



Policy Proposal on EU Minimum Wage Policy

Enhancing Europe's Social Dimension

Brussels, April 19th 2015

Authors: Jada Bruccoleri, Sandrina Burkhardt, Justine Calleja, Etem Emre Camlilar, Laia Garrido Angaron, Matthias Hasler, Max Mannweiler, Sonja Scheele, Diandra Schlitt, Lukas Spielberger

Tutor: Dr. Eliyahu V. Sapir

STUDENT FORUM MAASTRICHT

Student Forum Maastricht (SFM) is an annual student conference held at the Maastricht University Campus in Brussels. The conference is organised by students from Maastricht University in cooperation with different partner organisations. The participants are post- and undergraduate students from all over Europe with diverse academic backgrounds. Based on problem statements provided by European Commission representatives, they develop policy proposals for pressing topics within the Commission. In this process the students receive input and insights from experts from NGOs, academia and the business sector working in Brussels. The 2015 edition of SFM took place from 15th to 19th April. In five different working groups policy recommendations were drafted dealing with the following topics: EU Energy Union, EU Asylum Policy, Independence of Regions, EU Minimum Wage Policy, and Data Protection & Digital Market. For more information on Student Forum Maastricht, please visit: www.student-forum.eu

Content

Executive Summary	3
Minimum Wage Regimes in Europe	4
Advantages and Disadvantages of the current systems	5
Main Objectives and Legislative Competence of the EU	8
Objectives.....	8
Legislative competence	9
Stakeholder - Power/Interest Analysis	10
Policy Proposal	11
Definition of the EU Minimum Wage Policy	11
Explanation of the calculation mechanisms.....	11
Adaptation to national, sectorial and occupational differences.....	12
Institutional Set-Up.....	12
The role of the European Semester	12
Opt-out Mechanism	12
Closing Statement	13



Executive Summary

National wage setting systems of the European member states vary substantially in their institutional design and outcome. An alarming growth of income inequality and working poor with wages below substantive levels are a consequence of the lack of wage coordination across the EU. The development indicates an increasing necessity for a European minimum wage policy that ensures coherent wage standards across the whole European Union to ensure social cohesion.

This policy proposal presents the framework for a feasible coordination of minimum wages on European level, while preserving the variety of national wage setting systems across the EU. In line with the Europe 2020 strategy, the proposal foresees the implementation of two different minimum wage rates until the year 2020.

1. 50% of median gross income: Member states with a minimum wage that currently falls below the poverty threshold (50% of the median income) defined by the European Commission shall approach the 50% target within 5 years.
2. 60% of median gross income: Member states with a minimum wage that currently exceeds the poverty threshold, but is still "at risk of poverty gap" (60% of the median income), as defined by the European Commission, shall approach the 60% target within 5 years.

In the long run, the outspoken aim is to reach a 60% threshold of minimum wages across all countries of the EU. The European Semester will act as platform for discussion and coordination between the European Union and the Member States and further function as a monitoring body. It will also decide over the granting of an 'opt-out' possibility for single national industries or sectors.

Through a power/interest analysis of all the affected stakeholders, this policy proposal lays out the gains and losses for every party involved and weights them up against each other. It comes to the conclusion, that although the introduction of a European minimum wage policy triggers economic losses and some loss of national political sovereignty, the positive impact on the economy, political stability and social cohesion outweigh the losses.



Minimum Wage Regimes in Europe

The European wage landscape is characterized by diversity both in scope as well as their underlying mechanisms.

In terms of scope, 22 member states¹ opted for a universal minimum wage regime, i.e. a common national minimum wage as a universalistic wage floor. The remaining six countries have sectorial regimes, meaning that minimum wages hold only for certain sectors or occupations.

In terms of underlying mechanisms, minimum wages are established by either Statutory Regulation or Collective Agreements. Statutory regulation, which is employed by 18 Member States, refers to wage levels established and enforced by law. The remaining 10 Member States rely on Collective Agreements, which are the outcome of collective bargaining procedures between employers and employees.

