Industrial relations

Minimum wages in 2020: Annual review
Minimum wages in 2020: Annual review
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Key findings

This report was researched and produced before the onset of the COVID-19 pandemic. A limited number of key messages have been added on the basis of the findings which could be useful for policymakers as they seek to address the range of issues which will emerge in the aftermath of the pandemic. The elements which have been added to respond to the context have been highlighted in bold.

- The announcement of an EU minimum wage initiative has sparked an intense debate in the EU. The trade union movement is divided on whether there is a need for the initiative, and, if there is, how to implement it, but has expressed its support in the first stage consultation. (In the vote on the reply to the first consultation at the end of February, 83% of ETUC members voted in favour of the initiative, 16% voted against and 3% abstained from voting). Employer organisations point to the principle of subsidiarity and state they are not willing to negotiate on the issue from their end. The greatest concerns have been voiced by social partners and governments from the Nordic countries that fear an interference with their national wage-setting mechanisms.

- Statutory minimum wages were raised in most EU countries for 2020 – in many even substantially (for example, Poland 17%, Slovakia 12%, Czechia 11%). In Belgium, the statutory minimum wage remained frozen (apart from indexation), as social partners could not reach an agreement. Latvia’s rate was not changed either, in line with the previous agreement (see Eurofound’s ‘statutory minimum wages’ web page).

- Many countries were debating a further substantial increase to minimum wages beyond 2020, partially in relation to a relative target, partially in absolute terms. Some governments (such as Poland, Slovakia and Spain) have announced or are considering plans to elevate the statutory minimum wages to 60% of median or average wages. The UK reached this aim and intends to move beyond.

- Statutory minimum wages have become fairer as compared to other workers’ wages since the beginning of the millennium (when comparing statutory minimum wages to the median wages of all workers). In the median of countries with available data, the share of minimum wages in relation to median wages grew by 7 percentage points during 2000–2018. Exceptions were Belgium, Ireland and the Netherlands, where minimum wages fell behind the median wages in that period.

- Despite this upward trend, minimum wages in the majority of countries remain below 60% or even below 50% of median wages. This is particularly true in the central and eastern Member States, which were starting from very low relative levels at the beginning of the millennium and continue to have targets of around or below 50% in their minimum wage regulations.

- For countries without statutory minimum wages, the study mapped the minimum wage rates within collective agreements, applicable to 10 selected low-paid jobs. The findings show that the unweighted average of the lowest rates within each country range from €883 in Italy to €2,448 in Denmark.

- Workers in non-standard or new forms of employment tend to be less well reached by minimum wage policies. Overall, 7 out of 10 minimum wage workers report at least some difficulty in making ends meet, as compared to fewer than 5 out of 10 other workers. However, these figures vary greatly across countries. For example, in Denmark, Finland, Germany and Sweden less than 10% of minimum wage workers find it difficult or very difficult to make ends meet; while in Bulgaria, Croatia and Cyprus between 50% and 60% find it difficult or very difficult; and in Greece 80% of minimum wage workers report such difficulties.

- The report’s findings suggest that increases in the relative level of minimum wages within a country on its own may not be sufficient to decrease the share of workers who report that they find it difficult or very difficult to make ends meet. It’s the level of minimum wages and what they can buy that matters more.

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1 Available at: https://www.eurofound.europa.eu/data/statutory-minimum-wages.
2 This is called the ‘Kaitz index’. It is an economic indicator reflecting the ratio of the minimum wage to the median or average wage).
3 When lining up all Member States and the UK with available data, according to the change of the Kaitz index between 2000 and 2018 (the country ‘in the middle’ is the median country).
have higher purchasing power (for example, in eastern Germany or in Hungary the Great Hungarian Plain and North). This is because the nominal minimum wage rate is the same across all regions, while the regional price level (particularly for rents, but also services) varies, which will also be reflected in the average regional wages of other workers.

- The latest research on minimum wages confirms that the employment effects of minimum wage increases are relatively small but decreases in working hours can occur. Unsurprisingly, regions, companies or occupations with higher proportions of minimum wage workers tend to be more affected by minimum wage rate changes in terms of impacts on wages, employment and working hours.

- Particularly sectors and occupations with larger shares of minimum wage workers have been significantly affected by the COVID-19 pandemic. For example, workers in agriculture (minimum wage workers account for 15% of the sector and up to 20% for some agricultural jobs), retail (13%) or cleaners and helpers (25%) are among those who keep a society going during times of social distancing and lockdown. Other sectors and occupations with larger shares of minimum wage workers – particularly those in accommodation and hospitality (16%), arts, entertainment, recreation or working in domestic households (14%) or personal service worker (16%) – were among those feeling the effects of the public health measures immediately.

- Governments across Europe are reacting with income stabilisation measures for those affected by the crisis. Minimum wages can have an additional role in the policy mix to stabilise incomes and thus demand and counteract a downward spiral into recession or depression. How they can develop after the emergency will depend on the development of productivity and unemployment. (For more information see Eurofound’s COVID-19 EU PolicyWatch: https://www.eurofound.europa.eu/data/covid-19-eu-policywatch.)
Introduction

This report on minimum wages in 2020 is part of an annual series. Minimum wage policies and rate changes tend to be met with a high level of interest from all sides in the annual national discussions on this issue. Also the debate on a more coordinated or even common EU level minimum wage policy is not new (see Eurofound, 2014 p. 91). Despite this, these discussions were mainly confined to the national level, as wage setting is primarily the competence of Member States and, according to national traditions, the social partners.4

But the year 2019 saw an increased surge of interest and additional focus of debate at the EU level following then European Commission President-candidate Ursula von der Leyen’s presentation of the political guidelines for the next Commission 2019–2024 to the European Parliament in July, ahead of the vote on her role of president for the European Commission. In these guidelines she proposed an action plan to fully implement the European Pillar of Social Rights, including:

As part of this, we will support those in work to earn a decent living, and those out of work as they look to find a job .... Within the first 100 days of my mandate, I will propose a legal instrument to ensure that every worker in our Union has a fair minimum wage. This should allow for a decent living wherever they work. Minimum wages should be set according to national traditions, through collective agreements or legal provisions. I am a firm believer in the value of social dialogue between employers and unions, the people who know their sector and their region the best .... by 2024 every worker should have a fair minimum wage.

This announcement followed a series of statements from countries in support of EU action on minimum wages (such as from German Chancellor Merkel and French President Macron at the ILO’s centenary congress, as well as from prime ministers and European parties ahead of the EU parliament elections). It sparked mixed reactions across Europe, particularly from the social partners and their EU-level organisations. These reactions showed dividing lines between the two sides of industry, as well as across some country blocs.

Chapter 1 of this report discusses some of the reactions in 2019 and early 2020 to the proposed EU minimum wage initiative. The chapter summarises the differences between social partners and countries, and contrasts the arguments in favour of, and against the initiative. At the time of writing (February 2020) the announced initiative is at an early stage. The Commission launched the first stage of a social partner consultation in mid-January 2020, outlining objectives and potential elements of the initiative. In this consultation, social partners have been asked whether they find the matter relevant to be addressed at EU level and whether they wish to enter into negotiations as per Article 155 of the Treaty on the Functioning of the European Union (TFEU). However, there is no concrete proposal to date – so as to leave ample room for EU social partners to shape the scope of the initiative on their own – should they opt to enter into negotiations on the issue of fair wages. The second stage of consultation is planned for May.

Chapter 2 presents the most recent minimum wage rates for 2020 and elaborates how these rates were set in the EU, Norway and the UK during 2019, with a particular focus on the role and views of social partners. It also recalls the most recent national debates concerning aspects of the process of setting the minimum wages in a transparent and predictable way. It also summarises the discourse in countries without statutory minimum wages on a potential introduction of them.

Chapter 3 provides a closer look into national figures and debates on adequate minimum wages, as one of several issues which the EU initiative could address. ‘Adequate wages’ are presented as a multidimensional concept, including the following.

- The fairness of minimum wages as defined in relation to other workers’ wages and how countries differ in this regard
- The net level of minimum wages which workers receive, once taxes and social security contributions have been deducted: What are the recent policy debates on supporting the take-home pay of minimum wage earners?
- Is the level of net take-home pay sufficient for workers and their families for a decent living, so they can make ends meet?

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4 This right sits alongside the right of association, the right to strike and the right to impose lock-outs.
To what extent does the purchasing power of national minimum wages vary regionally within countries?

Chapter 4 summarises data on which workers are covered by various minimum wage rates. It also provides examples of national interventions to close some of the gaps, including for self-employed or platform workers. Chapter 5 explores issues on the coverage or non-coverage of workers either under statutory minimum wages or collective agreements, including a section on workers in non-standard forms of employment.

Chapter 6 is devoted to reviewing recent national research on minimum wages. It focuses on the findings of recent quantitative impact assessment studies that evaluate the impact of minimum wage changes on wages, employment, working hours, in-work poverty, prices and company profits.

Chapter 7 provides conclusions that may support policymaking decisions.

For this report, conversion rates, unless otherwise indicated, are based on the European Central Bank (ECB) reference exchange rate, average of observations through 2019.
1 EU minimum wage initiative and first reactions

Following then European Commission President-candidate Ursula von der Leyen’s announcement of July 2019 to introduce a legal instrument so that by 2024 every worker shall have a fair minimum wage, the minimum wage issue was further put on the new Commission’s agenda in her brief to the then Commissioner-designate for Jobs and Social Rights, Nicolas Schmit (von der Leyen, 2019a and 2019b).

*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.*

(von der Leyen, 2019b)

The second half of 2019 saw some first reactions on the planned initiative from national actors. As reported by the Network of Eurofound Correspondents, most reactions were made in interviews and quoted in newspaper articles or press releases, rather than being official institutional opinions and responses. Official responses will be expected later in 2020, as on 14 January 2020, the European Commission published a first-stage social partner consultation, in which it asks social partners whether:

- the Commission has correctly and sufficiently identified the issues and the possible areas for EU action
- EU action is needed to address the identified issues and what should be the scope of such action
- to initiate a dialogue under Article 155 of the Treaty on the Functioning of the European Union (TFEU)

The official responses to this consultation were sent in February 2020 (but after the drafting of this report).

First reactions

While in many cases not official, it is worthwhile to review reactions made to the proposed initiative between June 2019 and mid-January 2020, as they provide insights into the EU-level debate that lies ahead. The greatest concerns and open resistance to the initiative stem from the Nordic countries, particularly from the social partners. In each of these countries, there is no legal minimum wage in place; rather, minimum wages are set in sectoral collective agreements, which cover a large majority of workers. The common fear among most social actors in these countries is the potential interference of the EU initiative with national wage bargaining traditions and that EU regulation could interfere with more bargaining areas.5

In Denmark, the social partners (Danish Trade Union Confederation (FH) and Confederation of Danish Employers (DA)) published a joint tripartite statement with the government ahead of the Commissioner’s visit to Denmark in which they outlined their reasons against the EU minimum wage initiative (Berlingske.dk, 2019). Equally, the Swedish social partners (Swedish Trade Union Confederation (LO), Council for Negotiation and Cooperation (PTK) and Swedish Enterprise (SNI)) sent a joint letter to their government asking them to support their opposition, as they see it as threat to the bipartite self-regulation model (DN DeBatt, 2019). The Swedish government said it was supportive of the social partners’ demands (Nordmark, 2019). Similarly, in Norway, which could be obliged to implement an EU directive,6 social partners (Confederation of Trade Unions (LO) and Confederation of Norwegian Enterprise (NHO)) urged their government in a joint letter to lobby against the initiative, voicing fears that wages could go down (Heyerdahl, 2019). The Finnish main social partner reactions were of a somewhat different nature and predominantly focused on arguing against the introduction of a statutory minimum wage (read more in Chapter 3, section ‘Introducing statutory minimum wages’).7 The Finnish Minister of Labour reacted to the discussion by arguing that there was no need to change the Nordic model and confirming that the EU has taken this into consideration (Yle, 2019). Only the Central Organisation of Finnish Trade Unions (SAK) – despite its opposition to any statutory minimum wage – stated it was in principle supportive, but on condition that collective bargaining was not harmed, arguing that it can help reduce international wage competition (SAK, 2019).

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5 Furåker (2017) shows in a survey among trade unions in the five Nordic countries below the peak level that they share the sceptical attitude of the peak organisations, with Swedish unions being particularly doubtful about the potential advantages of statutory wages.

6 If it is considered to be covered by the European Economic Area (EEA) Agreement, as per Article 102.1.

7 Confederation of Finnish Industries (EK), SAK, the Finnish Confederation of Professionals (STTK), Finnish Food Workers’ Union (SEL) and Trade Union Pro (Pro) (Aamulehti, 2019; Länsi-Suomi, 2019; Seura, 2019; Uusi Suomi, 2019).
Trade unions are split over the initiative. Outside of the Nordic countries, the Network of Eurofound Correspondents found that the first reactions from trade unions in 14 other countries showed support for the initiative in principle. Reactions from other countries were not obtained.

Table 1: Social partners’ first reactions to the announced initiative on fair wages

<table>
<thead>
<tr>
<th>Statements showing support for the initiative in principle</th>
<th>Country and organisation(s)</th>
<th>Source(s)</th>
</tr>
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<tbody>
<tr>
<td>Trade unions</td>
<td>Austria: Austrian Trade Union Federation (ÖGB)</td>
<td>ÖGB (2019)</td>
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<td></td>
<td>Bulgaria: Confederation of Independent Trade Unions of Bulgaria (CITUB)</td>
<td>CITUB (2019)</td>
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<td></td>
<td>Czechia: Bohemian-Moravian Confederation of Trade Unions (ČMKOS)</td>
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<td></td>
<td>Finland: Central Organisation of Finnish Trade Unions (SAK)</td>
<td>SAK (2019)</td>
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<td></td>
<td>France: French Democratic Confederation of Labour (CFDT)</td>
<td>CFDT (2020)</td>
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<td></td>
<td>Germany: German Trade Union Confederation (DGB)</td>
<td>Berschens (2020); DGB (2018)</td>
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<td></td>
<td>Italy: Italian General Confederation of Labour (CGIL) and Confederation of Workers’ Trade Unions (CISL)</td>
<td>CISL (2019); Mauro (2020)</td>
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<td></td>
<td>Latvia: Free Trade Union Confederation of Latvia (LBAS)</td>
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<td></td>
<td>Lithuania: Lithuanian Trade Union Confederation (LTUC)</td>
<td>Budreikiené and Gudavičius (2019)</td>
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<td>Poland: All-Poland Alliance of Trade Unions (OPZZ), Trade Unions Forum (FZZ) and Independent Self-governing Trade Union Solidarity (NSZZ Solidarność)</td>
<td>Guza (2019); NSZZ Solidarność (2019)</td>
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<td>Portugal: General Workers’ Union (UGT)</td>
<td>Fernandes (2020)</td>
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<td>Slovakia: Confederation of Trade Unions of the Slovak Republic (KOZ SR)</td>
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<td>Spain: Trade Union Confederation of Workers’ Commissions (CCOO) and General Workers’ Union (UGT)</td>
<td>CCOO (2019a); Finanzas (undated)</td>
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<td></td>
<td>Latvia: Employers Confederation of Latvia (LDDK)</td>
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<td>Lithuania: Lithuanian Business Employers’ Confederation (LEC)</td>
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<td>Reported statements showing lack of support for the initiative</td>
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<td>Denmark: Confederation of Danish Employers (DA)</td>
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<td>Germany: Confederation of German Employers’ Associations (BDA)</td>
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<td></td>
<td>Norway: Confederation of Norwegian Enterprise (NHO)</td>
<td>VG (2019)</td>
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Notes: Based on referenced sources and reflects the first positions and statements until end of January 2020. As the process is dynamic and more nuanced discussions emerge, the official positions of the quoted organisations might have been adapted.
In November 2019, the 24 largest trade union federations from central and eastern European countries sent a letter to the European Trade Union Confederation (ETUC) as a counterweight to the opposition stemming from the Nordic unions. They appealed to the ETUC to make more intensive efforts to support the EU minimum wage initiative. The strengthening of collective bargaining was a key part of their argument. In a meeting with Commission President von der Leyen in early January 2020, the ETUC showed support for the initiative and reported that the organisation had been asked to prepare proposals on how collective bargaining can be strengthened in each Member State.

The ETUC welcomes plans for a long overdue pay rise and believes collective bargaining is the sustainable solution to combat wage cuts and inequality. (ETUC, 2020)

Other arguments advanced in favour of the initiative include the potential to coordinate international wage policies and promote the convergence of wages, reduce in-work poverty, offer protection for workers not covered by collective agreements, and avoid the exploitation of vulnerable groups of workers, such as migrants.

In the vote on the reply to the first consultation at the end of February, 83% of ETUC members voted in favour of the initiative, 16% voted against and 3% abstained from voting.

Employer organisations at the national level have reacted less than trade unions. Among the few reported statements there are somewhat mixed positions as noted in the examples below.

In Germany, the BDA is in clear opposition to the initiative, saying that the EU initiative would interfere with national wage-setting systems and will impact on the competitiveness of the Member States and on the labour market integration of the unemployed (Grabitz and Knuf, 2020). In Czechia, the HK ČR (2019) is also strongly opposed, arguing that reforms and productivity gains should come first.

In Lithuania, the president of the LEC expressed the opinion that the European Commission could issue provisions for the minimum wage to be set in mandatory consultation with social partners, and that the amount of the minimum wage should be fixed on the basis of the economic indicators of the countries and regions concerned. But he argued against any binding threshold for EU countries, even if it is a percentage of the average wage (Budreikienė and Gudavičius, 2019). A similar preference for a non-binding recommendation was voiced by the director of the Polish Confederation Lewiatan (Guza, 2019). Italian Confindustria (2019b) also did not reject the proposal outright but stated that an EU minimum wage ‘must be sustainable and anchored to objective parameters that cannot be manipulated by politics’.

French employers were reported to show no opposition, as they do not see it as a threat to their labour costs (see Box 1).

