Against this backdrop, it is also regularly reminded that six EU Member States do not have a statutory minimum wage. The six countries in question do have, however, sector-based minimum wages set by collective bargaining agreements or through legislation. These countries can hardly be accused of fuelling social competition within the EU due to their lack of a statutory minimum wage, in that in most of them labour costs are above the EU average: Denmark, Finland, Sweden, Austria, Italy and Cyprus<sup>1</sup>.

1. Out of these six countries, Cyprus is the only one to have labour costs below the EU average. See: Eurostat, “Labour costs in the EU”, News release, 11 April 2019.



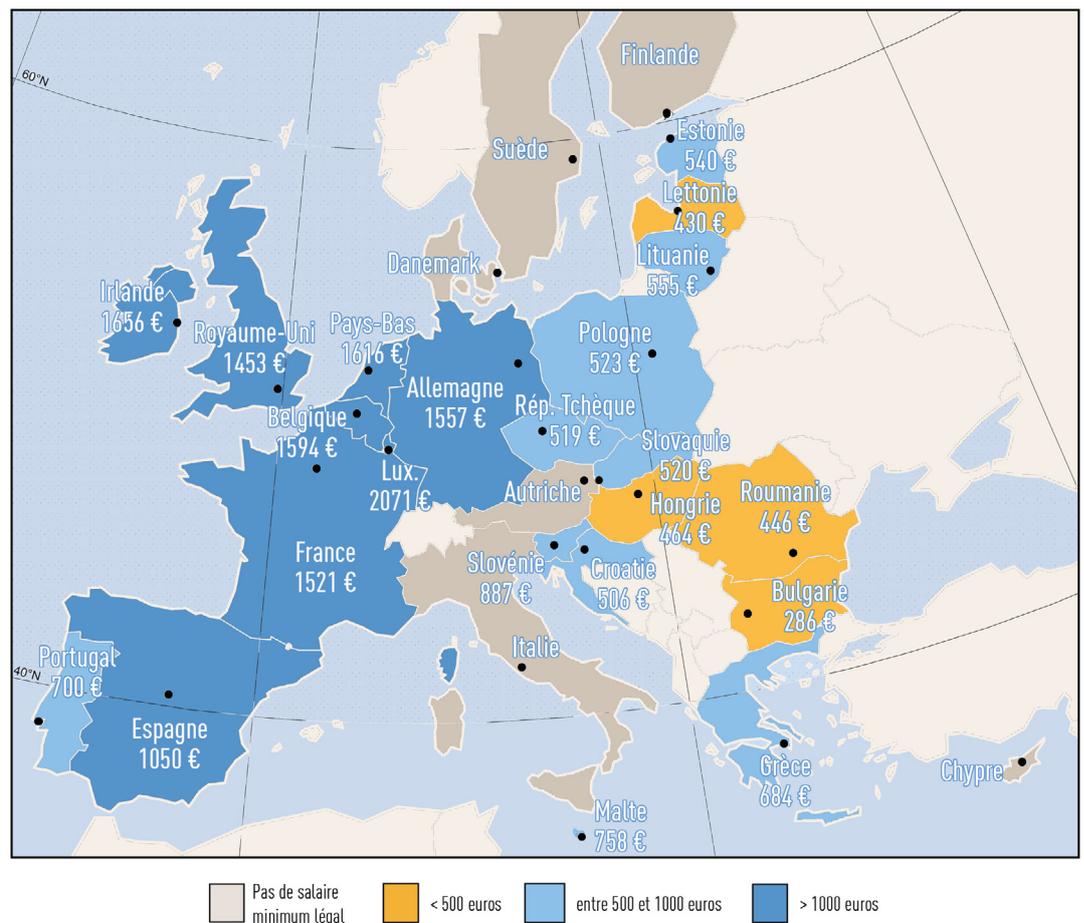
Out of the 22 EU Member States which have set a statutory minimum wage, the level of the gross statutory minimum wage varies from €286 in Bulgaria to €2071 in Luxembourg, i.e. a ratio of 1 to 7. On the basis of gross monthly minimum wages expressed in Euros (in January 2019), EU Member States can be placed into four separate categories<sup>2</sup> (see map 1):

- **No statutory minimum wage** – Six countries: Denmark, Finland, Sweden, Austria, Italy and Cyprus.
- **A national monthly minimum wage of €250 to €500** – Four countries: Bulgaria has the lowest minimum wage (€286); the three other countries in this group – Hungary, Latvia and Romania – have a minimum wage of around €450.