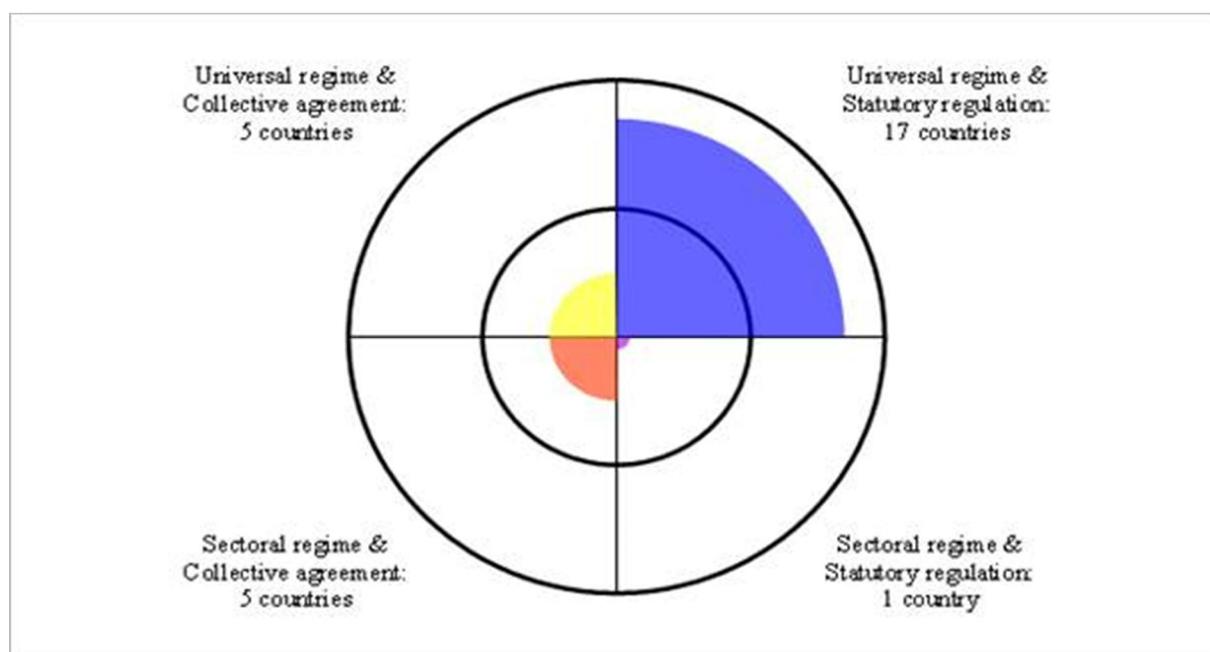


Figure-1: Distribution of minimum wage regimes of EU-Countries according to scope and underlying mechanisms. Source: Schulten (2015)

Figure-1 shows the current scheme in European Union with regards to the minimum wage regimes. At present, 60% of the countries in Europe apply a universal minimum wage regime complied with a statutory law. In terms of scope, universal minimum wage prevails while an established law system is rather preferred as an underlying mechanism.

¹ France, Luxembourg, Netherland, Ireland, United Kingdom, Germany, Greece, Malta, Portugal, Spain, Croatia, Lithuania, Latvia, Romania, Slovenia, Czech Republic, Hungary

Advantages and Disadvantages of the current systems

Although it is often said that minimum wages have, by their nature, negative effects on employment, empirical studies provide proof, that the negative effect is not necessarily true and that minimum wages offer a variety of macroeconomic gains for the society at large².

First of all, they do not only affect the lower wage segment, but also form an important benchmark for wage development as a whole. Secondly, a more equitable wage structure is likely to enhance aggregate demand as the lowest segment of consumers, which enjoy a higher wage rate, will spend a higher amount of their income in comparison to the upper segments.