BusinessEurope’s first reaction following the publication of the Commission’s first-stage consultation was clearly objecting to any EU legislation and referring to the social partner’s autonomy when stating:

The vast majority of Member States already have a minimum wage, but they operate quite differently. Wage setting is best taken care of by Social Partners at the national level. BusinessEurope is strongly opposed to EU legislation on minimum wages. It’s also important to remember that wages are not the right tool to redistribute wealth – we have other tools for that, like taxation and social safety nets. And if wages are to preserve employment and competitiveness, they need to be in line with productivity. (BusinessEurope, 2020)

Some early reactions were based on misunderstandings on what the announced initiative could entail. For instance, several of the first reactions to the EU minimum wage initiative – mainly within the Nordic countries, but also in others – were based on a resistance to the introduction of statutory minimum wages, even though the European Commission had ruled this out on several occasions. Other commentators reacted to certain relative thresholds of minimum wages compared to actual wages or even wondered whether the EU would introduce one common rate for all (see section below).

Table 2 provides an overview of the arguments put forth by social partners, governments and others social actors (for example, members of parliament, experts) commenting on the initiative.

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See also: Furåker and Larsson (2020) conducted a survey among trade unions across Europe and concluded that the ETUC compromise currently appears to be the only way to handle the cleavage in the EU trade union movement.
Minimum wages in 2020: Annual review

In January 2019, the largest French employers’ organisation – the Movement of the Enterprises of France (MEDEF) – launched a representative survey among 600 enterprises. The survey enquired about business leaders’ opinions on existing and newly proposed EU policies. Concerning an EU minimum wage, they were asked whether, personally as business leaders, they were supportive of the installation of ‘an EU minimum wage calculated as a function of GDP’.

The answers were balanced: Overall, 50% of the employers were in favour of a European minimum wage (while 46% were against). This is within the survey error margin of 1.7% to 4%. The lowest percentage of managers in favour was recorded in industry (43%) and the highest in construction (56%). Services (50%) and commerce sectors (47%) were between. The differences between the smallest enterprises of 0–9 employees (50%) and those with more than 10 employees (52%) was insignificant.

Compared to the other nine EU policy proposals presented to the respondents, the EU minimum wage was found to be among those with a lower level of acceptance. The highest support from the surveyed business leaders was recorded for ‘Tax at the European level for online platforms generating income on the territory of the European Union’ and for ‘Progress towards a common European Defence’ (each receiving 77%). The least support was recorded for an EU-wide unemployment insurance scheme financed out of the EU budget (42%) (Jeanbart, 2019).

Box 1: Survey among French enterprises shows mixed support for EU minimum wage

Table 2: Overview of main arguments and proposals concerning an EU minimum wage initiative from social partners

<table>
<thead>
<tr>
<th>Reasons for supporting or opposing an EU-level minimum wage initiative</th>
<th>In favour</th>
<th>Against</th>
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<tr>
<td>The initiative could help promote collective bargaining.</td>
<td>Compliance is better ensured by the social partners.</td>
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<td>It could help fight wage and social dumping.</td>
<td>(In our country) the national minimum wage is already high/fair.</td>
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<td>It can help to coordinate international wage policies and promote convergence of wages.</td>
<td>The administrative imposition of any salary is a mistake. This is a market solution.</td>
<td></td>
</tr>
<tr>
<td>(In our country) the minimum wage is below the poverty threshold.</td>
<td>Minimum wages must not be used as tool for redistribution.</td>
<td></td>
</tr>
<tr>
<td>It would help the workers not covered by collective agreements and offer them protection.</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Immigrants in particular are easy to exploit in the labour market, but a (statutory) minimum wage is easy to explain and easy to check if they are complied with.</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>It could take the politics out of the regular national discussions on updates (if it is anchored in objective parameters).</td>
<td>–</td>
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<table>
<thead>
<tr>
<th>Potential economic and labour market implications</th>
<th>In favour</th>
<th>Against</th>
</tr>
</thead>
<tbody>
<tr>
<td>All workers could achieve a decent standard of living.</td>
<td>It could distort labour markets and hamper the prosperity of countries and citizens.</td>
<td></td>
</tr>
<tr>
<td>No real threat to own country’s labour costs; no large impact expected for the labour costs of countries with lower pay either.</td>
<td>It could limit access for less-educated and low-qualified workers or otherwise disadvantaged workers or will not help reduce their unemployment.</td>
<td></td>
</tr>
<tr>
<td>It could provide a ‘level playing field’ between companies or countries.</td>
<td>It could result in fewer jobs (if set too high).</td>
<td></td>
</tr>
<tr>
<td>–</td>
<td>It could slow down wage developments or even lower wages (in high wage countries).</td>
<td></td>
</tr>
<tr>
<td>–</td>
<td>It could distort competition between countries and make wage (setting) developments more rigid.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal considerations</th>
<th>In favour</th>
<th>Against</th>
</tr>
</thead>
<tbody>
<tr>
<td>The European Court of Justice has on two occasions in the context of fixed-term work suggested that Article 153(5) of the TFEU does not amount to an exclusion of any matter relating to ‘pay’, as otherwise a number of aspects of EU social policy would be ‘deprived of much of their substance’ (C-268/06 point 124–125 and C-307/05, point 41).</td>
<td>Some social partners argue that Article 153(5) of the TFEU limits the possibility of EU action in this area (see ruling by the European Court of Justice – Rs C-268/06, point 123 and 124, 15 April 2008).</td>
<td></td>
</tr>
<tr>
<td>A binding minimum wage for everyone is desired (preferably set by sectoral collective agreements).</td>
<td>A non-binding recommendation would be preferred over a binding directive.</td>
<td></td>
</tr>
<tr>
<td>–</td>
<td>It would be against the principle of subsidiarity.</td>
<td></td>
</tr>
<tr>
<td>–</td>
<td>The European Pillar of Social Rights does not imply an extension of EU powers.</td>
<td></td>
</tr>
</tbody>
</table>
National governments did not react openly to the same extent as social partners did. Aside from their ability to discuss this at the European Council, the lack of immediate response is also because national governments have a more complex role – at both EU and national levels. On the one hand, as employers they are faced with the financial implications and the apparent interest in maintaining balanced budgets. On the other hand, national governments have a societal role as a third party in mediating between the interests of workers and their families and employers. This intermediation can be direct when setting statutory rates, but also indirect via their powers to determine the tax wedge and benefits for minimum wage workers.

### Potential scope of the EU minimum wage initiative

At an international level, there are two key documents guiding best practice in minimum wage setting: The ILO’s Minimum Wage Fixing Convention, 1970 (No. 131) and the related recommendation (No. 135). These two texts outline basic principles on minimum wage setting processes. In Article 1 of the recommendation, the two fundamental principles on the purpose of minimum wage fixing suggest a worker-oriented view.

1. Minimum wage fixing should constitute one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families.

2. The fundamental purpose of minimum wage fixing should be to give wage earners necessary social protection as regards minimum permissible levels of wages.

(Minimum Wage Fixing Recommendation, 1970 (No. 135))

As of 2020, however, only 10 Member States have ratified Convention No. 131. The principle was reaffirmed in the 2019 ILO Centenary Declaration of the future of work, which calls for ‘strengthening the institution of work to ensure adequate protection of all workers’, including ‘an adequate minimum wage, statutory or negotiated’.

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9 National discussions and studies concerning the costs for governments of minimum wage increases were recorded in France, Latvia and the Netherlands.

10 These are: Bulgaria (most recently in 2018), France, Latvia, Lithuania, Malta, the Netherlands, Portugal, Romania, Slovenia and Spain.
The European Pillar of Social Rights, too, makes reference to wages in general as noted in Box 3. The announced EU minimum wage initiative is one of the first initiatives to implement the principles of the European Pillar of Social Rights. Soon after the von der Leyen European Commission had been established in office, in mid-January 2020, the Commission launched the first-stage consultation of social partners.

In the social partner consultation document, the European Commission elaborates on what it understands by ‘wage adequacy’: Rather than focusing on a specific level (in absolute or relative terms), the consultation document made it clear that the Commission considers wage adequacy to be a multidimensional concept, which takes into account the following five aspects.

- How minimum wages relate to other wages within the overall wage distribution. This would be a parameter for fairness in relation to other workers. It is usually measured by the Kaitz index as gross minimum wages in relation to average or median wages in the country.
- The take-home pay or what impact taxes and social security contributions have.
- Whether the take-home pay of minimum wage earners is sufficient to provide for a decent living. Two possibilities are mentioned:
  - a needs-based approach as an absolute measure, which determines a basket of goods and service that workers and their families should be able to consume. In some countries – notably the UK and Ireland – this has been labelled as ‘living wage’
  - a relative measure of in-work poverty, which compares the net earnings of minimum wage workers to 60% of median household income
- Price levels and therefore differences in purchasing power across countries.
- Some countries have exceptions for certain groups of workers, which might not be covered by minimum wages or which have a lower rate than the ‘full-adult’ rate. Such lower rates and their extent will need to be considered.

In addition, the way of setting minimum wages, and the role of social partners therein, is another driver for the adequacy of minimum wages.

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**Box 2: ILO criteria for determining the level of minimum wages**

Article 3 of the ILO’s Minimum Wage Fixing Recommendation, 1970 (No. 135) suggests that the following six criteria should be taken into account ‘amongst others’, when fixing the level of the minimum wage:

- the needs of workers and their families
- the general level of wages in the country
- the cost of living and changes therein
- social security benefits
- the relative living standards of other social groups
- economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment

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**Box 3: Wages**

Workers have the right to fair wages that provide for a decent standard of living.

Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and their family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.

All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners.

(European Pillar of Social Rights, Principle 6)
Figure 1: Conceptualising adequate minimum wages

1: Relation to other wages
   X% of median or average wage

2: Net value
taxes and social security contributions

3: Sufficiency
of take home pay:
   1. such as absolute level living wage
   2. such as poverty thresholds
      (60% of median household income)
      – ‘in work poverty’

4: Price levels
   and considering the purchasing power

5: Sub-minimum and universality

Adequacy of minimum wages

Source: Eurofound depiction based on European Commission (2020)
According to the latest data from the European Union Statistics on Income and Living Conditions survey (EU-SILC), Eurofound estimates that 9% of employees in the EU earned around the minimum wage (+/- 10%) in 2017. The range goes from about 3% in Sweden, Belgium, Denmark and the Netherlands up to 20% and more in Hungary, Portugal and Romania. In most countries there continue to be more women earning the minimum wage than men.

The total estimated workforce of employees, based on EU-SILC 2018 data, is composed of 48.8% female and 51.2% male individuals. However, the proportions are different when considering only workers earning around the minimum wage. In this case, female individuals make up 58.5% of the workforce and male individuals only 41.5%.

When considering sectors, Figure 4 shows that estimated proportions of minimum wage workers per sector can vary between 3% in financial and insurance activities to 16% in accommodation and food service activities. Also, agriculture, forestry and fishing with 15% and the sector aggregation R+S+T+U (arts, entertainment and recreation; other service activities; activities of households as employers; and activities of extraterritorial organisations and bodies) with 14% see high proportions of minimum wage workers. Overall, these figures are aggregated at EU level (except, due to unavailability of data, Italy and Slovakia, as well as the UK) and can therefore be different when considered at country level. In Portugal and Hungary, for example, proportions of minimum wage workers in accommodation and food service activities are likely to be higher, at an estimated 29%.

Notes: Unless otherwise noted, only countries with available and comparable data have been included in the figures in this report. See methodological notes in Annex 2 for additional information.
Source: Eurofound calculations based on the EU-SILC 2018
The picture is more pronounced when considering occupations. Figure 5 presents the 10 occupations with the largest estimated proportion of minimum wage workers. Food preparation assistants; street and related sales and service workers; and cleaners and helpers all have one in four employees receiving a salary around the national minimum wage.

Figure 5: Proportion of minimum wage workers per occupation (top 10), EU level, 2017

Food preparation assistants  26%
Street and related sales and service workers  25%
Cleaners and helpers  25%
Refuse workers and other elementary workers  22%
Market-oriented skilled agricultural workers  21%
Subsistence farmers, fishers, hunters and gatherers  20%
Food processing, wood working, garment and other craft and related trades workers  19%
Agricultural, forestry and fishery labourers  18%
Sales workers  18%
Personal service workers  16%

Note: Aggregated at EU level. Does not include Italy, Slovakia or the UK due to unavailability of data. 
Source: Eurofound calculation based on the EU-SILC 2018
This chapter presents the newest rates for minimum wages, focusing on statutory rates in the first place. It also includes an overview of special statutory rates, which can either come in the form of sub-minimum rates, below the statutory minimum wage (mostly for young workers), or as rates above the statutory minimum wage. The latter are mainly linked to seniority and skill levels.

Statutory minimum wage rates for 2020

Gross statutory minimum wage rates have increased in all Member States in 2020 compared to 2019. Data in Table 3, which presents monthly minimum wage rates converted into 12 euro denominated wage payments, shows that the year-on-year increases range from 17% in Poland (from €523 to €611) to 1.2% in France (from €1,521 to €1,539), while rates in Latvia remained unchanged. The median gross minimum wage increased by 8.4% and now stands at €740 (represented by Portugal).

As in previous years, Luxembourg has the highest gross minimum wage at €2,142, a small increase of €52 (2.5%) compared to the previous year. Ireland (€1,707 as of February 2020) and the Netherlands (€1,654) follow with the second and third highest figures, respectively. Workers in Romania (€466), Latvia (€430) and Bulgaria (€312) receive the lowest minimum wages in the EU.

### Table 3: Gross minimum wages, selected EU Member States and the UK, 2019 and 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Converted values (€)</th>
<th>National rates and developments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>€2,090</td>
<td>€2,142</td>
</tr>
<tr>
<td>UK†</td>
<td>€1,597</td>
<td>€1,760</td>
</tr>
<tr>
<td>Ireland*</td>
<td>€1,656</td>
<td>€1,707</td>
</tr>
<tr>
<td>Netherlands</td>
<td>€1,616</td>
<td>€1,654</td>
</tr>
<tr>
<td>Belgium</td>
<td>€1,594</td>
<td>€1,626</td>
</tr>
<tr>
<td>Germany*</td>
<td>€1,557</td>
<td>€1,584</td>
</tr>
<tr>
<td>France</td>
<td>€1,521</td>
<td>€1,539</td>
</tr>
<tr>
<td>Spain*</td>
<td>€1,050</td>
<td>€1,108</td>
</tr>
<tr>
<td>Slovenia</td>
<td>€887</td>
<td>€941</td>
</tr>
<tr>
<td>Malta*</td>
<td>€762</td>
<td>€777</td>
</tr>
<tr>
<td>Greece*</td>
<td>€684</td>
<td>€758</td>
</tr>
<tr>
<td>Portugal*</td>
<td>€700</td>
<td>€741</td>
</tr>
<tr>
<td>Poland*</td>
<td>€523</td>
<td>€611</td>
</tr>
<tr>
<td>Lithuania</td>
<td>€555</td>
<td>€607</td>
</tr>
<tr>
<td>Estonia</td>
<td>€540</td>
<td>€584</td>
</tr>
<tr>
<td>Slovakia</td>
<td>€520</td>
<td>€580</td>
</tr>
<tr>
<td>Czechia*</td>
<td>€519</td>
<td>€575</td>
</tr>
<tr>
<td>Croatia*</td>
<td>€506</td>
<td>€546</td>
</tr>
<tr>
<td>Hungary*</td>
<td>€464</td>
<td>€487</td>
</tr>
<tr>
<td>Romania*</td>
<td>€446</td>
<td>€466</td>
</tr>
<tr>
<td>Latvia</td>
<td>€430</td>
<td>€430</td>
</tr>
<tr>
<td>Bulgaria*</td>
<td>€286</td>
<td>€312</td>
</tr>
</tbody>
</table>

**Notes:** Faded amounts in columns five and six are in euro and are the same as what is listed in columns two and three. * Converted values: Rates for non-eurozone countries (Bulgaria, Croatia, Czechia, Hungary, Poland, Romania and the UK) were converted to euro by applying the exchange rate applicable at the end of the previous reference month. Rates for countries with more than 12 wage payments per year (Greece, Portugal and Spain) were converted by dividing the annual sum of the minimum wage by 12 calendar months. Rates for countries where the minimum wage is defined as an hourly rate (Germany, Ireland and the UK) were converted to monthly rates by applying the average number of usual weekly hours. The rate of Malta was converted from a weekly to a monthly rate considering (52/12) weeks per calendar month. Hourly rates are either legally defined by the country’s legislation or converted by applying the average number of usual weekly hours. The minimum wage change in Ireland came into effect in February 2020, in Belgium the change came into effect in March 2020. In Greece, the minimum wage increased in February 2019 from €586 to €650. † The UK is shown in the table but has not been discussed in the comparative text above due its withdrawal from the EU on 31 January 2020. Exit negotiations will have had an impact on exchange rates and hence the euro figures for the UK should be viewed with this in mind. **Source:** Network of Eurofound Correspondents.
Rates presented in this chapter are descriptive and are not very informative for cross-country comparisons, as they neither take into account price developments (inflation), nor differences in purchasing power. A discussion of these issues is provided in the section ‘Real developments and purchasing power’ on page 21.

Since jobs with minimum wage pay are often part-time jobs or jobs done on hourly contracts, the comparison of hourly wages gives a better picture. Hourly minimum wage data presented in Figure 6 are either legally defined at hourly frequency, sometimes in addition to a monthly definition (coloured in blue), or have been converted into hourly frequency by considering the average number of usual weekly hours of work (Eurostat dataset [lfsa_ewhun2]) and 4.33 weeks of work per calendar month (coloured in green).

With the exception of Belgium and Germany, all countries in the upper quartile have hourly minimum wages of above €10, Luxembourg having the highest at €12.08. The median country (Portugal) has an hourly minimum wage of €4.17. The lower quartile sees hourly wages below €3.33 (Slovakia), with Bulgarian workers receiving the lowest wage of €1.87 per hour. Minimum wage workers in Luxembourg are paid seven times more per hour than those in Bulgaria.

