

# CONSIDERATIONS REGARDING THE MINIMUM WAGE IN THE EUROPEAN UNION

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## Abstract

*The crucial role of the minimum wage becomes evident during times of economic recession, such as the one currently being determined by the COVID-19 pandemic, which has increased the risk of poverty and social exclusion. In the EU, 109 million people are being exposed to these risks.*

*The creation of an European standard for fair salaries is essential for all workers of the EU. Thus, since 2020, the Commission has been preparing a legal instrument to ensure an adequate minimum wage, while promoting the effective involvement of social partners and the role of collective agreements.*

*This article seeks to analyse the current situation of the minimum wage in the EU-27, based on the information published by the competent authorities and the steps that have been taken for the establishment of a legal framework ensuring a fair minimum wage for all workers in the European Union.*

**Keywords:** *minimum wages, fair minimum wages, European Union, labour relations*

**JEL Classification:** *K31, J31, J108*

## 1.1. The minimum salary in the current context of the EU-27

The data published by Eurostat (2020) in 2018 indicates that, within the EU, approximately 109 million people were exposed to the risk of poverty or social exclusion, representing 21,7% of the total population of the Union, and one out of every five European workers had precarious employment.

In 2018, 23% of minimum wage earners in the EU reported difficulties or great difficulties in making ends meet, compared to 11.5% among the rest of the employees. A total of 16% of minimum wage earners lived in materially deprived households, compared to 6% among the rest of the employees.

The COVID-19 pandemic and the related public health measures aggravated the problem, having an uneven impact on different sectors, economic activities, occupations and, thus, on different groups of workers. This period had especially negative effects on the industries with a higher percentage of low-wage workers, such as tourism, commerce, service, and agriculture, underlining the importance of the minimum wage during periods of economic recession, as they represent a key element for equitable working conditions and for the prosperity of the social market economy.

In this context, it becomes imperative that salaries, especially the minimum wage, are set at an adequate level, allowing the workers to fulfill their own and their families' needs. The best method of promoting fair wages in the EU is collective consolidated bargaining.

At the moment, in 21 out of the 27 Member States, there is a minimum wage established at national level; each State has chosen its own rules for determining it. The other six, *i.e.* Austria, Denmark, Italy, Cyprus, Finland and Sweden, have not introduced a statutory minimum wage: in their case, this is settled through collective agreements for specific sectors.

The data presented by the European Commission indicates that, in the EU, the ratio of workers earning minimum wage varies from under 5% (for example, in Malta, Belgium, and the Czech Republic) up to approximately 25% (in Romania), women making up 60% of their total.

For the year 2020, the situation regarding the euro value of the minimum wages was almost unchanged. Concerning the purchasing power of the minimum wage in the same year (Eurostat 2020), a reduction of the differences between the States can be observed, as a result of the differences in their prices. The highest value is held by Luxembourg, at 1643, and the

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lowest by Latvia, at 547. The situation is almost identical for the purchasing power parity of the net wage, with the extreme values of 1464 in Luxembourg and 449 in Latvia. (Table 1)

**Table 1 - The minimum salary in the EU (2020)**

State	Minimum wage (in euro)	State	Gross minimum wage expressed in purchasing power parity	State	Net minimum wage expressed in purchasing power parity
LU	2142	LU	1634	LU	1464
IE	1707	DE	1484	FR	1370
NL	1680	NL	1443	BE	1327
BE	1627	BE	1417	NL	1278
DE	1584	FR	1349	IE	1201
FR	1539	IE	1277	DE	1074
ES	1108	ES	1147	ES	1063
SI	941	SI	1068	SI	832
MT	777	PL	1008	MT	789
EL	758	MT	890	PT	750
PT	741	EL	876	PL	736
LT	607	LT	873	EL	736
EE	584	RO	856	EE	651
PL	583	PT	843	CZ	641
SK	580	HR	769	LT	630
HR	546	CZ	762	SK	625
CZ	546	HU	758	HR	615
RO	461	SK	715	RO	525
HU	452	EE	686	HU	504
LV	430	BG	590	BG	458
BG	312	LV	547	LV	449

**Source:** Eurostat

According to the data presented by Eurostat (2021) on the 1st of January 2021, after a year of the COVID-19 pandemic, the minimum monthly wages had significant differences between the Member States. The lowest value was registered in Bulgaria, at 332 euro, and the highest, of 2.202 euro, in Luxembourg.

The reports (Eurofound, 2021a) group EU states with a statutory minimum wage in three categories.