Research shows that implementing minimum wage policy on national level has led to great discrepancy among European Member States, especially, when looking at the national minimum wages adjusted to the purchasing power standard. Whereas it is at €9,04 in Luxembourg, it is as low as €2,30 in Bulgaria. A wage of at least 60% of the national average is considered to enable workers a decent standard of living. However, a great share of Member States has a minimum wage system in place which is just at or below poverty threshold of 50%. Only the minimum systems in France and Slovenia are above 60% of the median wage (Figure-2). In general, minimum wage levels are thus very low in Europe³. Additionally, there are great divergences concerning the percentage of workers covered by collective bargaining as illustrated in Figure 3 (Figure-3)⁴. Hence, it shows that the effectiveness of collective bargaining systems differs across Europe and that a great share of workers might not benefit of minimum wages⁵.

² Schulten, T., Counters of a European Minimum Wage Policy, October 2014, 9.

³ Schulten, T. (2015). *European Minimum Wage Policy. Is it desirable? Is it feasible?* SFM Conference, Brussels.

⁴ OFCE et al. 2013; Brischoux et al. 2014

⁵ Kampelmann, S., Garnero, A., Rycx, F. (2013), *Minimum Wages in Europe. Does the diversity of Europe lead to a diversity of outcomes?* European Trade Union Institute.