**Sub-minimum rates**

Most sub-minimum rates apply to young workers and those at the beginning of their professional life, such as apprentices and trainees. Belgium, Ireland, Malta and the Netherlands specify sub-minimum rates based on age, while France and Portugal refer to apprentices and professional experience, and the UK uses both. Germany has, as of 1 January 2020, a newly introduced statutory minimum wage for apprentices and professional experience.
Table 4: Sub-minimum rates for selected EU Member States and the UK as at 1 January 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Groups of workers</th>
<th>% of full rate</th>
<th>Minimum wage level in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Workers aged 16 or younger (without student contract)</td>
<td>70%</td>
<td>€1,116 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 17 (without student contract)</td>
<td>76%</td>
<td>€1,211 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 18 (with student contract)</td>
<td>82%</td>
<td>€1,307 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 19 (with student contract)</td>
<td>88%</td>
<td>€1,403 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 20 (with student contract)</td>
<td>94%</td>
<td>€1,498 per month</td>
</tr>
<tr>
<td>France</td>
<td>Workers with fewer than six months of experience in the sector aged 15 and 16</td>
<td>80%</td>
<td>€1,231 per month</td>
</tr>
<tr>
<td></td>
<td>Workers with fewer than six months of experience in the sector aged 17</td>
<td>90%</td>
<td>€1,385 per month</td>
</tr>
<tr>
<td></td>
<td>Young people on professionalisation contracts*</td>
<td>55% to 100%</td>
<td>€847 to €1,539 per month</td>
</tr>
<tr>
<td></td>
<td>Apprentices</td>
<td>25% to 78%</td>
<td>€385 to €1,201 per month</td>
</tr>
<tr>
<td>Germany</td>
<td>Apprentices in dual training</td>
<td>33%</td>
<td>€515 per month in the first year, rising up to €620 per month in the first year until 2023</td>
</tr>
<tr>
<td>Ireland</td>
<td>Workers aged under 18</td>
<td>70%</td>
<td>€6.86 per hour</td>
</tr>
<tr>
<td></td>
<td>Workers aged 18</td>
<td>80%</td>
<td>€7.84 per hour</td>
</tr>
<tr>
<td></td>
<td>Workers aged 19</td>
<td>90%</td>
<td>€8.82 per hour</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Workers aged 15 to less than 17</td>
<td>75%</td>
<td>€1,607 per month; €9.29 per hour</td>
</tr>
<tr>
<td></td>
<td>Workers aged 17 to less than 18</td>
<td>80%</td>
<td>€1,714 per month; €9.91 per hour</td>
</tr>
<tr>
<td></td>
<td>Non-qualified workers aged 18+</td>
<td>100%</td>
<td>€2,142 per month; €12.38 per hour</td>
</tr>
<tr>
<td>Malta</td>
<td>Workers aged under 17</td>
<td>95%</td>
<td>€173 per week</td>
</tr>
<tr>
<td></td>
<td>Workers aged 17</td>
<td>96%</td>
<td>€170 per week</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Workers aged 15</td>
<td>30%</td>
<td>€496 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 16</td>
<td>34.5%</td>
<td>€570 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 17</td>
<td>39.5%</td>
<td>€653 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 18</td>
<td>47.5% to 50%</td>
<td>€827 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 19</td>
<td>55% to 60%</td>
<td>€992 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 20</td>
<td>70% to 80%</td>
<td>€1,323 per month</td>
</tr>
<tr>
<td></td>
<td>Workers aged 21</td>
<td>85% to 100%</td>
<td>€1,654 per month</td>
</tr>
<tr>
<td>Portugal</td>
<td>Workers in apprenticeship and internship</td>
<td>80%</td>
<td>€592 per month</td>
</tr>
<tr>
<td></td>
<td>Disabled workers</td>
<td>50%</td>
<td>€370 per month</td>
</tr>
<tr>
<td>UK</td>
<td>Workers aged under 18</td>
<td>53.6%</td>
<td>GBP 4.35 per hour</td>
</tr>
<tr>
<td></td>
<td>Workers aged 18 to 20</td>
<td>75.4%</td>
<td>GBP 6.15 per hour</td>
</tr>
<tr>
<td></td>
<td>Workers aged 21 to 24</td>
<td>94.3%</td>
<td>GBP 7.70 per hour</td>
</tr>
<tr>
<td></td>
<td>Apprentices aged under 19, or aged 19 or over and in the first year of their apprenticeship</td>
<td>47.3%</td>
<td>GBP 3.90 per hour</td>
</tr>
</tbody>
</table>

**Notes:** *In France these contracts allow young employees to acquire a professional qualification and promote their professional integration or reintegration.*

**Source:** Network of Eurofound Correspondents, based on national official sources
Recent and envisaged changes to sub-minimum rates

In **Germany**, the federal council approved the government’s plan to introduce a minimum wage for apprentices in vocational training. Since 1 January 2020, apprentices in their first year shall receive €515 per month (33% of the statutory minimum wage), which will increase by 18% and 35% in the second and third year of the apprenticeship, respectively. The base minimum wage for apprentices will increase on an annual basis to €620 in 2023.

In **Greece**, sub-minimum rates for young workers under 25 years of age were abolished in February 2019. In **Ireland**, previous sub-minimum rates for trainees were abolished and changes were made to the young worker categorisation to simplify these.

A **Belgian** study investigated the impact of the gradual reduction of youth sub-minimum between 2013 and 2015 (López Novella, 2018). It found that average gross wage increased by 3% with a greater impact on the wages of the youngest workers. There was also a significant positive effect of the reform, measured in terms of the younger workers who stayed employed two quarters after their minimum wage rates had been abolished. However, the study also showed a negative impact on new hirings, with a probability of younger workers getting hired decreasing by 3 percentage points. Similar research by the European Commission (2017) suggested that there was no significant employment impact for the affected age group. While youth employment had declined, this was in line with the previously observed trend to higher levels of education, leading to lower youth employment. Also, the Belgian youth minimum wage at the time did not appear to be ‘binding’ before its abolishment so that its removal likely did not have a negative impact on youth employment.

The **Netherlands** and the **UK** have reduced or are considering to reduce the number of sub-minimum rates for younger workers, with a view to simplify the system.

In the **Netherlands** this was part of a long-standing plan to increase the minimum wage for youth, motivated by the observation that an increasing number of people of 21 or 22 years lived on their own, but were neither entitled to the full adult rate, nor had their parents any statutory maintenance obligations for them anymore. In addition, youth minimum rates collided with the principle of equal pay for equal work, particularly where workers with diplomas were already in full-time employment. As of July 2019, workers aged 21 are eligible to 100% of the full adult rate (previously 85%) and also the proportion of the full adult rate for younger ages was increased: 20-year-old workers are entitled to 80% instead of 70%, 19-year-old workers to 60% instead of 55% and 18-year-old workers to 47.5% instead of 50% of the full adult minimum wage rate.

In the **UK**, the various national minimum wage rates for younger and less experienced workers were an important issue of debate in 2019. The Conservative government accepted the UK Low Pay Commission’s recommendations on reducing the eligibility age to 23 in 2021 and set a date of 2024 for reducing the age to 21.

A key argument was that, since the introduction of the national living wage, the proportion of workers aged 21 to 24 who are paid the applicable national minimum wage rate has halved (from 12% to 6%), with many employers choosing to pay the full adult rate to all workers aged 21 and over.

This subsequently became a pledge in the election campaign and the policy of the subsequent majority Conservative government. The Labour Party’s manifesto included a commitment to make all workers eligible for the national living wage from the age of 16. The independent Institute for Fiscal Studies (IFS) estimates that the new government’s plans will more than double the number of workers aged 21 and over who are paid the minimum wage from 1.9 million to 4.3 million (about one-sixth of all workers) by 2024. Women, part-time workers and those in the north of England, and Wales, will be most affected. The share of workers aged 21 to 24 directly affected by the minimum wage will rise from 9% in 2019 to 36% by 2024 (Cribb et al, 2019).

Statutory rates for certain groups of workers

Several of the newer Member States (joining in 2004) have statutory minimum wage rates for different groups of workers, which exceed the basic full adult rate. Such rates can fill the vacuum in the absence of collectively agreed pay scales and would therefore include a higher number of workers under their coverage – with a wage floor (for example, Cyprus, Hungary and Romania). In other cases, the higher minimum wages are connected to seniority related increases (Belgium, Bulgaria, Greece, Malta and Slovenia), where the basic salary is topped up linked to the years of service (see Eurofound, 2019a; Eurofound, 2019c). In other cases, the rates are linked to skill levels (Lithuania and Romania) or different occupations or sectors (Cyprus and Romania).

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11 In Greece, these seniority allowances were frozen in 2012. Read more in the ‘What counts towards the minimum wage?’ section of this chapter.
In Cyprus, this is the common way to stipulate a minimum wage: In the absence of a universal statutory minimum wage and against the context that collective agreements are legally non-binding, government has the right to introduce statutory rates for occupations with otherwise very low pay (Eurofound, forthcoming-a). Next to the existing statutory rates for seven occupations, most recently the Cypriot government introduced 13 statutory rates for different occupations in the hospitality sector. These rates are put in place by decree but were part of a negotiated collective agreement (see Box 4). For all other occupations, minimum monthly rates remained unchanged as a consequence of the financial crisis. That is, no order was released after April 2012 replacing the previous one. At the time of writing this report it is unclear whether the government is intending to review minimum monthly or hourly rates in April 2020.

In Spain, temporary and seasonal workers are compensated for payments they would theoretically receive when working full-time all year round. These include the 13th and 14th payments that each worker is entitled to, as well as compensations for Sundays and holidays. Workers whose services to the same company do not exceed 120 days therefore receive an additional remuneration per day, with a minimum floor of €44.99. In the case of domestic workers who are paid on an hourly basis, the hourly rate is defined at €7.43.

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### Box 4: Statutory minimum wage rates in the Cypriot hotel industry

Statutory minimum wages were introduced on 1 January 2020 for certain professions in the hotel industry. During the 2019 negotiations for the renewal of the multiemployer agreement of the industry, employer organisations and trade unions reached an agreement on the introduction of minimum wages for 13 professions, to be applied by the sector’s employers, independently of their adherence to the collective agreement.

The agreement was signed in the presence of the Minister for Labour, Welfare and Social Insurance on 18 December 2019. It is to be implemented under the Minimum Wage Law (Chapter 183). Based on a proposal from the Minister of Labour, the Council of Ministers issued a decree in January 2020 setting minimum wages for all the sector’s employees in these 13 professions.

The newly released decree is of indefinite duration. Similar to the decree on occupational minimum wages, which is in place for other professional groups, the new decree for the hotel industry must be revised with another new decree.

### Table 5: Further statutory minimum wage rates for private sector workers in selected EU Member States

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Rate as of 1 January 2020</th>
<th>Top up on the basic minimum wage, % of the full adult rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Seniority-related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>Workers on the legal minimum wage (GAMMI) are also eligible to the seniority allowance for every year of service in the same job.*</td>
<td>Basic rate +</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Workers in the private sector for years spent at the same or similar job, appointment or profession.</td>
<td>Basic rate +</td>
</tr>
<tr>
<td>Greece</td>
<td>The ‘three-year allowance’ is granted to minimum wage workers. Its level was frozen in 2012. No further advancements in steps have been possible since then.</td>
<td>Basic rate +</td>
</tr>
<tr>
<td>Malta</td>
<td>Employees are on the minimum wage after having worked for the same employer for more than one year/more than two years.</td>
<td>€182.33/€185.33 per week</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Minimum wage workers are entitled to a seniority bonus on the top of their salary (only from 2020 onwards), as all the other workers are.</td>
<td>Basic rate +</td>
</tr>
</tbody>
</table>
What counts towards the minimum wage

While it seems to be straightforward, the question of which pay components count towards the minimum wage has not been fully answered or legally clarified everywhere. This is particularly important in connection with elements of pay that the employer either pays on a voluntary basis or has other flexibility to reduce, or when existing allowances are frozen or abolished. When basic pay rates of minimum wages are increased, some employers might react by cutting other components of pay, which are at their discretion. Hence, such practices – irrespective of whether they are legal or not – can effectively reduce the impact of a gross minimum wage increase and therefore counteract the effects minimum wage policymakers were envisaging.

For Germany it has been noted that the minimum wage legislation does not specify in detail which allowances or special payments may form part of the basic minimum wage. Germany’s labour court has therefore ruled on several occasions that most extra-payments and allowances may be counted towards the minimum wage. This has been considered by legal experts as not reflecting the initial intention of the legislature and a factor in hampering the effective enforcement of the
minimum wage (Fechner and Kocher, 2018; Bosch et al, 2019).

In Bulgaria, the negotiations on a transparent and predictable mechanism for setting the statutory minimum wage reached an impasse in 2019. Just as the contradictions in the dispute between trade unions and employers seemed to be resolvable, new conditions and proposals emerged. Among the list of the nationally representative employer organisations is the demand to eliminate the additional payments for work and professional experience (seniority bonuses), which are paid on top of the wages.

In Greece, since 2012, the obligatory payment of the marriage or family allowance (10% of the minimum wage) has been an issue. Since 2012, minimum wage legislation has only provided for a seniority allowance for an employee’s length of service with the same employer and does not provide for the marriage allowance. This has become a very controversial issue after the increase of the minimum wage. The General Confederation of Greek Workers (GSEE) has gone to court seeking the mandatory application of the marriage allowance for all employees, arguing that it is not merely a financial part of the salary but that it has broader institutional and social implications as initially established by the National General Collective Employment Agreement and was subsequently ratified by law. In practice, the marriage allowance is at the employer’s discretion and not granted to the vast majority of married minimum wage workers recruited since 2012. Another point of contention in Greece has been the seniority allowance that must be paid on top of the basic minimum wage. According to the legislation in force, this allowance has been the seniority allowance that must be paid on top of the basic minimum wage. According to the legislation in force, this allowance has not been abolished but has remained ‘frozen’ since 14 February 2012. The law stipulates that until the unemployment rate falls below 10% the increase of the allowance does not follow any future increases of the minimum wage but will remain at the same fixed amount. This also means that, as of 2012, employees do not change the allowance scale and do not receive increases due to length of service. Employers organisations, in particular the Hellenic Federation of Enterprises (SEV), have appealed to the high court arguing that this allowance is not a mandatory feature of the minimum wage.

In Spain there is an ongoing debate around what elements of earnings should be considered when computing the minimum wage. The Labour Code (Article 27.1) states:

*The revision of the minimum wage will not affect the structure or the amount of wages when these, as a whole and annual calculation, were higher than the €12,600 per annum established as a minimum wage for 2019.*

The Spanish National Court (Audiencia Nacional) in its judgement (71/2019) interprets this as

*[the minimum wage] aims to ensure that no worker receives a remuneration lower than the new minimum wage, but not that it affects and implies the increase in the salary that the worker has been receiving, when the worker continues to exceed the minimum wage.*

In addition, in section 5 of Article 26 of the Labour Code it is affirmed that

*compensation and absorption will operate when the wages actually paid, as a whole and annual calculation, are more favourable for workers than those set in the normative or conventional order of reference.*

Some interpret this to mean that when gross earnings (considering all wage complements) are above the minimum wage there is no obligation to apply any increase, even if the base wage is below the minimum wage. The problem with this interpretation is that some employers adjust wage complements in order to reach a wage just above the minimum wage, but without applying the increase to the base wage.

Real developments and purchasing power

Nominal figures are misleading when comparing the developments of minimum wages across time, as price levels (inflation) in Member States increase at a different pace. When comparing minimum wage levels in different countries at the same point in time, it is important to consider differences in purchasing power – a basket of the same goods might be much more expensive in one country than another. This section therefore looks at real developments of minimum wages, using Eurostat’s Harmonised Indices of Consumer Prices (HICP) and compares levels across countries using purchasing power standard (PPS), an artificial currency unit. In theory, 1 PPS can buy the same amount of goods and services in every country and therefore allows better comparisons to be made.
To compare minimum wage developments over time, Eurofound calculated the real minimum wage at 2015 price levels based on the HICP. Figure 7 shows the monthly developments in real gross minimum wages of euro area countries at 2015 price levels. It is visible that growth in real terms is much lower than in nominal terms, and many countries merely adjust nominal rates to make up for inflation.

Only countries with relatively low real minimum wages in 2010 (Estonia, Latvia, Lithuania, and Slovakia) saw real increases above 40% between 2010 and 2020.

As the annual cyclic structure indicates, price developments usually have an inflationary impact on real minimum wages, meaning that their real value diminishes from month to month after rates have been updated. When setting minimum wages, inflation is therefore a factor that needs to be taken into consideration, and inflation forecasts are important to estimate the real value of the minimum wage at the end of a setting period.

As price levels are reflected in exchange rates, developments in real minimum wages for non-euro-zone countries are calculated based on national currencies and visualised as an index for better comparability in Figure 8. The largest real increases occurred in Romania and Bulgaria, with increases of 188 and 126 index points compared to 2010, respectively.


Source: Eurofound calculations based on monthly gross minimum wage figures reported by Network of Eurofound Correspondents and Eurostat HICP monthly index (2015 = 100), [prc_hicp_midx]

14 On 1 January 2019, tax reform affecting employment taxation came into force in Lithuania. Social security contributions by the employer were merged with those by the employee, while the tax burden was transferred to the employee. Thus, the large increase in 2019 is mostly due to these legal changes.
Comparing different levels of the minimum wage’s purchasing power allows analysis of convergence between Member States. Minimum wages converted to PPS allow a better cross-country comparison than nominal rates, as they take into account economic conditions and price levels in the local economy. Figure 9 shows the effects that different economic conditions have on the purchasing power of nominal minimum wage rates. In countries such as Belgium, Ireland and Luxembourg, where local price levels are comparably high, the purchasing power of one unit of currency is smaller than in Bulgaria, Poland and Romania, where price levels are comparably low. This is important when comparing countries. For example, when considering Ireland and Spain, nominal rates are 58% higher in Ireland than in Spain, however, after taking local price levels into consideration, the difference is drastically reduced to only 14%. The overall spread of minimum wages is much smaller in PPS compared to nominal rates.

Figure 10 presents the distances of minimum wages in PPS for Member States and the UK compared with the Member State with the highest minimum wage in PPS (which has consistently been Luxembourg). This allows the analysis of convergence across countries. For example, the lowest purchasing power in 2020 is in Latvia with 579.37 PPS and the highest is in Luxembourg with 1705.34 PPS. This means that for 2020 the purchasing power of the lowest minimum wage (Latvia) is 34% of the highest minimum wage (Luxembourg), as shown by the blue dots below.
In general, as measured by the median country, the purchasing power of minimum wages continues to converge (that is, moving closer together upward). The distance between the median and the highest country narrowed in 2020 compared to 2019 by 1.5 percentage points (from 53.1% in 2019 to 54.6% in 2020). This continues a trend since 2015 of an average annual growth in convergence of 2.27%.

The distance between the lowest and the highest country, however, remained broadly unchanged, with the gap increasing slightly by 0.1 percentage points (from 34.1% in 2019 to 34.0% in 2020). This is mostly due to the freeze of the Latvian minimum wage and price developments in the local economy. While in 2019 Bulgaria had the minimum wage with the lowest purchasing power, in 2020 it is Latvia.