- **A national monthly minimum wage of €500 to €1000** – Ten countries: this category can be broken down into three sub-groups. Croatia, the Czech Republic, Slovakia, Poland, Estonia and Lithuania have minimum wages around the €500 mark; Greece, Portugal and Malta around the €700 mark and Slovenia has the highest minimum wage in this group (€886).

- **A national monthly minimum wage of at least €1000** – eight countries: Spain is just above €1000; six countries are around the €1500 mark: the UK, France, Germany, Belgium, the Netherlands and Ireland; only Luxembourg exceeds €2000.

Map 1. Statutory minimum wages in the EU as at 1st January 2019 (in Euros per month)



Source: Created by the author on the basis of Eurostat data

2. Since 1st January 2019, two EU Member States have increased their minimum wage: Greece introduced the increase on 1st February from €683.76 to €758.33 (over 14 months; i.e. an increase of 11%) and the UK increased its minimum wage on 1st April from GBP 7.83 to GBP 8.21 (i.e. an increase of 4.9%).

While there are significant differences between minimum wage levels in the EU, we must remember that there is also a high level of price differentials between countries. It is therefore useful to compare wages by taking this price differential into account, i.e. the minimum wage adjusted for purchasing power.

Broadly speaking, there is a directly proportional relationship between the minimum wage level and the price level: the countries with relatively low wages in Euros have the lowest price levels, and conversely the highest minimum wages are found where the price levels are highest. As a result, the minimum wage gap between countries decreases when each country's price level is taken into consideration. Disparities in minimum wage levels between Member States fall, from a ratio of 1 to 7 when the wage is expressed in Euros to a ratio of 1 to 3 when adjusted to purchasing power.

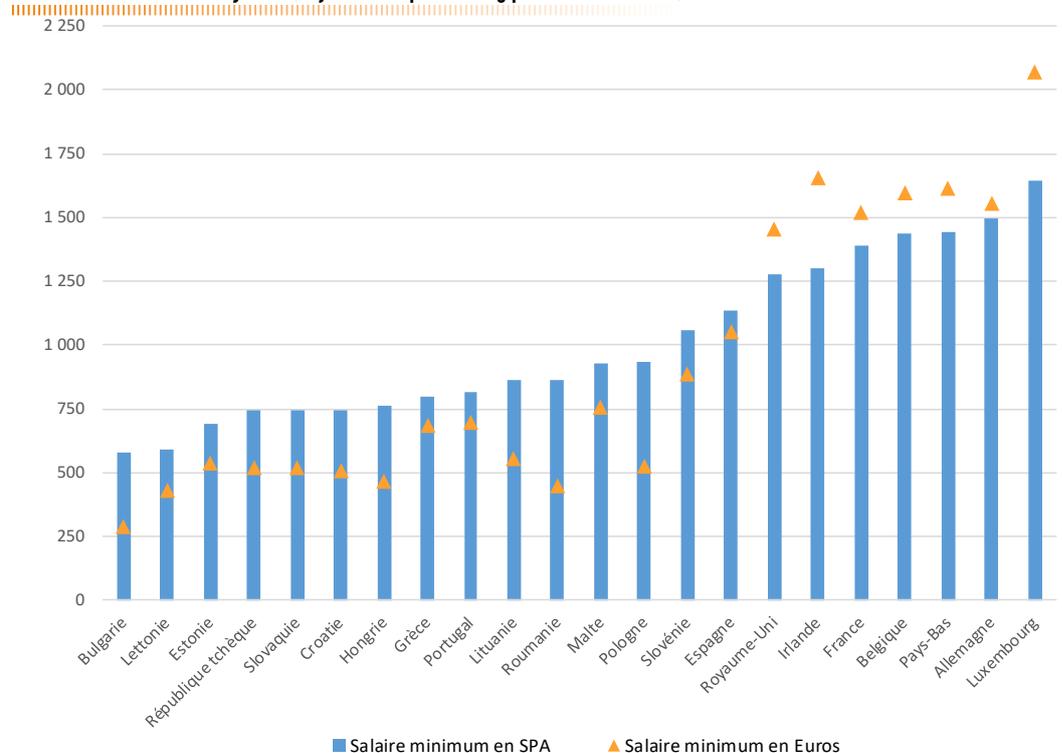
A comparison of country rankings on the basis of minimum wages expressed in Euros or adjusted to purchasing power shows that in adjusting for price levels, the ranking

changes. Some countries go up the table while others lose points. There are a few interesting variations that can be highlighted. Four countries fall several places: Ireland falls from 2nd to 6th place, Portugal from 11th to 14th, Greece from 12th to 15th and Estonia from 14th to 22nd place. Conversely, the following Member States go up the table when the price differential is taken into account: Romania (from the 20th to the 12th place); Germany from 5th to 2nd place and Poland from 15th to 10th place.