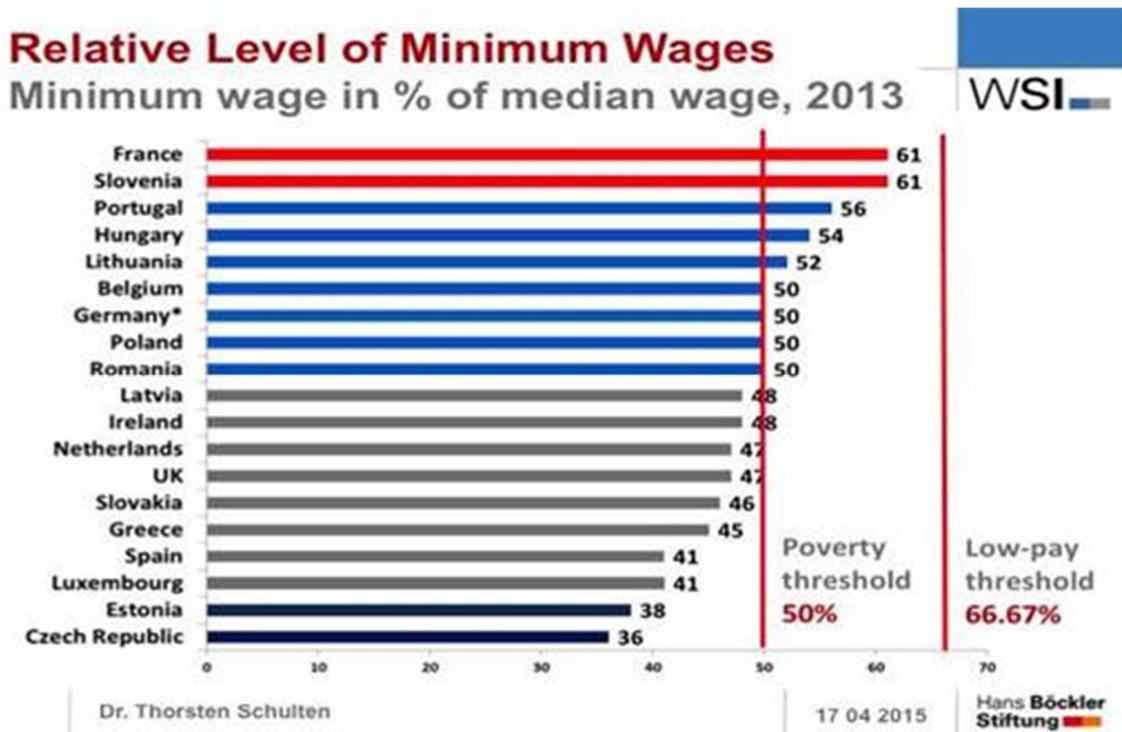


Figure-2

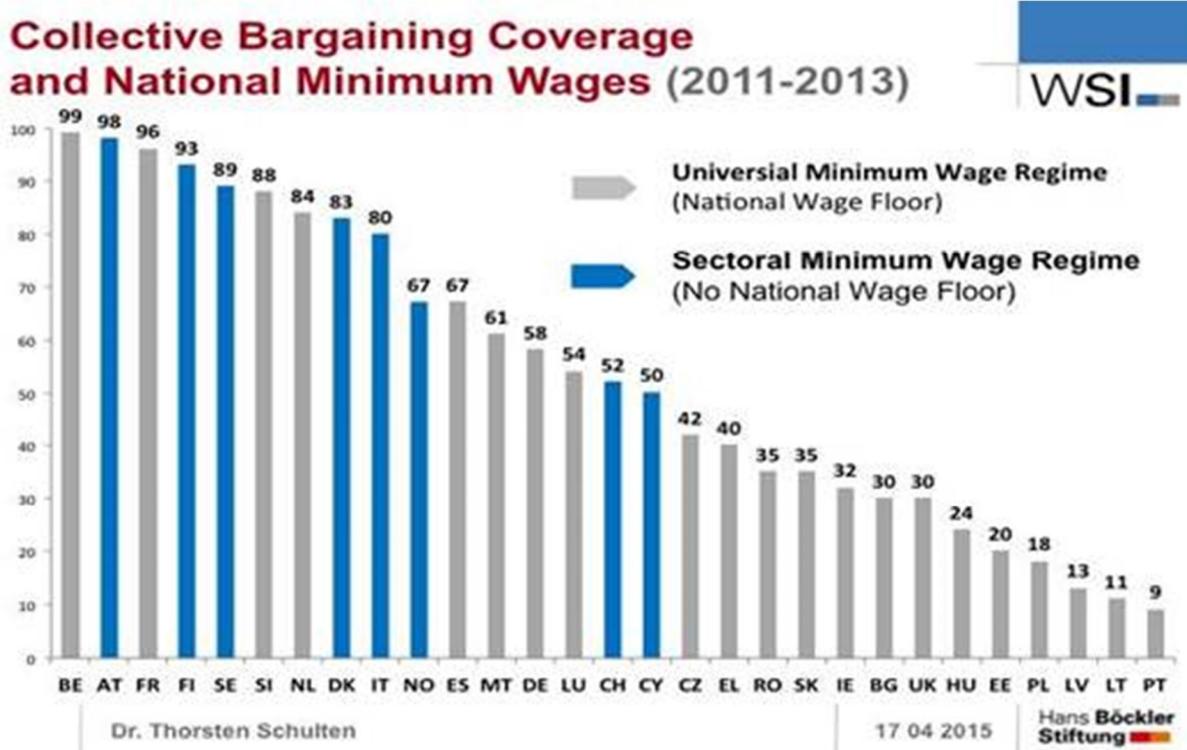


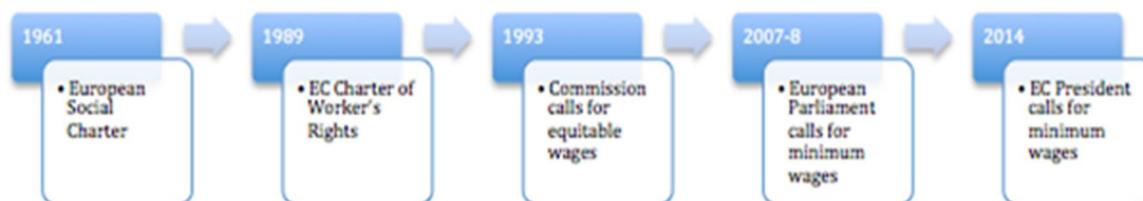
Figure-3

In the past, there have been a number of attempts by different bodies of the European Union to realise the potential that European integration can offer in the field of minimum wages.



"The right of workers to a remuneration such as will give them and their families a decent standard of living" was first mentioned on the European Level in 1961 by the Council of Europe's European Social Charter and later reaffirmed in the European Community Charter of Fundamental Rights for Workers.