Collectively agreed minimum wages related to low-paid jobs

For countries without statutory minimum wages – Austria, Denmark, Finland, Italy, Sweden and Norway – minimum wages are implemented via collective agreements. In most countries, however, no electronic register of these agreements exists, and no precise numbers on coverage are available.

Based on Eurofound’s European Jobs Monitor (EJM), a research project that classifies jobs by sector and occupation and ranks them according to mean hourly wages, a list of 10 broad job categories that are in the lower end of the wage distribution has been established. The selection was based on two criteria as described below.

- The number of workers affected, where those jobs with the highest absolute employment figures were chosen.
- The extent of low pay within these groups relative to actual pay for other workers in these countries.

As this differs from country to country, the next step in selecting the 10 jobs was based on maximising access to collective agreements (with consequences for the question on non-coverage). The jobs of the EJM were taken as guidance, but collective agreements usually cover broader categories of workers.

With the help of the Network of Eurofound Correspondents, the sectoral collective agreements with the largest coverage in terms of employees corresponding to these job categories have been identified for each country. Preference was given to private sector agreements over public sector agreements, and the focus is on full adult rates, not considering special rates for apprentices or trainees.

As Table 6 shows, the number of collective agreements covering a given job category varies significantly from country to country. While some countries (Denmark and Finland) only have one agreement covering the whole

<table>
<thead>
<tr>
<th>#</th>
<th>Job</th>
<th>Approximate number of collective agreements related to the selected jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Austria</td>
</tr>
<tr>
<td>1</td>
<td>Domestic cleaners</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Cleaners and helpers in offices, hotels and other establishments</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Shop sales assistants</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Waiters and bartenders</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Cooks</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Home-based personal care workers</td>
<td>~5–10</td>
</tr>
<tr>
<td>7</td>
<td>Childcare workers</td>
<td>~10</td>
</tr>
<tr>
<td>8</td>
<td>Agricultural, forestry and fishery labourers, standard employment</td>
<td>~13</td>
</tr>
<tr>
<td>9</td>
<td>Agricultural, forestry and fishery labourers, seasonal employment</td>
<td>~2</td>
</tr>
<tr>
<td>10</td>
<td>Couriers, newspaper or parcel deliverers</td>
<td>~5–10</td>
</tr>
</tbody>
</table>

Note: n/a = not available.
Source: Network of Eurofound Correspondents

15 Cyprus has not been included here because it has occupational statutory rates.
sector, other countries (Austria, Norway, Sweden, and particularly Italy where bargaining is fragmented) often have more than 1 and up to 60 in the case of agricultural workers in Italy.

Table 7 indicates minimum wage rates in collective agreements can vary significantly within and across countries. Detailed information on the collective agreements mentioned above, including (where available) information on coverage, previous rate adjustments, groups of covered workers, and other relevant information are published in the accompanying working paper (Eurofound, 2020a).

Domestic cleaners have the lowest pay among the monitored job groups in Denmark and Italy. In Denmark, Finland and Norway, domestic workers do not have their own collective agreement but are mentioned in the overall agreement for cleaners that predominantly applies to industrial cleaners. In Italy, the low rate applies only to non-cohabitant domestic workers with an experience of fewer than 12 months. The trade union has demanded for the lowest rate to be abolished (€636.20) and make the next level on the pay scale (€752) the entry rate.

In Austria, the collective agreement for standard agricultural workers (job group 8) has the lowest rates among the investigated job groups. The collective agreement applies in the state of Burgenland and differentiates between four levels of qualification, where the highest applies to workers with special qualifications or experience in agricultural work who independently manage a branch of the business (minimum wage of €1,596 plus holiday bonuses) and the lowest applies to labourers and support staff (minimum wage of €1,242 plus holiday bonuses). No information on the outcomes or on the bargaining round of late 2019–2020 is available at the time of writing. Although there are other collective agreements covering standard agricultural employment (outside the state of Burgenland), the selected agreement probably has the highest coverage rate, covering around 3,000 to 4,000 workers.

In Sweden, a minimum wage of SEK 18,552 (€1,752) applies to employees in elder care (in the private sector) aged 19 or above without training or experience (job group 6). Although no precise estimates of coverage exist, it is likely not to be the largest agreement and a larger number of personal care workers are covered by a public sector agreement (which paid SEK 19,100 (€1,803) compared to the SEK 18,552 (€1,752) of the private sector agreement). However, assistant nurses in this and similar agreements are likely to receive the lowest wages in Sweden.

In Norway, the lowest rate applies to unskilled and unexperienced bartenders and waiters. They receive a compensation of NOK 27,284 per month (€2,688), although this rate is higher when work on evenings, at night, or on the weekend is required. The agreement covers around 6,000 workers.
The question of coverage is overall difficult to answer, although it would be important to compare collectively agreed minimum wage rates to rates in countries with statutory minimum wages. The most important parameters in that relation are:

- the number of workers in a sector working in a certain occupation (a job as defined by the EJM)
- the number of other collective agreements applying to the same job
- the number of workers covered by the collective agreement, and as proportion of the number of workers working in that job
- the number of workers within the collective agreement that fall into the minimum wage category

When talking about jobs as an occupation performed in a certain sector, it needs to be acknowledged that most collective agreements cover more than one job, and at the same time the same job may be covered by several collective agreements.

Even with the local knowledge of the Network of Eurofound Correspondents, for most of the above-mentioned agreements it is difficult to get the required data. Coverage rates of the entire collective agreement in relation to the sector can be calculated for Finland (see Table 8), where the selected collective agreements cover 57% (sales assistants via the commercial sector’s collective agreement) to 100% (deliverers via the communications and logistics collective agreement) of workers in the respective sector, and in a few cases in Austria and Denmark (see Eurofound, 2020a), but no information is available for Sweden, Norway and Italy (for Italy, the statistical office provides figures for employees in the sector, but no figures are available on workers covered by an agreement). Estimates show that in Italy, for example, collective agreements usually cover all workers in the sector, while in Denmark, around one-half of domestic workers are not covered by a collective agreement.

None of the countries can provide figures or even estimates on how many workers are covered by the minimum rates within an agreement. Eurofound therefore considers the average of the three lowest paying agreements (see Table 7) as an approximation for a minimum wage in each of these countries.

### Table 8: Collective agreement coverage in Finland

<table>
<thead>
<tr>
<th></th>
<th>Estimated total number of workers in sector</th>
<th>Estimated number of workers covered by the agreement</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA #1</td>
<td>75,000</td>
<td>59,000</td>
<td>79%</td>
</tr>
<tr>
<td>CA #2</td>
<td>75,000</td>
<td>59,000</td>
<td>79%</td>
</tr>
<tr>
<td>CA #3</td>
<td>154,000</td>
<td>88,000</td>
<td>57%</td>
</tr>
<tr>
<td>CA #4</td>
<td>57,000</td>
<td>56,000</td>
<td>98%</td>
</tr>
<tr>
<td>CA #5</td>
<td>57,000</td>
<td>56,000</td>
<td>98%</td>
</tr>
<tr>
<td>CA #6</td>
<td>n/a</td>
<td>72,000</td>
<td>n/a</td>
</tr>
<tr>
<td>CA #7</td>
<td>n/a</td>
<td>311,000</td>
<td>n/a</td>
</tr>
<tr>
<td>CA #8</td>
<td>11,000</td>
<td>6,400</td>
<td>58%</td>
</tr>
<tr>
<td>CA #9</td>
<td>11,000</td>
<td>6,400</td>
<td>58%</td>
</tr>
<tr>
<td>CA #10</td>
<td>16,000</td>
<td>16,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Note:** n/a = not available.

**Source:** Ahtiainen, 2019
Minimum wage setting continued to be diverse and varied in the EU, Norway and the UK during 2019. And despite it being institutionalised in most countries, the process until a new rate is finally put on paper into the respective regulation, does often vary (from one year to another). Figure 11 depicts how the 2020 minimum wage rates were set.

Changes to the legislation on minimum wage setting

The most substantial development took place in Croatia, where the Minimum Wage Act of 2018 was implemented for the first time during 2019. The act includes an expert-led mechanism (see Box 5). With this move, Croatia follows a common trend of expert committees or minimum wage commissions, which are currently in place in the UK (since 1999), France (since 2009), Germany and Ireland (since 2015), and Greece (since 2018).

In Slovakia in 2019, members of parliament from the Social Democrats Party (SMER) proposed changes to the law on minimum wages, to implement a new mechanism of setting the level of the national minimum wage. On 16 October 2019, parliament adopted them, effective from 1 January 2020. If social partners will not agree on the minimum wage level for the next year by the required deadline (15 July of the actual year), it will be set automatically at 60% of the average nominal gross wage in the economy from the previous year. The new mechanism will be applied for the first time for setting the minimum wage for 2021.

In Slovenia the reform of the Minimum Wage Act in 2018, first implemented in 2019, continues to concern employers, while trade unions are happy that the newly foreseen (yet to be devised) mechanisms from 2021 onwards will bring the statutory minimum wage closer to a living wage.

Apart from the above three cases, there were no other major reforms of the mechanism of setting the rates in other countries as such, but there were:

- some developments or disruptions within the regular processes (referred to in the next section)
- some continuing and new debates on potential reforms of aspects of statutory minimum wage setting process or on the potential introduction of a statutory minimum wage (see section ‘Debates on changes to the processes or mechanisms’ p. 32)

How minimum wages for 2020 were determined

Controversial bipartite processes

In Belgium and Estonia the peak social partners make bipartite collective agreements on minimum wage increases, which are then extended into law by government. In both cases the process was unusually controversial.

In Belgium, the process started as usual, with the calculation of the margin within which wages can be increased before the negotiations began. While trade unions usually opt for the higher end of the continuum, employers’ offers are on the lower end of the continuum. In this round however, there was disagreement among the trade unions, with General Federation of Belgian Labour (ABVV-FGTB) demanding increases beyond the maximum calculated and subsequently negotiated margin of 1.1% and refusing to sign the agreement. All other social partners (both the trade unions and the employer organisations) condemned ABVV-FGTB’s refusal to sign the agreement. This resulted in no increase of the rate as per January 2020. On 1 March 2020, the rate was increased via indexation only.
## Institutionalised consultation of social partners via tripartite

- **Agreement between and among SPs within the tripartite.**
- **No agreement between and among SPs, government decided level of increase.**

### Hungary: Social partner agreement within the tripartite committee VKF for 2019–2020. Trade unions asked to reopen based on agreement and there was a short renegotiation, with previous agreement confirmed.

### Bulgaria: 4 out of 5 employers refused to participate in tripartite.

### Czechia, Lithuania, Poland, Slovakia.

### Latvia: Social partner agreement within the tripartite committee for 2018-2020.

### Spain: Government consulted social partners and came to an agreement with them.

## Bipartite negotiations at peak level

- **Government presented a proposal and consulted.**
- **Failed negotiations or negotiated results questioned afterwards.**

### Belgium: Wage agreement over 2 years concluded between the social partners. Disputed by one union afterwards. No increase.

### Estonia: Based on pre-agreed rules in 2017–2018, but disagreement and further negotiations which were subsequently settled with the help of the national conciliator.

## Rule-based mechanism

- **Netherlands (Based on wages and collectively agreed wages).**
- **France (Prices and Wages).**
- **Luxembourg (Prices in 2020).**
- **Malta (Cost of living allowance).**

## Expert-committee led processes to establish a proposal for government

- **Social partners part of committee.**

### Germany (Mindestlohn-kommission based on collectively agreed pay). Germany (Mindestlohn-kommission based on collectively agreed pay).

### New: Croatia, Ireland (LPC).

## Unilateral government decision, without (substantial) social partner consultation

- **Social partners not part of committee, but consulted.**

### Greece (KEPE).

### France (Groupe d’experts SMIC).

### Slovenia (already set in 2018–2019).

## Bipartite sectorally negotiated minimum wages

- **Medium bargaining coverage.**

### Cyprus (~50%).

### Austria, Denmark, Italy, Finland, Norway, Sweden.

### High bargaining coverage.
Similarly, the process was more controversial in Estonia than it has been in previous years. This nearly led to an unprecedented need for a final determination by the government. In 2017 the Estonian social partners agreed on a rule-based methodology (based on the developments of labour productivity and economic growth) for negotiated changes until 2022. Using this methodology, the draft agreement stipulated a rise of 7% (from €540 to €578). However, the council of the Confederation of Estonian Trade Unions (EAKL) soon after announced that they disagreed with the proposed level, stating that there had been a lively debate on the minimum wage and the vast majority saw the result as inadequate. The council said that the level should be at least €600, to reach 40% of the average wage, which is another condition set in the agreed methodology. The Estonian Employers Confederation (ETKL) on the other side referred to the cooling down of the economy and the fact that average wages had increased by 6%. In October 2019 the parties turned to the national conciliator and accepted their proposal from November 2019 of an increase by +7.6% to €584. It was also agreed that in 2021, the national minimum wage will be 40% of average wage, and that by the summer of 2021 an impact study about the minimum wage will be carried out, to serve as a basis for agreeing on a formula to calculate the minimum wage level for the coming years.

Consultation processes within a tripartite setting

In several Member States the social partners were consulted by their respective governments within a tripartite setting. Often, but not always,17 such consultations include the search for an agreed solution between employers and trade unions and if an agreement cannot be reached the government steps in and decides unilaterally. Through these consultations, it is not uncommon that governments settle the increase ‘somewhere in the middle’ between trade unions and employers – like happened in Czechia in 2019. However, during 2019 there were several cases where such unilateral decisions ended up on the higher margin. This was the case in Bulgaria and Lithuania. In Poland, the government even exceeded the trade unions’ demands and their own initial proposal and announced a higher increase as part of a pre-election campaign. In other cases – Portugal and Romania – governments presented a proposal and then consulted social partners upon it.

Government decides level unilaterally and sets level between employers and trade unions

In Czechia, the consultations which the Ministry of Labour and Social Affairs held with social partners within the tripartite body (Council for Social and Economic Agreement, RSHD ČR) and beyond were unsuccessful. Government had presented three scenarios for an increase, which were CZK 1,150, CZK 1,350 or CZK 1,650 (€45, €53 and €64) and asked social partners whether they could settle on one. The requirement of the Confederation of Industry (SP ČR) was below the lowest scenario (CZK 700 or €27), while ČMKOS was in favour of the highest scenario. The process took unusually long, but finally an increase of CZK 1,250 (€49) was agreed by the governmental parties in their coalition council at the end of November 2019.

In Slovakia, similar to most years, no agreement was reached in 2019 and the government ultimately decided on the rate unilaterally. A change to the process that begins this year means that if social partners do not reach an agreement by a specific deadline (15 July of the previous year), the government will set the new rate to 60% of average wages.

Government decides level unilaterally on the higher margin

In Bulgaria, the consultation of the nationally representative social partners is mandatory. It starts on a more technical level within the Income and Living Standards Committee of the National Council for Tripartite Cooperation (NCTC) and then moves to the political level. In 2019 four out of five representative employer organisations 18 refused to participate in this consultation – in the context of a boycott of NCTC meetings due to disagreement with the new regulation on sick leave payments. The fifth employer organisation (UPEE) attended the meeting and thereby legitimised its tripartite nature. However, it disapproved of the newly proposed rate (BGN 661 or €338), referring to the administrative way of determining the level and the automatic accrual of the ‘seniority allowance’. The trade unions on the other hand welcomed the proposed increase and put forth their demands for minimum wages reaching 50% of average wages.

In Lithuania, the government sets the rates based on a recommendation of the Tripartite Council of the Republic of Lithuania (TCRL). The second of two meetings of the TCRL in April and May 2019 ended with the recording of a difference of opinion between the social partners. The government and trade unions proposed an increase of the rate to €607, based on a formula agreed by the TCRL in 2017 and referring to the mid-point of a target range in relation to average wages (47.5%). Employers suggested £580 (45% of average wages), voicing doubts whether regional employers would be able to pay even this level of minimum wages (TCRL, 2019; Žilionis, 2019). Despite the disagreement, the government set the rate as proposed.

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17 Portugal, Romania and Spain.

18 Bulgarian Industrial Association (BIA), Bulgarian Chamber of Commerce and Industry (BCCI), Bulgarian Industrial Capital Association (BICA) and Confederation of Employers and Industrialists in Bulgaria (CEIBG).
**Government unilaterally decided minimum wage level that exceeds the trade unions’ demands**

In Poland, the minimum wage level was set unilaterally by the government due to the social dialogue parties failing to reach an agreement within the tripartite Social Dialogue Council. In May 2019, all representative trade unions 19 suggested an increase to PLN 2,520 per month (€586), while employers proposed an increase to PLN 2,387 (€555) and the government in turn proposed an increase to PLN 2,450 (€570). When no agreement was reached, the government decided in July 2019 to set the minimum wage level unilaterally and announced in September 2019 that it would increase it to PLN 2,600 (€605). This decision was taken one month before the parliamentary election. Employers were against the (€605). This decision was taken one month before the parliamentary election. Employers were against the government’s decision. In addition, the Law and Justice parliamentary election. Employers were against the government’s decision. In addition, the Law and Justice Party (re-elected into government) announced a government’s decision. In addition, the Law and Justice Party (re-elected into government) announced a government’s decision. In addition, the Law and Justice Party (re-elected into government) announced a substantial gradual rise to PLN 4,500 (€1,047) by 2024.

**Consultation of social partners**

The Romanian Economic and Social Council (CES) is a tripartite body that plays only a consultative role. It offered a favourable opinion on the newly elected liberal government’s decision to increase the minimum wage to RON 2,230 (€470) following a public consultation.20 This level is somewhat lower than the previous Social Democrat government had announced (RON 2,262 or €477), but it had maintained the earlier announced levels of a differentiated minimum wage based on seniority and level of education (RON 2,350 or €495) and a statutory minimum wage in the construction sector (RON 3,000 or €632). The national trade union block in Romania recommended in a meeting with government representatives that in 2020 a tripartite agreement could be signed.

The newly elected Portuguese Socialist Party government also consulted social partners at the Standing Committee for Social Concertation on its proposal to raise the minimum wage to €635. While the trade unions had more ambitious proposals, the employer confederations did not oppose, but claimed that further measures to compensate companies should be discussed.

In its election programme, it had also suggested to negotiate a tripartite agreement including a trajectory on minimum wage increases in 2020. This proposal was welcomed by social partners.