## 2. Increasing wage convergence between EU Member States since 2004

If we analyse the development of minimum wages in EU Member States since 2004 (the year of the first EU enlargement to Central and Eastern European countries) we come to a major conclusion. Over the last fifteen years, wages have generally increased much more quickly in Eastern European countries than in the West and South of the EU.

**Chart 2. Statutory gross monthly minimum wages in the EU as at 1st January 2019 (adjusted for purchasing power and in Euros)**



Source: Created by the author on the basis of Eurostat data

For instance, the minimum wage has increased since 2004 by 25% in France, against 200% in Poland, 367% in Bulgaria and 556% in Romania. Therefore, while there are wage differences between EU Member States today, these differences were much greater when these Eastern European countries joined the EU. The minimum wage in Luxembourg is currently seven times greater than the Bulgarian minimum wage; but was seventeen times greater in 2007<sup>3</sup>. In Romania, the minimum wage has risen from €115 in the year the country joined the EU to €446 today (this increase has grown more rapidly

in recent years, as the Romanian minimum wage doubled from 2016 – €232 – to 2019).

Over the last fifteen years, the lowest increase in the minimum wage was recorded in Greece, which can be explained by the 22% drop in minimum wage in 2012, in the midst of the crisis.

These figures demonstrate a trend of wage convergence between the East and the West/South of Europe. The minimum wage growth rates recorded in 2019 confirm this trend. The greatest minimum wage increases are

**Table 1 ■ Minimum wage growth rate in EU Member States**

	VARIATION 2004-2019	VARIATION NOMINALE 2018-2019	VARIATION RÉELLE 2018-2019
Romania	556%	9,4%	5,3%
Bulgaria	367%	9,8%	7,2%
Lithuania	326%	38,8%	36,2%
Latvia	262%	0,0%	-2,6%
Slovakia	252%	8,3%	5,8%
Estonia	241%	8,0%	4,6%
Poland	199%	4,0%	2,9%
Czech Republic	151%	8,6%	6,7%
Hungary	130%	4,4%	1,5%
Spain	96%	22,3%	20,6%
Slovenia	88%	5,2%	3,3%
Portugal	64%	3,4%	2,3%
Ireland	54%	2,6%	1,9%
Luxembourg	48%	3,6%	1,6%
Malta	40%	1,4%	-0,4%
United Kingdom	38%	3,7%	1,3%
Belgium	34%	2,0%	-0,3%
The Netherlands	28%	2,4%	0,8%
France	25%	1,5%	-0,6%
Greece	8%	0,0%	-0,8%
Germany	-	3,9%	2,1%
Croatia	-	9,4%	7,9%

Source: Author's calculations based on Eurostat data for the minimum wage in Euros between 2004 and 2019 (as at 1st January) and the rate of inflation for 2018

3. In 2007, the minimum wage in Bulgaria was €92, against €1570 in Luxembourg.

still observed in Eastern European countries. If we compare the actual variations of the minimum wage between January 2018 and January 2019 (i.e. the nominal fluctuation adjusted for inflation), two groups of countries emerge. The first includes countries in which the minimum wage has not risen by more than 2.5%; these are in Western and Southern Europe and three Eastern European countries which are exceptions: Hungary, Latvia and Malta. The second group is made up of Eastern European countries and Spain (where the socialist government decided to increase the minimum wage by 22% last January), which record actual variations of the minimum wage greater than 2.5%, representing 36% in Lithuania, more than 7% in Croatia and Bulgaria and more than 5% in the Czech Republic, Slovakia and Romania.

### 3. Is a European minimum wage a positive development?

In its twenty rights and principles to which all European citizens are entitled, the European Pillar of Social Rights (EPSR), proclaimed in 2017, provides that in all EU Member States *“adequate minimum wages shall be ensured, in a way that provides for the satisfaction of the needs of the worker and his / her family in light of national economic and social conditions”*.

The debate on a European policy for a coordinated minimum wage on a European level dates back to the 1990s, however. This debate is based on many European texts which advocate the right to fair remuneration which allows the worker and his/her family to enjoy a decent standard of living (in particular the Council of Europe’s European Social Charter of 1961 and the 1989 Community Charter of the Fundamental Social Rights of Workers).