In 1993, following the adoption of the Charter of Fundamental Social Rights for workers, the European Commission asked member states to "take appropriate measures to ensure that the right to an equitable wage is protected". A report from the European Parliament encouraged them "to establish a minimum wage which amounts to a certain proportion of the national average wage"⁶.



Later, in 2007, the EP called on the Council to agree an EU target for minimum wages again - a claim that was recently highlighted by the President of the European Commission, Jean Claude Juncker, in his electoral address for the European Parliament elections in 2014.

Although, the EU has been outspokenly in favour of a system guaranteeing fair and equitable wages, there remains a great gap between the values that have been promoted on the European level and the actions pursued on national levels.

We can conclude that the increasing differences between the member states make it unavoidable for the European Union to coordinate a minimum wage policy to improve social as well as economic equality.

⁶ Kampelmann, S., Garnero, A., Rycx, F. (2013), *Minimum Wages in Europe. Does the diversity of Europe lead to a diversity of outcomes?* European Trade Union Institute.

Main Objectives and Legislative Competence of the EU

Objectives

General Aims

Our committee is convinced that every citizen within the European Union should have the right to a redundant wage in order to ensure the coverage of his/her basic needs and those of their family. Furthermore, everyone should have the means to participate in social life and support his/her surrounding community. Altogether, we stress the relevance of the given policy proposal due its high relevance for the prospective development of the European Union.

Political Aims

There is an institutional necessity for a European minimum wage policy as the economies operates increasingly on European and international level and social provisions are still dealt with on national level. An EU minimum wage policy could therefore contribute to reducing the differences between member states. In doing so, it should be noted that the currently existing institutional arrangements could provide feasible forums to operate such a European policy.

Finally, a general minimum wage policy could hamper the contemporary rise of populist movements and be a crucial step to reverse the growing North-South division of the EU Member States.

Social Aims

A European-wide minimum wage scheme will have numerous positive effects on the societal level. First of all, such a measure will tackle income inequality for people working in the lower wage sector such as the young generation, female as well as part-time employees. What is more, it will prevent the increase of the working-poor within the European Union whose income falls below a given poverty line. As the implementation of such a minimum wage can raise wages for up to 28 million people in the whole of Europe⁷, it can have an enormous impact on a greater social cohesion among European citizens and promote the formation of a European identity. Altogether, we consider a Europe-wide minimum wage policy as part of a comprehensive social policy scheme within the European Union.

Economic aims

A comprehensive European Minimum Wage scheme would provide a wide array of economic benefits. It can be expected that consumption will increase due to an increased propensity to consume, which means that people who earn less are more likely to

⁷ Schulten, T. (2015). *European Minimum Wage Policy. Is it desirable? Is it feasible?* SFM Conference, Brussels.



consume additionally earned money rather than saving it. This would help to keep demand steady and thereby keep the economy afloat. Especially in the event of a crisis, we expect this to contribute to keep the demand steady and to prevent deflation. Consequently, a minimum wage scheme can help to strengthen the internal market by providing a base for sustained growth. Considering this background, long-term investments in European companies would be incentivised which would further help to develop more sustainable company structures. This will consequently establish the economic power of the EU within the global stage, as envisaged by the Europe 2020 Strategy'.

In addition, comparable minimum wage standards can reduce the importance of pay as a reason to migrate for low-earning workers. This will lead to fairer cross border mobility as the economic necessity to migrate is smaller. A further development is an improved overall competitiveness of European enterprises. As in the short run, the implementation of a European minimum wage policy might lead to the closure of some existing enterprises, those companies that stay in business are more robust as they can compensate the higher wage costs through increased productivity or the adoption of new technologies.