**Tripartite agreements and further discussions on the future process**

In Hungary, social partners had already reached a multiannual agreement in 2018, which stipulated an increase of +8% for 2020. According to the agreement, this increase was conditional on the development of macroeconomic factors.21 As the economy developed better than foreseen, trade unions asked for a renegotiation, with a double-digit figure in mind. The renegotiation proceeded in the framework of the tripartite Permanent Consultation Forum of the Competitive Sector (VKF),22 but the result was that the original agreement of 30 November 2018 came into effect (Liga Szakszervezetek, 2019).

The Latvian actors, likewise, had already reached an agreement on minimum wages within the National Tripartite Cooperation Council (NTSP) in 2017. Back then, a substantial uplift from €380 to €430 had been agreed for three years. The LBAS asked the government to increase the minimum wage in 2020, while the LDDK asked government to adhere to the previous agreement, which government did. Social partners asked the government to initiate the tripartite dialogue on the 2021 increase, as stipulated in the previous agreement, but the government did not initiate this process. Later in the year, however, the government announced its intention to increase the minimum wage to €500 in 2021, which raised social partners’ anger, as they regarded this as a unilateral decision without prior consultation within the official framework of the tripartite NTSP.

In Spain, social partners 23 and the new left-wing government have – for the first time in many years – agreed jointly on the rise of the minimum wage. In most previous years, the government had only consulted the social partners with a given proposal – with little room for them to alter the results. This year, the new coalition government sought to establish good social dialogue by not tabling an initial proposal – this was particularly a signal to employers, who are still concerned about the 2019 hike of 22%. The increase to €950 (paid 14 times a year) is thus the result of genuine negotiations and lower than the €1,000, which the new coalition government had envisaged for 2020 in their programme (PSOE and Podemos, 2019).

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19 OPZZ, FZ and NSZZ Solidarność.
20 Any citizen interested in the subject can form a written opinion or participate in the meeting. In addition, a social partner or any other civil organisation can ask the public authority to organise a face-to-face meeting and any citizen can participate.
21 Articles 7 and 8 of the agreement in November 2018 point out that the parties set the 8% minimum wage increase in 2020 on the basis of a macroeconomic forecast of inflation of 2.7%, GDP growth of 3.9% and productivity growth of 2.9% in 2019. If one of the above macroeconomic indicators deviates by at least 1 percentage point, or the three indicators combined by at least 2 points, the 2020 minimum wage increase shall be renegotiated. Economic growth was expected to reach 4.9% in 2019.
22 Business sector.
23 The most representative unions (CCOO and UGT) and employer organisation (Spanish Confederation of Employers’ Organizations, CEOE).
Predetermined formulas and expert recommendations

The remaining countries either apply a predetermined formula for updating the minimum wage (Malta and the Netherlands), use recommendations given by an expert committee (Croatia, Greece, Ireland and the UK), or use a combination of the two methods (France and Germany). In nearly all approaches, social partners are involved in some way: as members of the expert committees (Croatia, Germany, Ireland and the UK), by supervising and directing the calculation of the developments of consumer price levels (Malta); by being consulted by the expert groups (UK) or additionally by the government (Croatia and France); or they have a strong indirect influence, as collectively agreed wages are part of the formula (Germany and the Netherlands).

In France, the group of experts on the minimum wage provided their report to the government on 28 November 2019. The group recommended maintaining the increase derived from the formula (and to refrain from adding a discretionary additional amount), as the wage development rose faster than prices, thus generating additional gain in purchasing power. At the same time, the group reiterated their recommendation to abolish the automatic indexation mechanism. Opinions from a number of social partners are annexed to the report (Direction Générale du Trésor, 2019). In addition to this recommendation, the French government formally consulted the social partners on the increase as part of the framework of the National Committee of Collective Bargaining (CNNC) – a bipartite body – and subsequently issued the decree to set the minimum wages. While in practice, this consultation is purely formal, in 2019 the Minister of Labour announced the level of increase prior to the consultation meeting, which was met with criticism from some trade union organisations.

In Luxembourg, the minimum wage can be adjusted every two years according to the evolution of the average level of wages. When the average level of wages has increased, the level of the minimum wage can be raised to fully or partially fill this gap. This had been done in 2018 for 2019. For 2020 only an indexation to the cost of living was made.

In Malta and the Netherlands minimum wage updates were made in accordance with the regularly applied formulas.

Negotiations on low pay in countries without statutory minimum wages

In Austria, where collective bargaining coverage is nearly universal and still increasing (95–98% of workers are covered), there has been a tradition of coordinated minimum levels across sectoral collective agreements since the 1990s. This departed from demands from organised labour but tended to be supported by different political parties over the years. In mid-2018 the social partners signed a general agreement upon the implementation of €1,500 minimum wage (gross, per month) until 2020 via sectoral collective bargaining. This was already implemented in the spring 2018 bargaining rounds in the first sectors and was implemented in all sectors by the end of 2019. New demands during 2019 from organised labour and the Social Democratic Party to increase this ‘coordinated’ minimum wage floor to €1,700 are now entering the debate.

Box 5: Croatia introduces the Commission for Monitoring and Analysis of the Minimum Wage

The new Minimum Wage Act aims to overcome weaknesses that existed in the consultation process by prescribing that the minimum wage level should be determined by 31 October each year. Under the act, consultations with social partners must take place in September and October. In addition, the act introduces a Commission for Monitoring and Analysis of the Minimum Wage as a new body to assist in the policy process. It consists of trade union and employer representatives, as well as representatives from government and academia. The commission is a consultative body to the Minister of Labour and Pension System, analysing recent trends relevant for minimum wage policy and proposing the minimum wage level for the next year. For this purpose, it has its own funds and resources to monitor and study trends. The commission had five meetings in 2019 and proposed a new rate of the minimum wage for 1 January 2020. The objective was to increase the share of the minimum wage in the average wage slightly, which is explicitly mentioned in the new act. The government is not obliged to follow the commission’s proposal, but it has done so in 2020.

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24 Parliamentary proposals to introduce statutory minimum wages (most often made by the Green Party) have to date always been rejected. An overview of this tradition is available in Eurofound (2020d).

25 For more details, see Austria: Latest working life developments – Q2 2017.
In **Denmark**, the recurrent sectoral collective bargaining rounds settle the level of minimum pay increases. In most cases, the agreed pay increase link to the current economic fluctuations to keep a realistic balance between wages and prices. A tripartite committee, the Statistics Committee, publishes a quarterly status report that maps and analyses wage and price developments in Denmark and abroad.\(^{26}\) At the recurrent collective wage bargaining rounds, the negotiating parties consider these developments when they set the framework for possible pay increases. Specific measures to increase low pay in particular are very seldom on the agenda of collective bargaining in Denmark.

In contrast, additional increases for low-paid professions or sectors have been a recurring feature of collective bargaining in the Scandinavian countries: In **Norway** this was the case for 22 industry agreements in the NHO/LO-bargaining round in 2019 and in the previous **Swedish** bargaining round (2017) assistant nurses received a specific pay raise in addition to the one given to the other occupations. This was part of the trade unions’ coordination that took place in preparation for the negotiations with the employers. In 2020, Swedish social partners are engaging in a major bargaining round in which the wages of around 3 million workers will be set. For this, Sweden’s LO is demanding wage increases of 3% across the board, as well as a specific investment on those with the lowest wages. LO is demanding that those who earn below SEK 26,100 (€2,465) per month be given an extra addition of at least SEK 783 (€74). This would, according to LO, particularly benefit women. Whether the employers will agree to this will become clear in the course of the spring (LO, 2019).

**Debates on changes to the processes or mechanisms**

Despite the absence of major changes to processes or to the mechanisms of minimum wage setting, debates during 2019 were lively. Even in cases where the process of setting the minimum wages is institutionalised and rather predictable, as it should be based on pre-agreed targets or on the developments of certain economic and social indicators, a certain degree of discretion – be it due to further negotiations or due to political interference – prevailed. Table 9 provides an overview.

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**Table 9: Overview of debates during 2019 on aspects of the minimum wage setting processes**

<table>
<thead>
<tr>
<th>Overview of debate</th>
<th>Country of debate</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Towards a more transparent and predictable setting of minimum wage</td>
<td>Bulgaria</td>
<td>Following several country-specific recommendations received via the European Semester, to make the process of minimum wage setting more transparent and predictable, a deadlock in the debate could not be overcome in 2020.</td>
</tr>
<tr>
<td>Pre-agreed rules for minimum wage setting revisited in the debates or aspects challenged</td>
<td>Belgium, Estonia, Lithuania</td>
<td>In Belgium, one union questioned the margin within which wage increases for minimum wages are set, leading to non-agreement and ultimately no update of the rate. Estonian social partners disagreed over the application of a pre-agreed formula for the 2020 update, as only one part of the formula was implemented. In addition, Lithuanian employers suggested to deviate from the target rule agreed in the tripartite in 2017 – referring to great regional differences.</td>
</tr>
<tr>
<td>Debates about which data source should be used</td>
<td>Spain</td>
<td>In the context of debates around a future target relative to average wages, social partners operate with different data sources and disagree on whether net or gross earnings should be the basis.</td>
</tr>
<tr>
<td>Reforming the indexation mechanisms</td>
<td>France</td>
<td>The expert group continued to voice their concern about the double indexation of minimum wages to wage and price developments, which could lead to some degree of circularity in the wage setting, when inflation is high. A reform could also provide more leeway to branch level collective bargaining, they argue. No action has been taken to date.</td>
</tr>
<tr>
<td>Social partners’ role in minimum wage setting</td>
<td>Greece</td>
<td>Unions continue to voice their wish to return to the way minimum wages were set prior to 2012 (i.e. in form of a bipartite collective agreement between peak social partners). Employer organisations have relaxed or withdrawn from this stance.</td>
</tr>
<tr>
<td>Debate on the potential introduction of a statutory minimum wage</td>
<td>Cyprus, Italy</td>
<td>In Cyprus and Italy, governments have announced they will consider the introduction of a statutory minimum wage. In Italy, there was a lively debate around this in 2019.</td>
</tr>
<tr>
<td>Short-lived debates confirming that no statutory minimum wages will be introduced</td>
<td>Austria, Denmark, Finland</td>
<td>In Austria, a parliamentary proposal to introduce a statutory minimum wage was voted down in 2019. Danish social partners reacted to the shadow of the law to regulate wages of foreign workers who work for companies doing cabotage (transport services) in Denmark. The Finnish social partners denounced the proposal by one employer association representing SMEs to introduce a statutory minimum wage.</td>
</tr>
</tbody>
</table>

\(^{26}\) The committee consists of representatives from the DA, the FH, the Ministry of Employment, and the Ministry of Finance.
Introducing statutory minimum wages

With the exception of Italy and Cyprus, which are continuing to consider the introduction of a statutory minimum wage, the topic is not on the agenda in any of the other countries with collectively agreed minimum wages. There is either no debate about it, or only those related to the EU minimum wage initiative, where early reactions from most affected actors showed that a legal and universally covering minimum wage would not be supported.

In Cyprus, the announced intention to introduce a statutory minimum wage has not significantly advanced to date. A study by the ILO to inform the discussion that was due to be published at the end of 2019 has not yet been published. The Cypriot minimum wages for some lower-paid occupations also remained frozen over the past year, as they have since 2012, and it is not known whether they will be increased later in the year.

Italy has seen a continuation of the lively debate in 2020 on whether or not a statutory minimum wage should be introduced. Despite the very high collective bargaining coverage of more than 80%, the debate originated from several sources, including the increase of atypical workers and the long-lasting use of collaboration agreements as bogus self-employment, as well as the substantial non-compliance with collective agreements – particularly in the south of the country and in micro and small firms (see Garnero, 2017). In addition, highly fragmented collective bargaining coverage and a long-standing unresolved issue about how to regulate and identify the most representative social partners has led to the current situation that has resulted in the inability to determine which social partners within a sector should be entrusted to execute a collective

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27 See Eurofound (2019b) and Eurofound (forthcoming-a).

28 As per ICTWSS 6.0. Other sources, like Eurofound (2013) and Brandolini et al (2010) suggest a higher numbers and even near full coverage, at least in companies with more than 10 employees.
agreement that can be extended to other companies (Eurofound, forthcoming-b). This situation has resulted in an increasing number of pirate agreements, signed between smaller unions and companies, which are partially undercutting the working conditions and pay of the larger collective agreements.

While the debate was initiated in the 2000s and continued with the Jobs Act reforms (2015), a new push was given – as part of pre-election promises of some parties and of the governmental agreement (Movimento 5 Stelle, Lega, 2018) signed in mid-2018 by the League (Lega) and the Five Star Movement (M5S). In this period, five proposals were debated in parliament.

The proposed legislation from M5S was introduced in the senate on July 2018 (Senato della Repubblica, 2018) and it is currently under consideration by the senate’s labour commission. It suggests

an overall remuneration proportionate and sufficient to the quantity and quality of the work performed

and the level of pay to be

not below the one provided for in the national collective agreement in force for the sector and for the area in which work is performed, stipulated by the employers’ and workers’ organisation most representative at national level … and in any case not lower than 9 Euro per hour, before social security contributions.

In case there is more than one applicable sectoral collective agreement, Article 3 stipulates that the agreement executed by the ‘trade unions and employers’ organisation most representative in the sector’ should be taken as reference.

Four other legislative proposals were presented between 2018 and early 2019.

On March 2019, after a congress changed its steering group, the Democratic Party (PD) formulated its last proposal, that repealed all the previous ones introduced by the party (Senato della Repubblica, 2019b). The main difference compared to the MSS proposal is that this text does not establish by law a fixed ‘last resort’ threshold for the hourly minimum wage for all workers.

The new proposal foresees that minimum hourly wages should be set by the sectoral collective agreements signed by the most representative employers’ organisation and workers’ organisation at the national level, which are provided with generalised effects (such as extended toward other companies and workers).

The proposed statutory minimum wage would therefore only play a residual role. Its setting would be delegated to a specific technical commission, composed of 10 representatives of employees, 10 representatives of companies and the president of the National Council for Economics and Labour (CNEL, a constitutional advisory body). The council would also be charged with identifying workers and sectors not covered by sectoral collective agreements, so as to obtain a good picture where the statutory minimum wage would have to be applied.

The identification of a mechanism to statutorily ensure a fair wage to all workers is also part of the programmatic guidelines of the new coalition government, which was established in September 2019 and where MSS and the Democratic Party are majority parties. The orientation of the new government is to rely on the generalised extension of collective agreements signed by the most representative unions, while a statutory minimum wage would only be applied to workers who are not covered by a collective agreement.

Although the text does not provide further details on the way in which this solution could be implemented, it has been reaffirmed in other relevant governmental documents, like the annual revision of the budgetary law, approved on 30 September 2019 (Ministero dell’economia e delle finanze, 2019).

A mediation proposal aimed to gather the support of the whole governmental coalition was advanced by the Italian Ministry of Labour in mid-February 2020. Accordingly, the hourly wage would be determined on the basis of a sectoral-collectively agreed minimum wage.

At the same time, the basic pay threshold should not go below 70% of the median of the wages set by the sectoral agreements by the most representative social partners. That is to say, not below a sum around €7.5 to €8 per hour.

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29 Current extensions can be made by judges, case by case (and each judgment is binding only for the disputing parties). There is a debate around a possible legislative solution to allow representative trade unions and employer organisations to make sectoral agreements generally binding, but nothing has been approved so far.

30 See also: social partner reactions: Confindustria (2019a), CGIL, CISL and UIL (2019),

31 One at the senate, by the Democratic Party and three at the Chamber of Deputies, by Free and Equals (LEU), the Democratic Party and Brothers of Italy (FDI) (Gamero, 2019).

32 Contained in the bill No. 1132.
In **Austria** parliamentary requests to introduce a statutory minimum wage had been made repeatedly over the years by members of the Green Party. During their absence from parliament, the latest similar request was made by a split-off party (Liste Jetzt). On 27 March 2019, a representative of this party tabled a motion in which it requested the introduction of a statutory minimum wage of at least €10 per hour (€1,750 monthly). The motion was supported by members from the Social Democrats and Liste Jetzt but rejected by members from the government parties (ÖVP/FPÖ) and the New Austria and Liberal Forum (NEOS) with a majority.

Following the collapse of the Austrian government in mid-2019 and the installation of a new federal government consisting of the conservative People’s Party ÖVP and the Green Party in early 2020, the issue of minimum wages was brought up again in their mutual government programme (see Austrian Government, 2020 p. 257).

The programme states that in the fight against poverty, in areas in which no collective agreements apply (which are small subsectors, concerning between 2% and 5% of all employees), this gap should be closed via appropriate means by the social partners, or, if necessary, by the Federal Arbitration Office (by extension order). No further elaboration on the level of such a minimum wage has been provided. Furthermore, the programme includes a paragraph that in sectors where wages had not been raised for many years, either the social partners should work on a solution, or the possibility of a decision by the Federal Arbitration Office is to be created. However, this currently only concerns a few sectors, like office workers for lawyers in certain regional states (for example, in Vienna, the minimum wage in this sector has already been raised to €1,500).

In **Denmark**, a universal statutory minimum wage was not debated. The exception that confirms the rule was a comment in spring from the Prime Minister of the former liberal-conservative government (that lost the election to a left block under the Social Democrats in June). In connection with the discovery of a large group of Filipino truck drivers driving cabotage in Denmark for extremely low wages and living under terrible conditions, the Prime Minister commented in a Facebook post that ‘maybe’ the introduction of a statutory minimum wage in the transport sector was an option. A statement from FH and DA said that they had found a common solution and no further talk about minimum wages was necessary, and they promptly met with the Prime Minister (Løvgren, 2019). However, the union in transport, the United Federation of Danish Workers (3F), supported by FH and DA, suggested that a Danish Act concerning competition in road haulage from 1973 extends its coverage to foreign companies and drivers in Denmark. The law says that all drivers have to be paid the collectively agreed wage in the relevant collective agreement, for reasons of fair competition. The law was almost forgotten, however, in practice, it means that the government introduced a statutory minimum wage in road haulage for foreign chauffeurs who are driving cabotage in Denmark.

According to the extension of the proposed law, foreign drivers cannot be paid under the minimum wage in the Danish collective agreement in force in haulage. The Minister of Employment is currently (January 2020) trying to set up a majority in the parliament. The proposal has so far met resistance from the opposition.

