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BLOG
— POST

One step closer to adequate minimum wages in the EU



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Ahead of the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) on June 16th, during which the provisional agreement on the Directive on adequate minimum wages in the EU will be put to a vote, we take a look back at this landmark EU initiative, provide some insights on the final compromise, and more broadly, clarify what is at stake for European workers.

I • Context and original proposal

Putting forward a legislative proposal on minimum wages was one of the key promises made by European Commission President Ursula von der Leyen to European workers. The goal was to **tackle in-work poverty**, which increased from 8.3% to 9.4% between 2007 and 2018,¹ and contribute to implement the European Pillar of Social Rights, proclaimed in 2017 under her predecessor Jean-Claude Juncker. In the meantime, the COVID pandemic struck, and, as one of the consequences, sectors with high proportions of low wages, made up of the so-called “essential workers”, no longer remained below the political radar. Today, as EU citizens are facing rising prices and many are struggling to make ends meet, the Directive has found yet another purpose: **protecting low-wage workers against inflation.**

¹ European Commission (2020), [Impact Assessment accompanying the Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union, SWD\(2020\) 245 final](#), 28 October.

The proposal did not receive the warmest welcome from the get-go though. Nordic countries were especially reluctant to see the EU legislate on such matter for fear of damaging their national welfare systems. In six EU countries (Sweden, Denmark, Finland, Austria, Italy, Cyprus), wages are indeed set exclusively through collective bargaining and thus do not have a statutory minimum wage. Some central and eastern countries, in particular Hungary, were also finding the Directive to trample on their national sovereignty and would have preferred the issue to be left entirely up to the Member States. For others though, such as France, Luxembourg, Belgium, Italy and Spain, the Directive was seen as an opportunity to accelerate wage convergence in the EU –the statutory minimum wage in Luxembourg is about 7 times higher than the one in Bulgaria, and about 3 times higher when we take into account national prices²– and therefore fight social dumping.

The Commission thus had to walk a fine line between these different political perspectives, while being careful not to stray too far away from the Treaties' provisions, whereby **pay is explicitly excluded from the competences of the EU**.³ The proposal put forward in October 2020 reflected these various constraints.

Still, the Commission managed to clearly outline its two main objectives for the Directive. Firstly, and only for the 21 Member States concerned, the proposal aims to **ensure the adequacy of statutory minimum wages, meaning that they must allow workers to live in a decent manner**. Behind this somewhat vague concept of “adequacy”, the Commission proposed several mandatory criteria, namely purchasing power, the level, growth and distribution of wages, as well as labour productivity (Article 5). The text provided that internationally recognised reference values may be used to guide countries in their evaluations, and that minimum wages ought to be updated regularly (Article 5). The tabled Directive also put forward provisions on possibilities for exemptions (Article 6), on the involvement of social partners (Article 7) as well as on ways to enhance the access of workers to this protection (Article 8). Secondly, the Directive was designed to **promote collective bargaining** in all EU Member States (Article 4) since countries with high collective bargaining coverage tend to have **higher minimum wages, less low-wage earners, and lower wage inequalities**. The proposal thus intended to strengthen the capacity of social partners and encourage negotiations on wages among them. It also stated that Member States where collective bargaining coverage falls below 70% must provide a framework of enabling conditions and an action plan to promote collective bargaining. Horizontal provisions on public procurement, data collection and monitoring as well as right to redress and penalties (Article 9-12) were also included in the draft legislation.

II • Negotiations and next steps

At the end of 2021, the European Parliament and the Council both managed to adopt their respective positions. The Parliament reinforced the text in several ways, for instance by making in-work poverty and a national basket of goods and services at real prices into two of the criteria to assess the adequacy of minimum wages, and by demanding an annual actualisation of the said wages. The Parliament also raised the objective for collective bargaining coverage to 80% of the workforce, removed the article on derogations (without forbidding them explicitly) and added important provisions to protect

² S. Fernandes & K. Kerneis (2022), [A move toward adequate minimum wages in the EU?](#), Infographic, Jacques Delors Institute, 10 January.

³ [Article 153\(5\) TFEU](#).

trade unions and their representatives throughout the text. On the side of the Council, the agreement on a general approach under the Slovenian presidency was deemed as a surprise due to the sensitive nature of the file. The compromise made exemptions to some minimum wages as well as provisions on monitoring, controls and data collection more flexible than in the Commission's proposal. It also removed references to internationally recognised reference values to guide the assessment of minimum wages and changed the objective for collective bargaining coverage into a simple "threshold". In the end, only two Member States voted against the proposal (Denmark and Hungary) and two abstained (Austria, and Germany due to the national political situation at the time) –even Sweden, which was, with Denmark, arguably one of the main opponents of the Directive, ended up supporting it.

Because **the Parliament's position strengthened the text while the Council went on to protect national traditions and practices as much as possible** (no doubt many "red lines" within the Council depended on these safeguards), room for manoeuvre for interinstitutional negotiations seemed very narrow. And indeed, eight trilogues were necessary over the course of five months to strike a deal, from the first trilogue on January 13th to the last one on **June 6th, 2022**. This was also seen as a concrete victory for the French Presidency of the Council of the EU, which had made the file into one of its hallmarks.