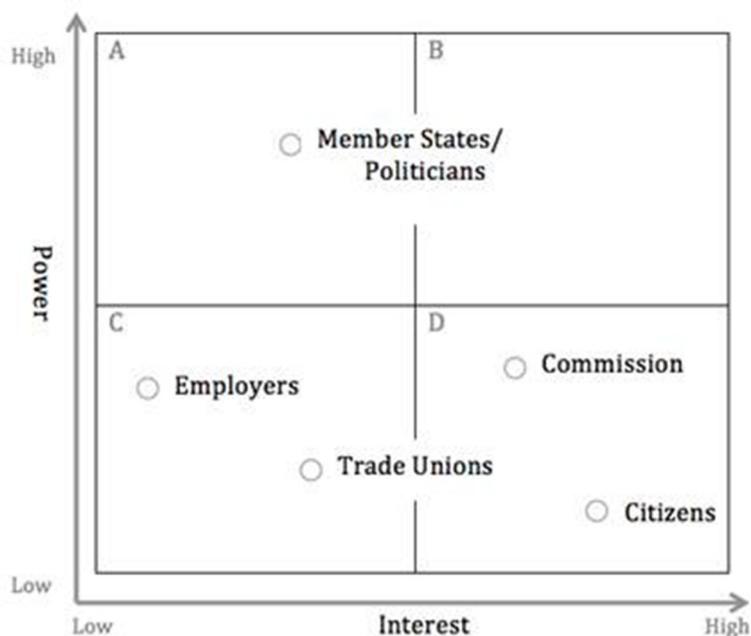
Legislative competence

According to Art. 153 TFEU, the EU does not have the mandate to legislate on pay issues. The present proposal therefore has to be implemented in accordance with the Open Method of Coordination. Unlike EU 'hard law', this does not contain a framework of legal compulsion, however, it enables the coordination of policies in a more informal manner and thus provides the possibility to coordinate issues that are outside the scope of the treaties.

Human Rights Conventions such as the Universal Declaration of Human Rights (Art.23) and the Charter of Fundamental Rights of the Union (art. 31(1)) can be relied on as an adequate base for the proposed soft law measure.



Stakeholder - Power/Interest Analysis



European Commission (high interest - relatively low power)

The implementation of a European minimum wage scheme is in line with the EU Strategy 2020 launched by the European Commission as it ensures a smart, sustainable and inclusive growth strategy and seeks to reduce poverty. Furthermore, it is altogether contributing to a political and economic integration of the European Union.

Member State/Politicians (power high - medium interest)

As the politicians in the different member states will have to transfer sovereign rights to the EU-level, we want to compensate their loss of power by guaranteeing them a say through appropriate representation.

Employers (interest lowest - power high)

Potential economic losses that are incurred on the employers are higher labour costs and a decrease in profits. Nevertheless, an increased minimum wage may positively impact worker's motivation and satisfaction within their working environment and reduce the risk of strikes and resistance against the employing company. Furthermore, through higher wages, the spending power of employees will be increased which ultimately leads to a higher consumption and hence even economic benefits for the companies.

Trade Unions (high and low interest - loss and gain of power)

We expect that in countries where trade unions have a rather small say in the wage setting regime, trade unions tend to be in favour of a European Minimum Wage. Concerning the decreased negotiating power of strong national trade unions, we stress the fact that the introduction of a European Minimum Wage scheme equals a basic level that can then be extended by the trade unions within the negotiations on a national level.

Citizens / Employees (interest highest - power lowest)

The citizens experience the highest positive impact and therefore have the strongest interest. Nevertheless, their power is relatively limited within the drafting and implementation progress. It is crucial to keep them informed about the processes in order to ensure that their interests are being taken into account.

Policy Proposal

Definition of the EU Minimum Wage Policy

The Committee is well-aware of and sensitive to the historical contingencies and diversity of the institutional arrangements in each member state's minimum wage system and, thus, does not interfere with national wage-setting mechanisms and industrial relation systems. In this context the application of two differentiated minimum wage rates, based on the relative Member States' national median gross wage, is recommended.