The first category encompasses ten Member States from the east of Europe, where the minimum monthly wage is under 700 euro: Bulgaria (332 euro), Hungary (442 euro), Romania (458 euro), Latvia (500 euro), Croatia (563 euro), Czech Republic (579 euro), Estonia (584 euro), Poland (614 euro), Slovakia (623 euro) and Lithuania (642 euro).

The second category is comprised of the EU countries where the minimum monthly wage varies between 700 and approximately 1.100 euro: Greece (758 euro), Portugal (776 euro), Malta (785 euro), Slovenia (1.024 euro) and Spain (1.108 euro).

The States with minimum monthly wages of over 1.500 euro per month make up the third category: France (1.555), Germany (1.614), Belgium (1.626), the Netherlands (1.685), Ireland (1.724) and Luxembourg (2.202).

In the majority of the Member States, minimum wages were increased in January 2021, but the increase was moderate, due to the uncertainty generated by the pandemic, amounting to an average of 3%. Latvia registered the highest increase, of 16.3%, while Hungary experienced a decrease of 4%. An increase in the number of workers receiving minimum wages was also observed, as well as a rise in the percentage of women earning it.

During the analysed timeframe, the states where minimum wage is regulated through collective agreements also experienced modifications in the ten lowest-paying sectors. In these states, the wage increase was also moderate. In some sectors, no salary rise occurred, partly due to the impossibility of carrying out collective bargaining while adhering to the

sanitary regulations imposed during the pandemic. According to data (Eurofund 2021), table 2 showcasts the situation in these States.

**Table 2. Change in monthly minimum wages in collective agreements (%), between 1 January 2020 and 1 January 2021, for selected low-paid jobs (national currencies)**

	Austria	Denmark	Finland	Italy	Sweden
Domestic cleaners	4.2	2.2	2.0	1.5	0.0
Cleaners and helpers in offices, hotels and other establishments	1.7	2.2	2.0	0.0	1.7
Shop sales assistants	1.5	2.0	2.0	0.0	3.2
Waiters and bartenders	0,0	1,6	0,0	1,3	2,8
Cooks	0,0	0,7	0.0	1,3	2,8
Home-based personal care workers	4.8	1.1	1.3	1.4	2.8
Childcare workers	4.8	1.1	1.5	0,0	2,3
Agricultural, forestry and fishery labourers, standard employment	8.2	1.9	1.7	0.0	No data
Agricultural, forestry and fishery labourers, seasonal employment	6.3	2.1	4.0	0.0	No data
Couriers, newspaper or parcel deliverers	6.3	2.1	4.0	0.0	No data

**Source:** *Network of Eurofound Correspondents, based on national official sources, in Eurofound 2021*

### 1.2. The fair minimum wage

In November 2017, in Göteborg, the European Parliament, the Council and the European Commission proclaimed the European Pillar of Social Rights, based on 20 principles meant to help fulfil the promise of prosperity, progress and convergence of Europe.

Principle 6 of this pillar, “Salaries”, has as its objective the establishment, at an EU level, of an adequate minimum wage, one that can ensure a decent standard of living to the workers and their families, regardless of their area of labour, in accordance with the socio-economic conditions existent at the national level. Moreover, it reiterates the idea that the establishment must be transparent, foreseeable, in conformity with national practice, and respectful to the autonomy of the social partners. Afterwards, the EU Strategic Agenda for 2019-2024, convened in the European Council in June 2019, aimed at putting in practice principle 6 at both EU and national levels.

The fair minimum wage represents an essential component of the EU’s model of social market economy, as the intersection of the Member States in this area contributes to the reduction of their disparities and to the realisation of common Union prosperity.

The EU-27 adopting adequate minimum wages generates advantages not only for the workers, in particular the disadvantaged ones, who have a higher probability of receiving the minimum wage, but also for the enterprises that exist in the Union.

In order to achieve this objective, in October 2020, the Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union was elaborated. At an EU level, between 20 and 25 million workers will benefit directly from

this Directive. According to the impact assessment accompanying the Proposal, this policy package would have a significant social impact by reducing poverty and inequality, stimulating the workforce. (European Commission, 2020)

The Proposal does not establish a minimum wage that must be applicable in all Member States, but a series of criteria that are necessary for establishing it in each country respectively. This respects the principles of proportionality and subsidiarity, instituting minimum standards that ensure that the interference of European institutions remains at the lowest level that is necessary for attaining the expected objectives. If a Member State has already instituted more favourable provisions than the ones presented in the Proposal, they will not need to change their system for establishing the minimum wage.

According to article 3 of the Directive, the term “minimum wage” represents the minimum remuneration that employers must pay their employees for their work during a period of time, calculated based on time or output.