In addition to the impetus triggered by the proclamation of the EPSR and the favourable

context of the European electoral campaign, this idea is currently topical for two main reasons. Firstly, worker mobility has increased significantly within the EU (it has doubled in ten years), which makes social convergence between countries particularly important if the risk of social competition between them is to be limited. Secondly, this idea enjoys renewed support – or at least interest – from a number of stakeholders. The European Trade Union Confederation (ETUC) has at last successfully brought all its members together on this issue and is conducting a campaign in favour of a European minimum wage<sup>4</sup>. National governments in France and Germany have helped to raise the profile of the concept. While French President Emmanuel Macron called for the adoption of a European minimum wage in his open letter to European citizens<sup>5</sup>, in early 2019 the German labour minister Hubertus Heil stressed that the creation of a “European legal framework for minimum wages and minimum income” would be one of the priorities of the German presidency of the Council of the EU in the second half of 2020 (which would be the achievement of a commitment made in the coalition agreement of the current German government)<sup>6</sup>.

Of course, the notion of a European minimum wage does not mean the same minimum wage across Europe. As we have seen, there are significant price differentials between countries which must be taken into account. The idea is therefore to introduce a common minimum threshold when setting the minimum wage of each country, in order to ensure that in each Member State the minimum wage is not lower than a certain level. Each country would naturally remain free to set a minimum wage above the European minimum threshold.

The rule most often put forward is that of a minimum wage that is at least a certain percentage (between 50% and 60%) of the median wage or of the average wage<sup>7</sup>. Chart

4. European Trade Union Confederation, “Minimum wages should not be poverty wages”, “Payrise” campaign, 8 November 2017.

5. Emmanuel Macron, “For European renewal”, Open letter to Europeans, 4 March 2019.

6. See Thorsten Schulten and Malte Luebker, “WSI minimum wage report 2019”, Report, No. 46, WSI – Institute of Economic and Social Research, March 2019.

7. The median wage is the wage which divides the wage structure into two equal segments, i.e. the wage which marks the limit between the highest-paid 50% and the lowest-paid 50% of all employees. The average wage is the arithmetic mean of all wages.

2 provides details on the proportion of the national gross minimum wage in the median and average gross wage. We can see that in all countries the minimum wage represents a higher share of the median wage than of the average wage, which demonstrates that median wages are lower than average wages. As the threshold of low wages is set by the OECD at two thirds of the median wage, the idea of creating a European minimum wage is often also expressed as a percentage of the median wage. In 2017, the ratio between the minimum wage and the median wage in EU Member States ranged from 40% (Spain) to 62% (France).

If the European rule was to have a minimum wage of at least 60% of the median wage, that would mean – in addition to the introduction of a statutory minimum wage in the six EU Member States that currently do not have one – increasing the minimum wage in sixteen EU countries. Only France, Portugal and Romania have reached (or are very close to) this threshold.

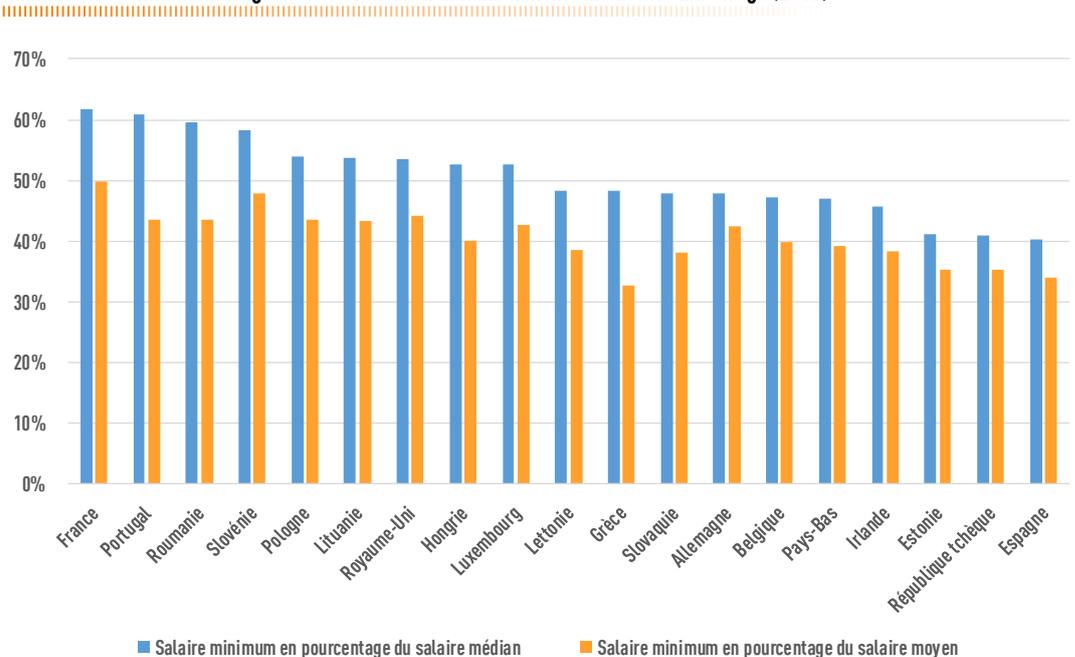
Setting the threshold at 50% of the median wage would be much less ambitious as, if the aim is to promote upwards wage convergence within the EU, only five countries with very low wages would be concerned (Cy-