1. 50% of median gross income: Member states with a minimum wage that currently falls below the poverty threshold (50% of the median income) defined by the Commission, shall approach the 50% target within 5 years.
2. 60% of median gross income: Member states with a minimum wage that currently exceeds the poverty threshold, but is still "at risk of poverty gap" (60% of the median income), as defined by the Commission, shall approach the 60% target within 5 years.

Explanation of the calculation mechanisms

The chosen targets and time frame have been defined in the framework of the Commission's definition of poverty and with the aim of supporting the institution's agenda in the European Strategy 2020. Acknowledging the great diversities among the Member States' economies and labour markets, the Committee proposes a rate, instead of a fixed absolute amount, to determine the common EU minimum wage policy. Additionally, with the aim of deciding the minimum wage based on a true representation of citizens' average income, and, thus, purchasing power, the Committee has chosen the gross income. Alternative measures for the level of the Minimum Wage level could have

been determined by means of the net income, however this Committee has refrained from using this measure as it varies too strongly among different welfare state arrangements.

Adaptation to national, sectorial and occupational differences

Although the Committee believes that in the long-run all Member States in the EU should adopt the 60% threshold to ensure all the benefits of this policy, we recommend a differentiated minimum wage policy in the short-term that takes into account the differences among the Member States' current minimum wage as percentage of the national median gross wage. The differentiated implementation of a minimum wage policy will ensure that national economies benefit from the policy without being overstrained by rapid changes. Further, stressing the Committee's interest in protecting the relevant stakeholders' interest, we have included an opt-out mechanism. The invocation of this mechanism allows Member States to opt for sectorial and occupational exemptions in cases where the MS can prove before a specialist committee that the assigned minimum wage threshold significantly harms its GDP growth and/ or employment rate.

Institutional Set-Up

The role of the European Semester

In order to ensure that the aforementioned concrete proposals are properly implemented, an adequate monitoring mechanism needs to be set up. The European Semester currently acts as a platform of governance under which the EU and the Eurozone coordinate their budgetary and economic policies, in line with the Strategy and the Stability and Growth Pact. The European Semester is to be the designated monitoring body, as this mechanism already adequately provides the necessary institutional setting. It will continue to act as platform of discussion and cooperation between the Union institutions and the Member States. The Committee opted for this already established institutional body because implementing a new body would prolong the decision-making process and raise the administrative burden.

Further, the Committee advises the national politicians, trade unions and employers to discuss their respective standpoints and proposals within the framework of a national committee that is closely cooperating with the responsible European institutions for the implementation.

Opt-out Mechanism

It is essential that the Member States are given all the necessary possibilities to put forward their claims and concerns. Hence, the consideration of opt-outs is a vital part of the monitoring mechanism as it will ensure that the distinct positions of the Member States are adequately catered for. In that regard, if the differentiated target rates entail unreasonable burdens on some of the Member States' sectors and industries, which are considered integral to the national economy, such sectors and industries would present

justified opt-outs. In this eventuality, the Member State is to address the European Semester with its exemption request. It should do so by providing sufficient and convincing evidence that the provision of such 'opt-out mechanism' is essential. This implies that such opt-out is necessary to meet economic objectives that relate to GDP growth and unemployment rates that are in line with the Europe 2020 Strategy. The European Semester will then scrutinise the position put forward by the Member State and decide accordingly. On a Member State's request, an independent and impartial body, will review the European Semester's position.

The Committee has agreed that this body cannot have full judicial powers. Thus, the Court of Justice of the European Union is not to be taken into consideration, as such body would make the review process cumbersome. Two possibilities have been identified in this regard:

- (i) the creation of an ad hoc committee; or
- (ii) providing existing bodies such as the European Ombudsman with the required quasi-judicial powers

Regardless of the selected option, the chosen body will have the final say.

Closing Statement

The Committee acknowledges that a European minimum wage policy is a highly sensitive topic as it has a great impact on national systems and sovereignty. Nevertheless, the Committee is also convinced of its necessity due to the reasons laid out in this proposal. This proposal aimed at laying out the current situation regarding minimum wages in Europe and the advantages the introduction of a European minimum wage policy would have for all the affected stakeholders.