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## Position paper on minimum wages

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### Background

Minimum wages are an important tool to ensure people's decent living and working conditions and fight poverty.

Currently, twenty-two countries in the European Union (including the United Kingdom) have adopted a statutory minimum wage, whereas Austria, Cyprus, Denmark, Finland, Italy and Sweden have not.<sup>1</sup> In Austria, Denmark, Finland and Sweden minimum wage rates are stipulated in sectoral collective agreements.<sup>2</sup>

Minimum wages in the EU member states differ widely, ranging from 200 to 2,000 euros.

The countries can be grouped into three broad minimum-wage categories:

- Equal to 500 euros or less: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia;
- From 500 euros to 1,000 euros or less: Greece, Portugal, Slovenia, Spain;
- Approximately 1,500 euros: Belgium, France, Ireland, Germany, the Netherlands, United Kingdom;
- The highest minimum wage of close to 2,000 euros per month is paid in Luxembourg.

Given the continuous integration process within the European Union, the debate around a common minimum wage set at the European level has emerged again.

In her mission letter<sup>3</sup> to the Commissioner for Jobs and Social Affairs, the new European Commission President Ursula von der Leyen states: "We must ensure that work pays and provides a decent living. You should put forward a legal instrument to ensure that every worker in our Union has a fair minimum wage. This can be set through collective agreements or legal provisions, depending on each country's traditions".

Despite (or because of) the major wage divergences, CESI too believes that the introduction of an EU framework for national minimum wages is necessary to fight social dumping in the EU, ensure an upward social convergence, drive EU domestic demand and, most importantly, fight poverty by guaranteeing decent living and working conditions for everyone.

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<sup>1</sup> <https://www.eurofound.europa.eu/topic/minimum-wage>

<sup>2</sup> <https://www.eurofound.europa.eu/publications/article/2019/to-have-or-have-not-a-statutory-minimum-wage>

<sup>3</sup> [https://ec.europa.eu/commission/sites/beta-political/files/mission-letter-nicolas-schmit\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/mission-letter-nicolas-schmit_en.pdf)

## **Minimum wages and the fight against precariousness and poverty**

The fight against precariousness, especially through minimum wages, is particularly relevant in our current post-economic-crisis scenario.

Now that employment rates are rising again, one would expect wages to steadily increase too – yet this is not happening at the same speed.<sup>4</sup>

Furthermore, there has been an increase in atypical work forms, namely part-time jobs, temporary work or self-employed work. They expose workers to economic risks more and do not grant them the same social security.

Research has demonstrated that workers are less protected in such cases, and that the whole economy has become more dependent on the private sector, making it more exposed to economic crises.<sup>5</sup>

There is hence a clear link between atypical work and precariousness.

The most vulnerable groups in society are young people, women or middle-aged workers who have lost their jobs and face difficulties getting back onto the labour market.

Even if a single tool is not sufficient to counter precariousness, minimum wages are a powerful tool to help counter the phenomenon. Indeed, many low-paid, intermittent jobs also do not offer workers equal rights and decent social security for the future, and often do not even ensure healthcare and accident prevention guarantees.

The action of CESI and of trade unions in general consists of opposing this trend through active intervention based on the following four aspects, complementary with minimum wages:

1. Promotion of information campaigns aiming to raise public awareness about temporary employment contract abuses;
2. Increase of lobbying initiatives to increase regulators' attention on the protection of the working poor;
3. Raise awareness through collective bargaining to highlight abuses of precarious types of employment;
4. Make use of national legislation and a European framework as effective tools of protection.

## **Social dumping versus upward social convergence**

Social dumping is described as unfair competition due to the application of different wage, tax, employment and social protection rules.

States, regions, sectors and companies may keep labour standards and wages intentionally low to compete with more productive ones.

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<sup>4</sup> In terms of real wage development, and with the exception of Bulgaria, wages are lagging behind productivity. See: "Why central and eastern Europe needs a pay rise", ETUI

<sup>5</sup> *Do flexicurity policies protect workers from the adverse health consequences of temporary employment? A cross-national comparative analysis*, Faraz Vahid Shahidi, Deborah De Moortel, Carles Muntaner, Owen Davis, and Arjumand Siddiqi, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5757780/>

Basically, such competition is lawful and justified if it takes place within a reasonable framework. The opportunities and dynamics of the Single Market however, require a more restrictive interpretation when paired with the aim of upwards social convergence: minimum standards are needed to prevent a “race to the bottom”.