prus, which would have to introduce a minimum wage and Latvia, Slovakia, Estonia and the Czech Republic, which would have to increase their minimum wage). The other countries for which this European standard would have an impact are nations that cannot be pulled up for wage competition: five countries would have to introduce a statutory minimum wage - Denmark, Sweden, Finland, Austria and Italy – and six others would have to increase it – Germany, Belgium, the Netherlands, Ireland, Spain and Greece.

The ETUC is proposing to conduct a two-step process to increase minimum wages: to establish a path to ensure that the minimum wage is at least 60% of the median wage in each country and then, as a second step, aim to make it 60% of the national mean wage. This second objective is highly ambitious, given that minimum wages varied in 2017 from 33% (Greece) to 50% (France) of the national mean wage. To achieve this, all countries would therefore have to increase their minimum wage significantly, which would naturally require a long period of implementation.

The example of Portugal and Romania – which already have a minimum wage representing 60% of the median wage – de-

**Chart 2. Gross minimum wage as a % of the national median and mean full-time wage (2017)**



Source: Created by the author on the basis of OECD data. Data unavailable for Bulgaria, Croatia and Malta.

monstrates that the aim of upward wage convergence within the EU must look beyond this potential European standard, and even beyond a simple consideration of the minimum wage level. In these two countries, the relatively high level of the minimum wage compared to the national median wage results from a high concentration of employees at the bottom of the pay scale. In order to ensure a real upward wage convergence and to fight effectively against the phenomenon of working poor, other dynamics must be taken into account, such as the percentage of workers paid at the minimum wage level, the level and trends of the median and mean wage and the percentage of part-time workers.

Lastly, we must remember that the treaties currently prohibit the EU from creating legislation concerning pay (article 153.5 of the TFEU<sup>8</sup>). It would therefore be impossible to have a European directive concerning the minimum wage, though this does not mean that the EU is condemned to inaction until Member States accept to review the treaties. European action in terms of pay can be conducted along the lines of the principles of the European charters and the EPSR and may be supported by top-level national stakeholders – heads of state and government – for which compliance could be monitored as part of the European semester of national economic and social policy coordination and in practice by the recommendations that the Commission sends to each country in the spring.

Despite the backing of the ETUC and some countries, it will not be easy to obtain a commitment from all countries on this matter. Some countries are against European action in this field, led by those which do not currently have a statutory minimum wage and are anxious to respect the role of their national social partners. Eastern European countries, which are not particularly enthusiastic about the idea of strengthening the social dimension of the European project, will probably not be the ones to champion this initiative. France, which made this a campaign issue ahead of the European elections, can, however, count on some support. Spain (and the UK, although it is leaving the EU) has already established a national process to increase the minimum wage to 60% of the median wage; the Portuguese and Greek governments are rather in favour of the idea; and Germany has undertaken to make it one of the issues tackled during its presidency of the Council of the EU in July 2020 (although the reluctance of the leader of the CDU, Annegret Kramp-Karrenbauer, as regards the strengthening of the social dimension of the European project may raise doubts as to a real commitment from Germany to this initiative). Although in the short term this proposal is not on the European agenda (the Finnish presidency, which begins on 1<sup>st</sup> July 2019, is against the idea), the challenge for its advocates is to raise awareness and garner support from the members of the next European Parliament and Commission to put the proposal on the European agenda over the next five years.

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8. Article 153.5 of the TFEU: “The provisions of this Article shall not apply to pay, the right of association, the right to strike or the right to impose lock-outs”.

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