Minimum wages are considered adequate if they are equitable compared to the other salaries in the State and if they can ensure a decent standard of living. They can be established using the indicators usually utilized at the international level, such as 60% of the gross median salary and 50% of the gross average salary in the State at hand, in order to ensure correlation between the minimum wage and the other salaries.

As far as the access of workers to the protection of the minimum wage is concerned, the Proposal does not include new rules compared to the current situation: Member States may institute this salary either through collective agreements or through a statutory provision, where the latter exists.

Regarding the domains of application, the Directive specifies that its provisions shall apply to the EU workers that have an employment contract or an employment relationship defined by the legislation, collective agreements or the practices of the Member States, while taking into account the case law of the Court of Justice of the European Union. In *Lawrie-Blum*, the Court defined the worker as “a person [performing] services of some economic value for and under the direction of another person, in return for which he receives remuneration”, while also clarifying that “the sphere in which they are provided and the nature of the legal relationship [...] are immaterial”.

Article 4 of the Proposal institutes rules that aim to extend the coverage of collective bargaining. Article 3(3) defines this process as “all negotiations which take place between an employer, a group of employers or one or more employers’ organisations, on the one hand, and one or more workers’ organisations, on the other, for determining working conditions and terms of employment; and/or regulating relations between employers or their organisations and a worker organisation or worker organisations”. In this case, the Member States are obliged by the Directive to adopt measures that promote the capacity of social partners to partake in collective bargaining aimed at establishment of wages and that encourage conducting constructive, significant and informed negotiations regarding salaries. Additionally, the Member States where the collective bargaining coverage does not reach a minimum of 70% of the workers are solicited to provide a framework for collective bargaining and elaborate an action plan to promote it.

Chapter II applies to the Member States with statutory minimum wages. These will be obliged to create and utilise a set of criteria that they must abide by when establishing the minimum wage, so that its level ensures a decent standard of living and thus contributes to social cohesion and to the realisation of an upward convergence. These criteria must include elements such as the level, distribution and growth of gross wages, the labour productivity developments, and the purchasing power of the statutory minimum wage, taking into consideration the cost of living and the contribution of taxes and social benefits.

If the Member States reasonably and legitimately establish different levels of the minimum wage for specific categories of workers, they are obliged, through consultations with the social partners, to limit the use of variations of the statutory minimum wage, as well as their applicability in time and extent. Article 6 also includes a protection of statutory minimum wages against unjustified or disproportionate deductions. Supplementary measures include the obligations on Member States to adopt the necessary measures to ensure periodic and timely actualization of statutory minimum wages, in order to maintain their adequacy, and to set up consultative bodies to advise the competent authorities on issues related to these salaries.

In this context, it must be mentioned that the Proposal attributes an important role to consultations with social partners in all steps of the process towards establishing the minimum wage, in order to ensure that this process is sufficiently informed and inclusive. Therefore, social partners must partake in the institution and actualization of statutory minimum wages, *i.a.* through participation in consultative bodies, in the creation of the needed criteria, in determining the variations and deductions covered by Article 6, in data collection, and in carrying out studies related to this field.

To ensure that all actors respect the provisions and collective agreements regarding the institution of a minimum wage and to enhance the access of workers to the protection offered by it, the Proposal obliges the Member States adopt a series of measures. These include strengthening proportionate and non-discriminatory controls and field inspections conducted by labour inspectorates or bodies responsible with the application of the minimum wage, developing guidance for law enforcement authorities, ensuring access of the public to information regarding statutory minimum wage, guaranteeing access of workers to efficient and impartial dispute resolution and to their right of redress, including adequate compensation, and to efficient protection against all forms of prejudice, should they choose to exercise their right of defence.

### **1.3. Conclusions**

Combatting workers' poverty represents a complex issue at the EU level, which plays a crucial role in a multitude of factors, such as the fiscal framework, education, social benefits, and employment policies.

The suggestion that European citizens should be protected through a minimum wage that allows them and their family to enjoy a decent standard of living fits perfectly with the EU's objectives for sustainable development. In this context, the Proposal for the adoption of a Directive on adequate minimum wages in the European Union is a necessary step, one that perfectly aligns with the guidelines of the Union. A new element brought about by the Proposal is the view that minimum wages are a fundamental right and an underlying condition for a social, equitable and sustainable market economy.

Although the Proposal does not aim to set a common level of the minimum wage across all Member States, nor does it seek to modify the existent mechanisms of establishing this wage, it represents a necessary and useful undertaking in the current context. Adopting the Directive will lead to the creation of a foundation that is able of facilitating an upward convergence of the minimum wage within the Member States, in order to fight workers' poverty.

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