The **Finnish** social partners had a lively debate around the (non-) introduction of a statutory minimum wage. This was triggered by a misunderstanding that the EU initiative could require them to change the system – a move which all major social partners (and the government) reject. The debate, however, had a national origin and was not the first of this kind. The Federation of Finnish Enterprises (SY), which is not a negotiating party in collective bargaining, but is a major interest and service organisation for small and medium-sized enterprises representing some 115,000 Finnish SMEs and an important influencer on public opinion, has previously published statements opposing the Finnish system with general applicability. SY has argued that a statutory minimum wage causes rigidity in the labour market and is harmful for job creation and employment. It called for an investigation regarding the impacts of a legally defined minimum wage in Finland.

According to the organisation, it would be important to discuss whether minimum wages could be sector-specific or whether it would be better to set a common minimum wage. SY argues that a minimum wage would help those approximately 200,000 employees who are not covered by any collective agreement (Länsi-Suomi, 2019).

In a recent article, the chief executive of SY, Mikael Pentikäinen, said that the current system with several different sectoral collective agreements is complex and it is often difficult for companies to know which minimum wage they should comply with. A system with statutory minimum wages would decrease the importance of collective agreements, and thus also the power of the social partners, which according to Pentikäinen is a good thing, given the high level of industrial unrest recently (Helsingin Sanomat, 2020).

33 Eurofound (2015b).
The question of whether a (minimum) wage is adequate is not a trivial one to answer, as it depends on multiple factors: the national economic and social or labour market situation, whether the respective level guarantees that a worker will be able and willing to find a job (and for how many hours) and the number of dependents a worker has. Article 6 of the European Pillar of Social Rights explicitly stipulates that in-work-poverty, as a state where an employed worker lives in a poor household, shall be prevented. The concept of ‘adequacy’ therefore has several dimensions, as presented in Chapter 1.

This chapter presents data and the most recent national debates and policy discourses of 2019 on the dimensions of adequacy:

- the fairness in relation to other wages
- the net value of minimum wages, including debates around what should count towards the minimum wage
- data and discourses on whether the level of take-home pay is sufficient for workers to make ends meet (or how much they would require instead)
- differences in the regional value of minimum wages

The fifth dimension of adequacy on the universality and existence of sub-minimum rates was discussed separately in Chapter 2.

Fair minimum wages: Relative targets and substantial increases

What level of minimum wages is ‘fair’ when comparing minimum wages to those of other workers – is a central, though difficult normative question, which countries have sought to address differently.

The ILO Minimum Wage Fixing Recommendation (No. 135, II. 3.) refers to:

- the needs of workers and their families
- the general level of wages in the country, but does not stipulate a specific threshold

One document which mentions an explicit threshold is the European Social Charter by the Council of Europe: ‘Wages must guarantee a decent standard of living to all workers. The net minimum wage must amount to at least 60% of the net national average wage’ (interpretation of Article 4 on the right to a fair remuneration of the European Committee of Social Rights).

The debate on a coordinated EU minimum wage has in the past often been discussed in relation to such a relative threshold, such as 50–60% of median or average wages (see Eurofound, 2014 p. 91). In statistical terms, this is measured by the Kaitz index, which relates minimum wages of full-time workers to the average or median wages in the same country (or region). Figure 13 depicts the long-term development of the Kaitz index for median wages for the years 2000, 2008 and 2018.

For countries with statutory minimum wages and available data, the longer-term trend since 2000 was upward: In the median Member State this relative share grew by 7 percentage points during 2000–2018. The largest growth of the relative value of minimum to median wages between 2000 and 2018 was recorded in Romania (by 33 percentage points from 25% to 58%), followed by Portugal (from 46% to 61%) and Hungary (from 36% to 52%). Minimum wage workers in Ireland (-20 percentage points), the Netherlands (-5 percentage points) and Belgium (-4 percentage points) saw the value of their wages decline when compared to other workers since the start of the millennium. Taken together, this is a noticeable trend towards fairer minimum wages in comparison to other workers’ earnings. Despite the upward trend, the level of the Kaitz index in most countries remains below 60% and in some countries below 50%.

In 2019 there was a noticeable trend at EU and country levels towards debating the setting of minimum wages in relation to a relative target share of average or median wages. Some of this discussion could have been a response to expectations that the EU minimum wage initiative could suggest a move towards a target (for EU level: Müller and Schulten, 2020).

The median wage is often quoted as being the preferred measure as it is less sensitive to outliers in the wage distribution (such as workers with very high earnings). In the EU, the Kaitz index for median wages is above the index for average wages, as average wages are higher than median wages. Within the Kaitz index median and average wages are strongly correlated with each other, however, this degree of correlation has diminished over time (from 0.98 in 2000 to 0.85 in 2018), meaning that in some countries the wage distribution has become more unequal. In particular in Greece, the Kaitz index for average wages shows a decline of -4 percentage points, while it has been relatively stable in terms of the median since 2000.
In 2015, the government set the target of raising the national living wage (NLW) to 60% of median earnings by October 2020 (subject to sustained economic growth). Its acceptance of the UK Low Pay Commission’s (LPC) recommendation of a GBP 8.72 (€10) hourly rate from April 2020 means that this objective will be met on time.

In late 2018, the minority Conservative Party government launched discussions on the future of the national living wage after 2020. It suggested an ultimate aim of ending low pay, while protecting employment for lower paid workers, and mooted a new future target of two-thirds of median earnings. The government sought the LPC’s advice on this issue, which was submitted in September 2019. At the end of that month, the government announced a national living wage target of two-thirds of median earnings by 2024 (GBP 10.50 per hour (€12) based on current projections). Following its re-election in December with an overall majority, the government confirmed this objective.

In its advice on the NLW after 2020, the LPC described ending low pay as a worthy ambition but stated that ‘a two-thirds target is ambitious and will be very stretching for businesses in low-paying sectors’ and that ‘a higher NLW target by itself will not end low pay under the most common measures, and will need to be accompanied by a broad slate of supporting policies if the government’s stated aim is to be met’. The LPC called for improved data on employment, hours and earnings to allow the effects of the government’s NLW policy to be tracked more accurately. The commission also argued strongly that:

- the LPC’s independence and discretion to depart from government targets must be safeguarded to ensure the ongoing credibility of the NLW
- the LPC must be free to look at the full range of available evidence in reaching a judgment on whether targets are achievable
- if economic conditions are not favourable, the LPC must have the flexibility to recommend varying the path and an end date of any target

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Box 7: Beyond 60% of median earnings in the UK

In 2015, the government set the target of raising the national living wage (NLW) to 60% of median earnings by October 2020 (subject to sustained economic growth). Its acceptance of the UK Low Pay Commission’s (LPC) recommendation of a GBP 8.72 (€10) hourly rate from April 2020 means that this objective will be met on time.

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- if economic conditions are not favourable, the LPC must have the flexibility to recommend varying the path and an end date of any target

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35 The statutory minimum wage, full adult rate in the UK has been renamed the ‘national living wage’. This is distinct from the UK living wage, a higher rate calculated by the Living Wage Foundation, which is applied voluntarily by participating companies.
Several of the national discussions were related to the – already longer running – debates on introducing (in Bulgaria and Czechia) or implementing (Estonia and Lithuania) a ‘transparent and predictable’ minimum wage.

Other national discussions were in the context of more substantial structural increases to the minimum wage in future, either based on demands from trade unions (Croatia and Lithuania) or government announcements to do so (Poland and Spain).

It is also important to point out that some countries already have concrete relative targets or ranges of targets established within their minimum wage legislation (Eurofound, 2019d p. 16, Table 4).

Table 10 gives an overview of the most recent national debates and concrete proposals around setting minimum wage in relation to a relative target (for example, x% of median or average wages) or in the form of absolute demands (for example, move towards €x per hour).

### Table 10: Demands for and agreements on targets for future minimum wages to address adequacy in selected EU Member States and the UK

<table>
<thead>
<tr>
<th>Country</th>
<th>Who</th>
<th>Elaboration on ratio or target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>Trade unions: CITUB and Podkrepa CL</td>
<td>There are some proposals for debate on the part of the trade unions to set as a benchmark a 50% ratio of minimum to the average wage (CITUB) and 60% (Podkrepa CL). The unions propose tripartite negotiations with these relative targets in mind, but not based on a formula.</td>
</tr>
<tr>
<td>Croatia</td>
<td>Trade unions</td>
<td>Croatian trade unions regularly demand that the minimum wage should be 50% of the average wage or 60% of the median wage. Employers, particularly from the textile and footwear industry as well as from security services, state that they are not able to pay such relatively high salaries and that it endangers their competitiveness and position on the market.</td>
</tr>
<tr>
<td>Czechia</td>
<td>Tripartite debate, without consensus reached</td>
<td>The Ministry of Labour and Social Affairs originally envisaged in a draft amendment to the Labour Code that the minimum wage would correspond to 50% of the average gross wage in the national economy year before last (i.e. 2017). The Confederation of Industry opined that it should be set at 44% of the average gross wage, trade unions (ČMKOS, Association of the Independent Trade Unions of the CR (ASO CR) support the ministry’s proposal as the lower limit. The discussion of such a formula was eventually abandoned due to a failure to agree, and no change was introduced to the Labour Code.</td>
</tr>
<tr>
<td>Estonia</td>
<td>Trade union EAKL</td>
<td>According to a methodology for updating agreed between social partners in 2017, the level of minimum wage should reach 40% of average wages (since 2019) and be updated based on the growth of labour productivity and GDP. In the first rounds of negotiations only the increase based on the economic indicators was considered, while EAKL demanded that the target of 40% of average wages in 2020 should be adhered to as well. Agreement between social partners, following conciliation In 2021, the national minimum wage to be set to 40% of average wages.</td>
</tr>
<tr>
<td>Italy</td>
<td>Italian Ministry of Labour</td>
<td>Proposal of February 2020 to introduce statutory minimum wages of 70% of median wages set in collective agreements.</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Tripartite agreement</td>
<td>In 2017, it was established by the TCRL that the ratio between the minimum wage and average wage should not be lower than 45% and should not exceed 50%. Employer representatives The minimum wage for 2020 to be set applying the limit of 45% and should not increase by more than €25.</td>
</tr>
<tr>
<td>Spain</td>
<td>Government</td>
<td>The government headed by Prime Minister Pedro Sánchez since June 2018 and that had won in the April 2019 and November 2019 elections, endorsed in their government plans the objective of achieving the goal of minimum wages allowing all persons in employment to enjoy a decent standard of living (PSOE and Podemos, 2019). Section 1.4 of the coalition document states that the government will increase the minimum wage to reach 60% of the average wage by 2024 as recommended in the European Social Charter.</td>
</tr>
<tr>
<td></td>
<td>Regional government of Catalonia</td>
<td>Recommended a regional minimum wage of 60% of the average salary of the territory for 2020 (£1,239). See Chapter 3 section ‘Regional dimensions of minimum wages’ for more details.</td>
</tr>
</tbody>
</table>

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36 Czechia and Estonia: Not less than 40% of average wages. Poland: Not less than 50% of average wages. Lithuania: Between 45%–50% of average wages. Croatia: ’An upward share’; Cyprus for the occupational rates: 50% of median wages; UK: New target of 66% of median wages – see Box 7.
Net minimum wages

In some countries, correspondents noted recent policy debates in 2019 on measures which would impact the take-home pay of minimum wage earners or reduce labour costs for employers.

In Austria the former government had plans on a tax reform, from which especially low earners would benefit, but due to the premature termination of the government in mid-2019, the plans were not implemented. Unions in Bulgaria proposed to introduce a non-taxable minimum equal to the rate of the country’s minimum wage (CITUB) or to replace the flat-tax scale with a progressive one (Podkrepa CL). Likewise, Hungarian unions are proposing not only tax cuts on wages but also the elimination of flat-rate income taxes and reintroducing progressive personal income tax rates (Facsinay, 2019). In Greece, the reduction of social security contributions has been a consistent demand of employer organisations for many years and the current government has announced and pledged that in 2020 it will institute the gradual reduction of social security contributions by 5% over a four-year period.

<table>
<thead>
<tr>
<th>Country</th>
<th>Who</th>
<th>Elaboration on ratio or target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovakia</td>
<td>Proposal in parliament, government implemented</td>
<td>As of 2020, to establish the new rate for the following year: If social partners are not able to reach an agreement by a specific deadline (in mid-July), government will set the new rate to 60% of average wages.</td>
</tr>
<tr>
<td>UK</td>
<td>Government</td>
<td>The level of the national living wage was an issue in the campaign for the December 2019 general election, with the governing Conservative Party promising a rise to two-thirds of median earnings by 2024 and the main opposition party, Labour, pledging an immediate rise to GBP 10 per hour (£11.39) in 2020.</td>
</tr>
<tr>
<td>Austria</td>
<td>Organised labour (Chamber of Labour, AK and ÖGB), with political support from the Social Democrats (political party)</td>
<td>An increase of the currently agreed coordinated minimum wage level from €1,500 gross (14x) to €1,700 is proposed.</td>
</tr>
<tr>
<td></td>
<td>Liste Jetzt (political party)</td>
<td>Tabled a parliamentary motion for resolution in which it requested the introduction of a statutory minimum wage of at least €10 per hour (€1,750 monthly).</td>
</tr>
<tr>
<td>UK</td>
<td>Trade union ABV-FGTB</td>
<td>Organised a campaign to demand a minimum wage of €14 per hour. In this campaign it collected 70,000 signatures.</td>
</tr>
<tr>
<td>Germany</td>
<td>Organised labour with support from the Social Democrats, the Greens and the Left</td>
<td>Since 2019, the trade union demand for an increase to €12 per hour has been backed by the Social Democrats, as well as by the Greens and the Left. There is strong opposition by the employers.</td>
</tr>
<tr>
<td>Italy</td>
<td>Five Star Movement (political party)</td>
<td>A level of €9 per hour featured in the debate during 2018–2019.</td>
</tr>
<tr>
<td>Latvia</td>
<td>Government</td>
<td>Government announced its intention to increase the minimum wage to £500 in 2021.</td>
</tr>
<tr>
<td>Poland</td>
<td>Government, support by left-wing parties</td>
<td>The Law and Justice Party (re-elected into government) as part of a re-election campaign announced a substantial gradual rise up to PLN 4,500 (€1,047.10) by 2024. This is estimated to increase minimum wages to more than 60% of average wages.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Trade union Netherlands Trade Union Confederation (FNV)</td>
<td>FNV recommends an additional and substantial increase above the regular biannual formula-based update (De Vries, 2019). Employers and government are reluctant to deviate from the rule (Van Der Leij, 2020), but government will research whether a higher minimum wage will lead to a decrease of jobs.</td>
</tr>
<tr>
<td>Portugal</td>
<td>Government proposes a tripartite agreement</td>
<td>The programme of the newly elected socialist government that took power in October 2019 included the proposal to initiate negotiations in 2020 for a mid-term tripartite agreement on wages, income and competitiveness and envisaged a trajectory for the minimum wage update with the aim of reaching €750 by 2023.</td>
</tr>
</tbody>
</table>
In Italy, a law37 aimed at cutting the fiscal wedge for subordinate workers was finally presented as a measure to increase wages. However, the capacity of this measure to actually address low pay is questioned, as it applies only to workers above the fiscal exemption threshold (no tax area) and, therefore, not to the lowest-earning workers.

A decent living and the sufficiency of take-home pay

Can the postulate that workers and their families should be able to have a decent living be put in figures? This is a great ambition, which this report does not attempt to solve. What is required for a decent living will depend on many factors, such as household income and composition including the number of dependents, individual preferences and consumption patterns, and sociocultural norms. It will vary by country. Nevertheless, the report can provide some selected figures for the debate.

Ability to make ends meet

One indicator for a decent living is whether workers find it difficult to make ends meet. In the EU-SILC, workers have been asked whether and to what extent they find it difficult to make ends meet, ranging from ‘very easily’ to ‘with great difficulty’.

Figure 14 compares the answers of minimum wage workers to all other employees. Overall 7 out of 10 minimum wage workers report at least some difficulty in making ends meet, as compared to fewer than 5 out of 10 non-minimum wage workers. The proportion of minimum wage workers who report that they have great difficulty (11%) or find it difficult (20%) to make ends meet is significantly higher than the same proportion among those having higher wages (6% with great difficulty and 13% with difficulty).

Particularly pronounced is the large spread of these shares between Member States. Looking at workers who report having difficulty, or great difficulty, in making ends meet, the proportion ranges from below 10% in Denmark, Finland, Germany and Sweden up to more than 50% in Bulgaria, Croatia, Cyprus, to as high as 85% in Greece (Figure 15).

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37 Decree-law 5 February 2020, n. 3 ‘Urgent measures for the reduction of fiscal pressures on employees’.
In a given country, is there a relationship between the proportion of workers who find it difficult to make ends meet and the level of the minimum wage? In Figure 16, the horizontal axis displays the proportion of minimum wage workers who live in households that have difficulties making ends meet. The plot on the left displays the level of minimum wages in relation to the median wages in the same country – the Kaitz index. The plot on the right displays the absolute level of minimum wages in each country in PPS.

In the left-hand plot, there is clearly no relationship between the Kaitz index and the level of difficulty making ends meet. The right-hand plot shows a negative (but not very strong) relationship. This suggests that countries with a higher Kaitz index do not tend to have a smaller proportion of workers reporting difficulty making ends meet. However, countries with a higher absolute level of minimum wages (expressed in PPS) do tend to have a smaller proportion of minimum wage workers reporting difficulties to make ends meet.

**Notes:** Minimum wage earners as per Eurofound definition 90% to 110% of national minimum wages. The findings adapted to the European Commission’s definition (80% to 105%) are virtually identical and therefore not depicted. As these estimates are based on a sample, the lower and upper confidence bands indicate the range within which the true value lies at a 95% confidence level. For some countries, this interval can be relatively large, due to smaller samples. Caution should therefore be exerted when interpreting and comparing these figures.

**Source:** Eurofound calculations based on the EU-SILC 2018
These figures suggest that raising the relative level of minimum wages within a country is, on its own, not a sufficient instrument to decrease the share of workers who report that they find it difficult or very difficult to make ends meet. What is more important is the level of the minimum wage and what it can buy.

Living wage concepts applied

The idea that minimum wages should be adequate so as to allow workers and their families a decent living is not new. And while the level of some minimum wages was originally set based on this idea (for example, the French SMIC in 1937), to date, there are few countries in the EU or worldwide where such living wage concepts are being applied; most of the time, these concepts are independent of the national minimum wage and are applied in parallel. Eurofound (2018a) provided an extensive summary of the concept and practice.