From the traditional economic theoretical perspective, wage rates are linked to productivity. The more productive a society, the higher the wages or the higher they should be.

Yet such traditional economic perspectives may be detrimental, especially to Eastern European countries (where minimum wages remain considerably lower), since they are based on domestic demand and keep less productive countries dependent on foreign investment, know-how and demand.<sup>6</sup> Low-wage competitiveness can therefore also have an overall negative impact on countries’ economic performance and is difficult to reconcile with the overall EU integration process.<sup>7</sup>

In this light, a common minimum wage framework would be essential to fight social dumping, prevent a race to the bottom, secure upward social convergence, ensure competitiveness and ultimately reflect the European Pillar of Social Rights.

### **An EU frame to set statutory minimum wages on a national level**

CESI defends the establishment of the highest possible standards for the European social policy in order to achieve upwards social convergence.

CESI recognises the equal value of the EU’s socio-political goals and the Single Market with its fundamental freedoms. The EU and its member states are also bound by the objectives, values and fundamental social rights set forth in the Treaties.

As long as the Single Market rules fall under the remit of EU competence whereas social policies remain primarily the responsibility of the member states, it will be difficult to achieve a balance between Single Market freedoms and socio-political goals. In the context of pay, EU competence is clearly excluded (Art. 153.5 TFEU).

However, subsidiarity, especially in terms of social policy, should not only require member states’ competence or action on the lowest levels, it should also focus on solving problems in an increasingly-integrated EU. The socio-political competencies of the EU must also be assessed on the basis of its goals and values, its cohesion, the sustainability of its policies and the provisions of the EU Charter of Fundamental Rights.

The realisation that socio-political competencies and the ensuing requirements for EU action are not only the result of social policy: they are also based on the principle of a fair Single Market, a ban on discrimination, socio-political fundamental rights, socially-fair economic management and coordination obligations in the fields of employment, the fight against poverty and for social security.

It is therefore up to the EU, its member states, and the European and national social partners to join forces to make progress on the matter of an EU framework for national minimum wages - an issue which has been the object of discussion for over twenty years.

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<sup>6</sup> Why central and eastern Europe needs a pay rise, ETUI, pg. 18

<sup>7</sup> Why central and eastern Europe needs a pay rise, ETUI, pg. 21-22

The EU should define a framework for the establishment of national minimum wage rates which would set the minimum wage according to a minimum percentage of the national median wage. It could also take additional parameters into account (e.g. inflation, cost of living, etc.).

Such regulatory framework should not negatively impact collective bargaining and agreements already established in the different countries.

An EU framework should foresee a national minimum wage rate above the poverty line, applicable to all EU member states, including those where (statutory) minimum wage rates are already in place.

Ideally, such a framework should be established by the EU social partners. In the absence of an agreement, it should be framed by the EU institutions by means of a legal act.

In this context, it might be useful to refer to the so-called flexibility clause (Art. 352 TFEU) which allows the EU to adopt measures to attain the Treaties' objectives even if the EU lacks the necessary powers to do so.<sup>8</sup>

## **Conclusion and demands**

Minimum wages are a crucial mechanism to fight poverty and precariousness.

A way to prevent a race to the bottom and ensure upward social convergence would be to foresee a European framework for national minimum wages.

CESI calls for the political commitment of all stakeholders for the establishment of a European framework aiming to define a minimum wage rate applicable in all EU member states.

The European Labour Authority must be a key actor in overseeing compliance with minimum wage regulations in the different member countries.

At national level, collective agreements and, in the alternative, legislation must respect the European framework on a minimum wage rate.

All workers' representatives on national and European levels must be involved in this process.

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<sup>8</sup> The Role of the 'Flexibility Clause': Article 352, [https://ec.europa.eu/commission/sites/beta-political/files/role-flexibility-clause\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/role-flexibility-clause_en.pdf)