Eventually, each legislator was able to take home part of its demands. The Parliament managed to maintain the mention of **the reference values of 60% of the median wage and 50% of the average wage as well as the one relating to the basket of goods and services at real prices**, but was unsuccessful in adding the in-work poverty criteria. The Council trumped the Parliament's ambitions when it came to the criteria of productivity, which remained in the text, and to the article on the possibility for exceptions and variations (although the need for a legitimate objective was still brought back from the Commission's initial proposal). A major win for the Parliament was the **raised ambition for collective bargaining coverage, together with increased protection for trade unions**. Finally, the Council managed to maintain the mandatory actualisation of statutory minimum wages every two years and added an exception of every four years for Member States with indexation mechanisms in place.

The text was presented to the COREPER on June 8th and left to be examined by the ambassadors. It is to be formally adopted on June 16th, during the EPSCO Council. Sweden seems to have backpedalled on its support for the text, despite negotiators insisting that its concerns were incorporated into the final compromise. However, it is unlikely that this will affect the outcome of the Council decision, since qualified majority is more than likely to be reached with or without Sweden's support. In parallel, the provisional agreement will also have to be approved by the European Parliament Committee on Employment and Social affairs, and at a forthcoming plenary session.

III • Reception and outlook

While the agreement has been mostly seen as a positive step for a more social Europe and the protection of workers, many are concerned about the actual reach of the Directive: if it does not impose a statutory minimum wage in each Member State, nor sets a minimum threshold that would raise minimum wages in most countries, what concrete impact will the Directive have on workers?

According to the Commission's impact assessment, **up to 24 million people could benefit from this new legislation**, depending on the extent to which Member States increase their statutory minimum wages. But these estimates are actually based on the

two reference values (60% of the median wage and 50% of the average wage) that are only included in the Directive as guidance values for Member States, and not as objectives per se as called for by the European Trade Union Confederation, among other stakeholders. Even then, workers in France and Portugal would for instance have remained mostly unaffected since their minimum wages are already above or approximating 60% of the national median wage and 50% of the average wage. The Directive will impact Member States differently as the share of minimum wage earners vary across countries, so that countries like Lithuania may be significantly affected by the legislation.

The Directive is also expected to contribute to **reducing the gender pay gap** since women are more likely than men to be minimum wage earners. In addition, if well implemented, the Directive should contribute to boost collective bargaining, which has been on a downward slope for a while in the EU, falling from 66% in 2000 to 56% in 2018, with substantial declines in Central and Eastern Europe especially.⁴ Despite the fear of the Nordics, **the Directive could actually be a way to export their efficient collective bargaining model in other parts of Europe** and spread its benefits.

To guarantee that the Directive's objectives are fully realized, the Commission will need to monitor its implementation in Member States and evaluate its effectiveness. However, it is also up to governments to seize the opportunities provided by the Directive and **show some ambition at national level**, beyond the minimum standards agreed upon at EU level (this could include the systematic use of the abovementioned reference values).

Besides, the text has a strong **symbolic reach**. Principle 6 of the European Pillar of Social Rights states that “workers have the right to fair wages that provide for a decent standard of living”. The entry into force of the Directive would show that the Pillar is more than a declaration of good intentions, but that its principles are to be made into concrete proposals, and eventually, effective instruments to improve the lives of EU citizens. Furthermore, looking at EU-wide surveys, social inequalities are seen as the top challenge for the EU, and nine out of ten Europeans claim that a social Europe is important to them personally.⁵ The need for rules on minimum wages in the EU was also one of the key recommendations submitted by citizens participating in the Conference on the Future of Europe.⁶

Nevertheless, we must insist on the fact that this Directive should not be seen as a panacea to guarantee good working and living conditions for EU citizens. Further ambitious pieces of legislations at EU level will need to follow in order to continue working towards such goal. The upcoming **Directive on platform workers** could lead to the potential reclassification of up to 4.1 million people, leading to better social security coverage and increased annual earnings, which would in turn help to reduce in-work poverty.⁷ Very importantly, an EU framework on minimum income would be a gamechanger for the 95 million people at risk of poverty and social exclusion in the EU, almost 22% of the total population.⁸ While the Commission is planning to table a proposal for a **Council Recommendation on adequate minimum income schemes** next autumn, we can wonder whether more legally binding legislation would not have been

⁴ European Commission (2020), *Op. Cit.*

⁵ European Commission (2022), *Special Eurobarometer 517 on the future of Europe*, January; European Commission (2021), *Special Eurobarometer 509 on social issues*, March.

⁶ European Union (2022), *Conference on the future of Europe: Report on the final outcome*, May.

⁷ European Commission (2021), *Impact assessment accompanying the Proposal for a Directive of the European Parliament and of the Council On improving working conditions in platform work*, SWD(2021) 396 final, 9 December.

⁸ Eurostat (2022), *People at risk of poverty or social exclusion*.

more appropriate. It should be recalled that the EU had not managed to reach its Europe 2020 target of reducing the number of people living in poverty or social exclusion by 20 million. If it wants to meet its new target set at the Porto Social Summit in May 2021 –to lift at least 15 million people out of poverty by 2030– no effort should be spared. •

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