In 2019 the Irish Living Wage Technical Group – a group made up of trade unions, non-profit organisations and academics – calculated the hourly pay required by a full-time worker without children to afford a socially acceptable standard of living in 2019 at €12.30.38 This is a €0.40 increase of the rate of 2018, which was mainly driven by increases in the costs of housing: In Dublin, weekly housing costs for a living wage worker increased by €21.80 while they increased by an average of €9.27 per week across the rest of the country. The calculated rate takes into account differences in the cost of living in Dublin, cities, towns and rural areas, but applies weights and ultimately suggests one living wage rate for the whole country (Living Wage Technical Group, 2019).

During 2019, the Romanian parliament discussed the Law for the minimum consumer basket for decent living39 as fundamental for establishing the value of the minimum wage. In September 2019, the parliament sent the law for approval to the Romanian President. According to the law’s annex, the calculations show that the value of the minimum monthly basket should be RON 2,304 (€486).40 In this context, the Social Monitor of Friedrich-Ebert-Stiftung Office Romania (2019) launched a short report announcing the value of a decent living in Romania for a family of two adults and two children RON 6,954 per month (€1,465); for a family with two

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38 Available at www.livingwage.ie.
40 This allocated more than 45% for food and beverages, while 13.3% was allocated for housing, fuel, water, electricity and gas. The other parts earmarked for clothing, furniture, health, transport, education, culture, savings or other products and services range from 2.3% to 10%.
adults and one child RON 5,708 a month (€1,203); for a family of two adults without children RON 4,262 per month (€898) and for one adult person alone RON 2,621 per month (€552). The monthly basket for a decent living increased in 2019 by RON 200 (€42).

In Slovenia the reform of the Minimum Wage Act in 2018, first implemented in 2019, includes mechanisms from 2021 onwards to bring the statutory minimum wage closer to a living wage. The new mechanism foresees that the level of the statutory minimum wage will be determined based on a minimum basket of basic goods and services, which would be topped up (20% to 40%), so as to allow a decent living. The level of the top up, how and by whom it will be determined, has not been decided yet.

**Regional dimensions of minimum wages**

Costs of living can vary substantially depending on the place of living. Beside intra-country differences, interregional differences within a country tend to be as high – if not greater. Capital regions are the most expensive places to live in.

At the same time, regions differ in the share of workers earning around the minimum wage but also in the relative level of the minimum wage in comparison to average or median regional wages.

To date – with the exception of France and its overseas department of Mayotte and Portugal for the autonomous regions of the Azores and Madeira – no Member State has a regionally differentiated statutory minimum wage rate or any regional correction coefficients.

**Policy debates on regional minimum wages**

Calls to introduce regional rates were noted only in very few Member States over the past year, mainly originating from the employers’ side. This was the case in Bulgaria (BICA, 2017), Lithuania, Slovakia and the UK. It has also been proposed and discussed in recent years by the French expert group on minimum wage setting. In its 2017 report, the expert group discussed a regionalisation of the French minimum wage (SMIC) in view of the price differences that exist between territories (Direction Générale du Trésor, 2017). For example, prices in the Parisian region were 9% higher than those in other regions in 2015. According to the report, ‘one third of this difference was explained by rents alone. To a lesser extent, the price differentials concerned health, leisure and cultural expenditure, “other goods and services” which include home insurance in particular’. However, the authors have developed several economic and societal arguments that lead them not to recommend a regionalisation of the minimum wage. The topic was not raised again in the 2018 and 2019 reports (French expert group on minimum wage setting, Annual report 2017).

Regional correction coefficients were also proposed by two Italian parties (FDI and Leu) as part of their proposals on introducing a statutory minimum wage. The proposals are not more specific about which regional level should be chosen. Discussions on regional correction coefficients did not advance in 2019 or become more concrete.

The Lithuanian case is illustrative of this, as regional minimum wage differentiation has been under discussion in Lithuania for some time. The issue is most often raised by employer organisations with a view to reducing the growth of the level of the minimum wage. One of their main arguments is that businesses in small towns will not be able to pay their employees the minimum wage. According to employers’ representatives (Zaremba, 2019), if a gross minimum wage of €607 is introduced in Lithuania in 2020, the ratio between the minimum and average wages will be above the 50% threshold in more than 50 municipalities, while it has been agreed at the tripartite committee (TCRL) that the ratio will be maintained at the 45% to 50% ratio. If the minimum wages increase, wages for higher-paid workers will have to be raised too, and this can adversely affect the life of companies and trigger price increases. According to the representatives of the government, this will encourage companies to share profits with their employees, whereas trade unions maintain that minimum wage increases in regions will prevent major regional differences in the standard of living in Lithuania (Aušra, 2019). However, despite annual proposals from employers, this issue has not been discussed in more detail at the TCRL. Nor have employers made specific proposals on how to differentiate minimum wages between different regions.

**Table 11: Regional statutory minimum wage rates**

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Rate per month</th>
<th>Percentage of basic rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Department of Mayotte</td>
<td>€1,161.77</td>
<td>75.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>Autonomous Region of Madeira</td>
<td>€650.88</td>
<td>102.5</td>
</tr>
<tr>
<td></td>
<td>Autonomous Region of the Azores</td>
<td>€666.75</td>
<td>105</td>
</tr>
</tbody>
</table>

Source: Network of Eurofound Correspondents, based on national legislation
Two different cases – Catalonia in Spain and the Burgenland in Austria – are presented in Box 8. In both cases, regional governments have opted for a higher minimum wage, starting within their own sphere as regional public sector employer, but with the idea that these increases should spillover to private sector enterprises.

Regional differences in the relative value of the minimum wage

As gross minimum wages cover whole national territories, there may be regional differences in the level of the Kaitz index: In poorer regions, where average monthly wages per full-time worker tend to be lower, the national gross minimum wage will be closer to average wages than in richer regions.

Figure 17 shows countries with available regional wage statistics and statutory minimum wages. Some Member States equate the NUTS1 regional level with their national territory. For those countries, the national level index has been depicted.

The regions with the lowest relative levels of minimum wages are typically capital regions (such as Madrid, Bucharest and central Hungary) or other more densely populated richer industrial regions (such as north-eastern Spain and Hesse in Germany).

Among the 10 regions with the largest regional relative minimum wages 7 are French regions (in fact all French regions except for the oversea departments and the Île-de-France). This is due to the fact that France overall has one of the highest relative minimum wage levels and – except for the central region – a lower degree of variation in regional wages. Other regions with the highest value of relative minimum wages are the eastern German Mecklenburg-Vorpommern (52%), Slovenia (51%) and the Great Hungarian Plain and North (51%).

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**Box 8: Regional governments opt for higher minimum wages**

**Spain: Catalan government recommends higher regional minimum wage**

In December 2019 the Catalan government launched a recommendation for the region to set a regional minimum wage at €1,239 per month, above the €900 of the statutory minimum wage in Spain. Even though the Catalan government has no competence to set a mandatory minimum wage, something that falls exclusively to the central government, it has other ways for its proposal to become a reference.

The first would consist in the Catalan administration setting that the reference salary in public procurement contracts to €1,239, instead of €900. Secondly, by recommending social partners in Catalonia to use this figure as the baseline for the negotiation of collective agreements. The amount of €1,239 represents 60% of the average salary of the territory, something recommended by the European Social Charter to reduce inequalities and allow decent living standard for workers. There is no evidence as to the real effect of this recommendation so far.

**Austria: Government of Burgenland introduces a minimum wage for public sector workers**

At the end of 2019 and ahead of the 2020 regional elections, the government of the smallest Austrian region Burgenland (led by the Social Democratic Party in coalition with the Freedom Party) has proposed to reform its pay system and introduced a minimum wage of €2,450 gross (€1,700 net, 14 monthly payments) for public sector employees in its domain who are working on a full-time basis. This translates to €10 per hour and will be applicable for example to simple secretarial services, manual ancillary activities, kitchen aides and cleaning personnel. The new minimum wage will be rolled out step by step, starting with employees in the regional public administration and the regional public hospitals, followed by companies in regional public ownership and local municipalities. At the same time, the earning curve for public employees shall be flattened over time (such as higher salaries at the beginning of the career but less steep increases with increasing tenure or when moving into higher grades). For those carrying out the simplest activities, no pay increases into higher grades are foreseen. Already employed staff can decide whether they wish to remain in the old system. The head of the government, Governor Hans Peter Doskozil, voiced hopes that this would set an example for the private sector pay. The move has sparked strong criticism from the employer organisations as well as the Conservative Party (ÖVP), who warn about negative employment impacts, possible price increases and refer to the difficulty smaller companies are expected to have if they are obliged to pay such a wage. They also criticised that part of the envisaged pay increases will be offset through a prolongation of working hours (in the old scheme, the daily lunch break of 30 minutes was counted as working time, in the new scheme, this will be discontinued) and reduction of annual leave by 3 days.

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NUTS (Nomenclature of Territorial Units for Statistics) is a geocode standard used by Eurostat.
### Figure 17: Monthly minimum wage as a proportion of the mean value of average monthly earnings by NUTS1 region, reference year 2016

#### Ten lowest regional minimum wage levels, based on regional Kaitz index

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>Comunidad de Madrid</td>
<td>29%</td>
</tr>
<tr>
<td>Romania</td>
<td>Macroeconomy 3 (including South Muntenia and Bucharest-IIfov)</td>
<td>29%</td>
</tr>
<tr>
<td>UK</td>
<td>Southeast UK</td>
<td>30%</td>
</tr>
<tr>
<td>Spain</td>
<td>Northeastern Spain</td>
<td>32%</td>
</tr>
<tr>
<td>Hungary</td>
<td>Central Hungary</td>
<td>33%</td>
</tr>
<tr>
<td>Spain</td>
<td>Eastern Spain</td>
<td>33%</td>
</tr>
<tr>
<td>Czechia</td>
<td>Czechia</td>
<td>34%</td>
</tr>
<tr>
<td>Germany</td>
<td>Hamburg</td>
<td>34%</td>
</tr>
<tr>
<td>Greece</td>
<td>Attica</td>
<td>35%</td>
</tr>
<tr>
<td>Germany</td>
<td>Hessen</td>
<td>35%</td>
</tr>
</tbody>
</table>

#### Ten highest regional minimum wage levels, based on regional Kaitz index

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>West</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Bassin Parisien</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Nord-Pas-de-Calais</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>East</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Southwest</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Mediterranean</td>
<td>53%</td>
</tr>
<tr>
<td>Germany</td>
<td>Mecklenburg-Vorpommern</td>
<td>52%</td>
</tr>
<tr>
<td>France</td>
<td>Centre-east</td>
<td>51%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Slovenia</td>
<td>51%</td>
</tr>
<tr>
<td>Hungary</td>
<td>Great Plain and North</td>
<td>51%</td>
</tr>
</tbody>
</table>

**Notes:** The regional breakdowns of the labour cost survey are available at the level NUTS1. For some Member States the regional NUTS1 level is equivalent to the national territory (Croatia, Cyprus, Czechia, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia). No regional data are available for Austria, Belgium or Norway for 2016. Sectoral scope: industry, construction and services (except activities of households as employers and extraterritorial organisations and bodies). Average wages and salaries (excluding apprentices) per month for full-time employees in national currency.

**Source:** Eurofound based on Eurostat [lc_cost_r2] and [earn_mw_cur] for NUTS1 and [earn_mw_avgr2] for countries where NUTS1 is equivalent to the national territory.
In this context it is also interesting to look into the regional variation of the Kaitz index within each country. Using the coefficient of variation between the regional Kaitz index, we find that Hungary, Romania, Bulgaria and Germany have the largest regional variation, while Portugal and the Netherlands have the lowest (Figure 18).

Regional differences in the share of minimum wage workers

EU-SILC data allow analysis of the regional differences in the share of employees earning 90% to 110% of the national minimum wage by analysing data in different NUTS2 regions. Although not all countries are covered (the dataset does not include Ireland, Slovakia and the UK) and some countries do not provide regional breakdowns or are not further divided at the NUTS2 level, analysis for the remaining countries reveals those countries with high intra-country differences, as depicted in Figure 19.

The large differences in some countries (such as Spain where they range from 1.4% to 10.3%) show that it is important to consider the regional dimension of minimum wages when considering policy action. While, at a national aggregate level, Spain has only 5% of employees earning around the minimum wage, this number is quite different when considering regions individually. These differences need to be taken into account when setting minimum wages and when estimating the impact of an increase or decrease, both on employees and on businesses.
Figure 19: Examples of countries with higher interregional differences in the proportion of minimum wage workers

Czechia
The share of minimum wage workers ranges from 1.2% in Prague (CZ01) to 6.7% in central Moravia (CZ07).

Spain
Differences in Spain range between 1.4% in Ceuta (ES63) to 10.1% on the Canary Islands (ES70) and 10.3% in Extremadura (ES43).

Hungary
Differences in Hungary range between 14.7% in central Hungary, including Budapest and Pest (HU1), and 21.9% in the Great Plain and North Hungary (HU3).

Source: Eurofound based on the EU-SILC 2018
Coverage of workers and policy responses

For countries without statutory minimum wages, coverage relates to workers who are covered by collective agreements and identifies gaps where workers are not. For countries with statutory minimum wages, (non-)coverage in the context of this chapter refers to workers who might not receive at least the statutory minimum wage due to exceptions or because lower rates than the full-adult rate may apply to some groups of workers. In both systems, it is particularly the self-employed workforce, which is not covered through minimum wage policies, as per the definition. In addition other workers, for instance those doing piece rate work, might not be covered.

This chapter discusses what is known about the bargaining coverage among low-paid workers in countries with a collectively agreed minimum wage. The chapter’s final section presents recent policy measures – from both systems – to address the lack of minimum wage coverage for some workers in non-standard forms of employments.

Bargaining coverage among the low paid

Collective agreements in the countries without statutory minimum wages are mainly concluded at sectoral level, with different degrees for further company-level bargaining on the pay rates. The Nordic countries tend to have such ‘articulated’ additional company-level bargaining in place, while the room for additional company collective bargaining in Austria is very limited. In Denmark and Sweden, sectoral collective agreements are usually not extended to unaffiliated employers in the same sector. In Norway an increasing number of agreements are for sectors where there has been an issue of wage competition that is driving lower wages. In Sweden, the extension of sectoral-level collective agreements is voluntary and known as ‘hängavtal’. Cyprus has a mixed-sector and company-level system, with only around 50% of employees covered.

In countries without a universal wage floor in the form of a statutory minimum wage, the question of how large the non-covered segments of the workforce are and if these segments indeed relate to the low paid is crucial. As established in Eurofound’s Minimum wages in 2019 – Annual review, there is limited information available on the non-coverage and the extent to which this is associated with low pay (Eurofound, 2019d).

Particularly for Finland and Sweden, no information is available.

In the absence of extension mechanisms for sectoral-level collective agreements in Denmark, agreed sectoral wages very often have a ‘rub-off effect’ on uncovered companies in the same sector. In addition, the unions conclude single-employer agreements with companies that do not want to be a member of an employer organisation but would like to have an agreement with the relevant trade union. These supplementary agreements (adoption agreements) are often standard single-employer agreements that the unions have made ready for the occasion, but some are specific to the company. It is important to add that in most Danish companies, local agreements within the companies settle the actual wage. This means that in most cases – depending on the sector – the actual wages are higher than the agreed sectoral minimum wage.

Foreign workers or posted workers in Denmark are in many cases not covered by collective agreements and are paid under the level of the minimum wage set in the relevant collective agreement. This concerns mainly posted workers in the construction sector or foreign workers in agriculture. No statutory minimum wage or legal extension of collective agreements implies that companies without a collective agreement can remunerate at any level employees are willing to accept. It is up to the unions to locate and identify the foreign workers and demand a collective agreement with the employer. The posted workers at the construction of the Metro in Copenhagen is an example of underpayment of posted workers who were entitled to receive payment according to the Danish collective agreement in force (Arnholtz, 2020).

Industrial cleaning is another sector in Denmark where groups of employees tend to be paid under the level of the collectively agreed minimum wage. A study from 2013 suggested that 30% of cleaning companies pay less than the collectively agreed wages, as they do not (have to) follow the collective agreement (Andersen and Felbo-Kolding, 2013). The average hourly wage was €22 in 2014, but higher than the collectively agreed minimum wage (€16) stipulated in the dominant collective agreement covering the sector. However, wide wage disparities exist within the sector, where, for example, some digital cleaning platforms offer a minimum hourly wage of €16, whilst some private cleaning companies advertise with hourly wages as low as €7 per hour for providing cleaning services in private households.
In addition, the hourly price for undeclared cleaning jobs vary typically between €13 to €17 for ordinary cleaning jobs (Mailand and Larsen, 2020). These findings suggest that, to cut costs, a large minority of cleaning companies circumvent existing regulations by offering lower wages and contracts of only a few hours, as well as outsourcing cleaning to private contractors that often are not covered by a collective agreement.

Coverage for non-standard forms of employment or the self-employed

The postulate that ‘every worker should earn a fair minimum wage’ demands a closer look at who is covered by minimum wage regulations – be they collective agreements or laws – and who is not. Statutory minimum wage regulations typically cover employees with some form of employment contract. While they usually apply pro-rata to employees doing work on a lower hourly basis (for example, part-time workers, seasonal or temporary workers, workers on zero-hours contracts), they do not capture self-employed workers since they are not wage-earning employees and therefore not covered by minimum wage legislation.

This group of workers would also usually not be covered by collective agreements though exceptions exist. Most recently, there have been several policy responses from social partners and governments, but most are at an early stage (such as initial research is being done or the response is under debate).

There are a few recent examples in countries with stronger sectoral collective agreements that cover certain types of platform workers, including minimum wage rates. For instance, in Austria the first collective agreement for employed bicycle couriers includes a monthly gross wage of €1,506 and additional holiday and Christmas remunerations next to compensation of 0.14 per km for those using their own bikes. For the Nordic countries, seven agreements related to platforms were identified recently (Jesnes et al, 2019). One such agreement related to the Danish cleaning platform Hilfr. It was renewed in July 2019 for another year after a pilot phase of one year (since August 2018). As of spring 2020, the agreement is being renegotiated.

42 Eurofound’s platform economy repository: https://www.eurofound.europa.eu/data/platform-economy/initiatives.
Coverage of workers and policy responses

Box 10: Wages and income in new forms of employment – An overview of Eurofound research

New forms of employment can be employees (wage earners) who fall under the minimum wage legislation or they can be self-employed. As national regulations differ, the extent of these may vary by country within some forms of employment (for example for voucher based work), and there may be a grey zone, in the form of blurring boundaries and bogus self-employment, which is up to regulators or the courts to clarify (see Eurofound, 2018b, p. 2).

Strategic employee sharing
The initial concept (French approach) of strategic employee sharing is based on ‘equal pay, equal treatment’. Shared workers are to be treated like the core staff in companies that participate in the sharing scheme. These schemes include standard employment contracts, including wages, so minimum wages should be guaranteed. In practice, in those countries where there is no specific regulation, the question might arise which minimum wage to apply if this is not statutory but collectively agreed (Eurofound, 2016).

Casual work
There is considerable variety in casual work frameworks in countries, and how casual work is implemented in practice. In Eurofound’s definition, casual workers have the employment status of employees. While most countries provide for a minimum wage for casual workers, minimum income is not necessarily guaranteed. Considering the specific nature of this employment form – the employer is not obliged to provide workload and hence regular payment – this might leave casual workers without predictable and guaranteed earnings despite availing of a regulated employment contract. Depending on country-specific regulations, on-call workers might be paid for inactive time as well (for example, in the UK for waiting time at the employers’ premises) or in Italy depending on the agreement. Some countries have regulations ensuring a guaranteed income (for example, Ireland and the Netherlands) (Eurofound, 2015a).

Overall, the findings point towards casual work not providing income security and being linked to precariousness and in-work poverty. Casual workers tend to suffer from a wage penalty, such as a pay gap between marginal and regular employees. But in some countries, casual workers could benefit from a more beneficial tax regime, so their net wages might not differ that much (Eurofound, 2019d).

ICT-based mobile work
ICT-based mobile work is a work arrangement – for both employed and self-employed – rather than an employment form. Coverage by (minimum) wage regulations will depend on the employment status, and within that on the specific contractual arrangement. Data from the European Working Conditions Survey shows a higher incidence of ICT-based mobile workers compared to self-employed and that the average monthly earnings of ICT-based mobile workers are higher than those always at the employer’s premises. However, there is the potential for unpaid working hours for ICT-based mobile workers and about one-quarter of ICT-based mobile workers are in precarious employment: they are more likely to have a fixed-term contract, earn a low income, experience job insecurity, and lack training opportunities (Eurofound, 2020c).

Platform work
While the employment status of platform workers is generally not clarified, the vast majority, in practice, are considered self-employed. Accordingly, regulations on (minimum) wage do not apply to them. Eurofound research shows that on-location platform work tends to have decent pay rates, that is, comparable to rates in the traditional economy; however, work that is low skilled or focused on small tasks might not earn as much due to the nature of the task, and additional costs might need to be considered that reduce the earnings (providing one’s own material or assets). Online platform work tends to be subject to global competition, pushing down prices. In some types of platform work, unpaid working time can be substantial (for example, search and bidding time) providing the service without being paid (if a contract is not received, for example) (Eurofound, 2019e).
The **Italian** legislature intervened in the last two years with ad hoc provisions aimed to assure a fair wage both to self-employed and to certain categories of non-standard workers.

For professionals and freelancers, the legislature[^43] in 2017–2018 enacted new rules concerning the ‘fair pay’ (equo compenso) when workers deal with specific ‘privileged clients’ (such as banks, insurance companies, big companies and public administration).

The new discipline provides workers with additional protections, in case of agreements drafted unilaterally by the privileged client:

- the right to receive a compensation proportionate to the quality and the quantity of the work done and in line with the references for tariffs to be set in specific ministerial decrees (save in case of a different specific arrangement reached by the parties)^

- a list of ‘always unfair clauses’ that must be declared void by the judge, without possibility of opposition for the customer

- a presumption of unfairness for other clauses entailing a relevant contractual imbalance at the expense of the professional/freelancer, which can be disproven by providing the judge with adequate evidence

Should a clause be declared void according to the legal framework, the residual part of the agreement remains in force.

The **Italian** legislature introduced the rider decree[^45] for platform workers operating in the delivery industry. The decree prioritises collective agreements executed by the comparatively most representative social partners. In the absence of such agreement, the workers cannot be compensated on the basis of the deliveries made and must be guaranteed a minimum hourly wage parameterised to the minimum pay levels set by national collective agreements, related to similar or equivalent sectors and signed by the social partners comparatively most representative at national level (Cavallini, 2019).

These provisions on remuneration will take effect from November 2020 onwards and only in case the social partners will not define an alternative contractual discipline.

The law was enacted after some local Italian municipalities, such as Bologna and Milan, took autonomous initiatives to enhance the wage and job protection of ‘digitalised’ delivery workers. These local administrations promoted negotiating tables involving workers-on-demand-via-app in the food delivery sector and the companies operating therein. In Bologna the negotiations succeeded, and the Charter of Fundamental Rights of Digital Workers in the Urban Context was signed on 31 May 2018. This agreement aspired to become a national model for territorial tripartite agreements relating to work on platforms. It established among other factors:

- a ban of wage schemes that are based only on piece work

- a fixed-hourly wage not below the minimum wage set by most relevant sectoral agreements, even when remuneration schemes are mixed (Comune di Bologna, 2018)

The question of how to ensure that self-employed workers are covered by some kind of minimum wage equivalent has also been present in discussions in France. In its report 2019, the **French** group of experts examined the question of fair pay for some forms of dependent self-employed, namely gig workers. According to the report,

> an effective pay floor is not easy to design because of several possible drawbacks, especially the risk of damaging a business model whose development could be beneficial for growth, employment and consumer well-being. More analyses and reflections are needed to inform and design the possible policy options

(Direction Générale du Trésor, 2019)

One policy action – the Law on the orientation of mobility (LOM) – had already introduced a new instrument: a ‘Charter of social responsibility’ for mobility platforms (drivers and delivery of goods by two- or three-wheeled vehicles). While the charter’s scope goes well beyond prices,[^46] the notion of a decent price is one of the mandatory items in it, which must specify the terms and conditions aimed at enabling self-employed workers to obtain a decent price for each of their services. According to the law, the charter must explain how workers will receive a decent wage for their task. There is no indication on how to fix it, but management shall consult the worker.

[^43]: Law No. 172 of 2017, then modified with Law No. 205 of 2017.

[^44]: Currently Ministerial Decree No. 37 of 2018 concerning lawyers’ compensations is the only ministerial decree to be issued.


[^46]: There are guiding principles distinguishing a commercial relationship from an employee relationship, such as the prohibition of any exclusivity clause, the freedom to use the platform, the prohibition of unilateral abrupt and uncompensated termination of the relationship – all with the aim to improve the predictability of working conditions, while workers keep their self-employed status. More information is available in Eurofound (2019b), p. 43.
At the same time, the LOM imposes new transparency obligations on mobility platforms to inform their workers, as soon as it offers them a service, of the distance covered and the minimum guaranteed price they will benefit from, after deduction of commission charges. These provisions are to be read in conjunction with other new measures provided for in Article 20, namely the prohibition on the platform to terminate a contractual relationship with its employees on the grounds that they have refused one or more offers or have exercised their right to disconnect during their working hours.

French social partners have taken a position on the application of a minimum decent wage for self-employed workers, an issue analysed by the group of experts in 2019. The experts group has examined the question of fair pay for some forms of dependent self-employed, namely gig workers. The group highlighted that ‘an effective pay floor is not easy to design because of several possible drawbacks,’ especially the risk of damaging the development of a business model that could be ‘beneficial for growth, employment and consumer well-being’. The group concluded that ‘more analyses and reflections are needed to inform and design the possible policy options’. Social partners’ positions, annexed to the annual report of the expert group, portray diverging views: The employer organisation U2P, representing small companies and independent professions), stresses that since trade union organisations of employees are not legitimate to fix the working conditions of self-employed workers, the determination of a minimum remuneration for self-employed workers, a measure devoid of common sense, cannot involve all the social partners.

The French Democratic Confederation of Labour (CFDT) demands, in the case of platforms that set the price of the service, ‘a minimum tariff to allow a decent remuneration; it is the responsibility of the State to organise it’. Within the framework of the draft law on the orientation of mobility (LOM), the CFDT has proposed a minimum mechanism for representation (obligation to elect workers’ representatives) and social dialogue (obligation to negotiate) within them …. it is a question of allowing them to negotiate their remuneration, to obtain the right to appeal in the event of disconnection by the platform without warning or justification.

(Direction Générale du Trésor, 2019, p. 167)

In the UK, there was no policy debate on the minimum remuneration for self-employed but it has been (potentially47) kicked-off with a report on the ‘liquid workforce’.48 It included an innovative call for a self-employed national minimum wage. This would aim to improve financial security for self-employed workers by placing a legal obligation on firms to pay their solo contractors a statutory minimum rate. The proposed self-employed minimum wage rate would be higher than the rate for employed workers to cover the additional risks faced by self-employed individuals as a result of not having statutory benefits such as sick pay (Lasko-Skinner et al, 2019).

47 The proposal received a degree of media coverage when the report was released but does not yet – as per January 2020 – appear to have been taken up in policy debate or commented on by the main actors in the area (for example, the main self-employed organisations).
48 In the quoted report, this was defined as including the self-employed, temporary agency workers, zero-hours workers, freelancers and those with multiple flexible forms of employment.
6 Latest research on effects of minimum wage increases

There are several channels as to how companies can react to changes in minimum wages, with varying implications for workers, their families and the general public and state finances. This chapter reviews the latest research in the EU, Norway and the UK. It focuses in particular on the expected and actual impacts of minimum wage increases on:

- wages, spillovers and wage inequalities
- employment, working hours and related labour market outcomes
- in-work poverty
- prices, revenues and profits

Minimum wages and their impacts on employment and working hours and wages are generally well covered by research worldwide. In Europe minimum wage research has received a particular boost over the past five years, following the introduction of the German minimum wage in 2015.

The evidence shows that the [German] minimum wage has increased hourly wages significantly, while the effect on monthly salaries has been far less substantial, as companies have partly reduced contractually agreed-upon working hours. Besides reductions in working hours or increases in work intensity, companies highly affected by the introduction of the minimum wage have used price increases and have had to accept profit reductions as a response to the new wage floor. If studies found any employment effects, they were—whether positive or negative—rather small in relation to the overall number of jobs. As in other countries, the minimum wage has not helped to reduce welfare dependency and the risk of poverty. Non-compliance remains a challenge for the implementation of the new statutory minimum wage.

(Bruttel, 2019)

German research published in 2019 focused on summarising research findings of the first five years of research on the effects of the introduction of the statutory minimum wage and whether the previously projected negative employment would manifest. In a nutshell, the research showed that overall, there were no negative employment effects other than a small reduction of marginal part-time jobs (mini jobs), particularly in eastern Germany. There has been no effect on labour productivity, either for the better or the worse, but there has been some reallocation of workers to more productive, higher-paying firms. Non-compliance has affected marginal part-time workers the most but the overall extent of non-compliance is unclear to date, as research studies come up with different findings (Bonin et al, 2019; Börschlein and Bossler, 2019; Bosch et al 2019; Bruttel, 2019; Fedorets et al, 2019; Friedrich, 2019; Pusch, 2019; Bossler et al, 2020; Dustmann et al, 2020).

There is also new minimum wage research to report from other countries, summarised in Table 12. Several ex ante studies tend to be more negative on employment impacts than empirical work actually found. This is due to the high dependence on this type of study’s underlying theoretical economic model. Neoclassical economics predict that employment will decline, whenever wages rise above workers’ marginal productivity. The expected effect can be different under an alternative economic reasoning. Where labour markets are not entirely competitive, as neoclassical theory assumes, but there is a single or ‘monopsonic’ power in wage setting, wages can result in being too low as compared to their equilibrium value. If wages are increased under such conditions, no negative employment effects are expected.

Several relatively recent ex ante or other theoretical studies suggested that negative employment impacts of minimum wage increases are likely (Büs, 2017 (Latvian National Bank); Bank of Greece, 2019; Lacuesta, et al, 2019 (Spain); Braun et al, 2020 (Germany)). The Spanish study has been met with fierce criticism – in the context of the political debate on the large uprate of the minimum wage by 22% in 2019 – and the government announced it will assess the impact of the rise in further research (see CCOO, 2019b). The Estonian government announced it will carry out an impact assessment of the minimum wage setting practice.

49 According to a survey among Spanish employers, 60% regard the impact on their business as neutral, 33% say it will have a negative impact and 7% report a positive impact (KPMG and CEDE, 2020).
Table 12: Latest minimum wage research in EU Member States and the UK

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Wages, spillovers and wage inequality

Recent studies underlined the role that minimum wage increases can have on reducing wage inequalities. Research by the European Commission (2018, p. 134), covering all Member States with a statutory minimum wage between 2006 and 2014 estimated that an increase in minimum wages has a significant effect on the wages above this rate. The effect is higher for those earning close to the minimum wage and decreases for workers in higher earnings percentiles. It becomes statistically insignificant after the 20th percentile.

The most recent studies obtained from the national level show that spillovers on other wages were partially found, but not always significant. A Czech study found that salaries of workers directly affected had increased following the minimum wage increases between 2012 and 2017 (Grossmann et al, 2019).

For Germany a team of researchers found that the minimum wage introduction can account for hourly wage growth in the order of roughly 6.5% or €0.45 per hour and an increase in monthly earnings of 6.6% or €53 per month. They did not detect any significant spillover effects to wages of workers earning somewhat above the minimum wage (Burauel et al, 2019).

Another German study looked at the sectoral effect of the minimum wage and found that the national minimum wage introduction had a strong impact on wages in sectors with low wages and low collective agreement coverage, that it serves as a point of reference for the collective bargaining partners in sectors with low wages but with collective agreement coverage (such as the national minimum wage impacts on the level of the lowest agreed wage and drives it upwards), but had a low effect in sectors with agreed wages above the minimum wage level and medium or high collective agreement coverage (Dingeldey, 2019).

Schulten and Pusch (2019) report that the minimum wage – set at 48% of the median wage – did not reduce wages above the minimum wage level and medium or high collective agreement coverage, that it serves as a point of reference for the collective bargaining partners in sectors with low wages but with collective agreement coverage (such as the national minimum wage impacts on the level of the lowest agreed wage and drives it upwards), but had a low effect in sectors with agreed wages above the minimum wage level and medium or high collective agreement coverage (Dingeldey, 2019).

A study by the Economic and Social Research Institute (ESRI), funded by Ireland’s Low Pay Commission, found that the 2016 increase in the Irish minimum wage reduced hourly wage inequality between high and low earners by up to 8%. However, there was no impact on the income of households (Redmond et al, 2019).

Positive, but small spillovers of minimum wages on actual wages were observed in Portugal by Martins (2019). The study investigated the relationship between the evolution of the national minimum wage and the sectoral evolution of nominal average wages between 2014 and 2017. The research suggests that the decision to increase the national minimum wage was decisive for the wage evolution pattern during the period, preventing the tendency of aggregate wage stagnation to be more pronounced. However, wages above the minimum wage increased at a lower rate – leading to an increasing share of workers receiving the minimum wage.

The Portuguese government also published a voluminous report, investigating issues around minimum wage policies – 45 years after its introduction (GEP/MTSSS, 2019). Among many other findings, it showed that minimum wages allowed to reduce wage inequalities between 2016 and 2019 as wage increases were higher in the lower echelons. The analysis examined the development of wages of workers earning around the minimum wage. The report concluded that the increase in minimum wage increased the wages of most workers earning between the ‘old’ and the ‘new’ minimum wage. The spillover effect to other wages, however, was small and mainly confined to those earning close to the level of the new minimum wage. This spillover effect increased somewhat: between April 2016 and April 2017 7.2% of workers transitioned from the minimum wage to the next remuneration bracket above. Between April 2017 and April 2018 8.1% of workers did.

Research for the UK’s Low Pay Commission found that the national minimum wage uprating after 2014, and especially the introduction of the national living wage in 2016, had a sizeable effect in boosting hourly wage growth for the lowest paid workers. Overall, the effect of minimum wage increases has been to compress hourly wage inequality in the bottom half of the distribution, with stronger effects in areas with more minimum wage workers. However, differences in weekly earnings growth across the distribution have shown less progressive change than hourly wage growth, consistent with employers adjusting working hours, bonuses or overtime pay in reaction to strong hourly wage growth at the bottom. These results are in line with previous research, which found that minimum wage increases may adversely affect the hours worked by low-paid workers (Avram and Harkness, 2019a).

The same authors also investigated whether workers in minimum wage jobs progressed to higher paid jobs between 2009 and 2017 (Avram and Harkness, 2019b). They found that around one-half of minimum wage job holders succeed in finding better paid employment within a year. Of these, however, four-fifths progressed to other low-paid employment (such as work with an hourly rate less than two-thirds of the median hourly wage) and only one-fifth succeeded in moving to
high-paid employment. The researchers found only limited evidence that minimum wage upratings have reduced the probability of transitioning to higher-paid employment and increased the probability of remaining in a minimum wage job. Educated individuals and those working in the public sector or in large firms are more likely to transition to high pay. Women, individuals with a history of unemployment, and part-time workers have lower chances of moving to high-paid employment. Furthermore, the amount of time spent in a minimum wage job had a negative effect.

Employment and working hours

Many empirical studies published in 2019 or slightly before, on the other hand, suggest that impacts of minimum wage increases on employment, working hours, or related labour market variables such as job retention, hiring rates or unemployment have remained modest.

Typically, such studies apply a somewhat modified difference-in-difference estimation approach, which seeks to estimate whether companies, occupations, sectors or regions that were more strongly exposed to minimum wage changes experienced a significantly different development of an outcome variable (such as employment) when compared to, for example, companies or sectors with a lower exposure. An overview of the most recent studies reported by the correspondents and their main findings is available in Table 13.

Negative but small employment reductions were found by Czech studies, but only for one out of the four years examined in the research (Grossmann et al, 2019) and a small negative impact on the number of employees in full-time employment (ČMKOS, 2018). A Hungarian study investigated the impact of the minimum wage hike of 2000–2001 and also found approximately 30,000 out of 290,000 minimum wage workers losing their jobs, while the remaining minimum wage workers received substantial pay rises of nearly 60% (Harasztosi and Lindner, 2019).

Small total negative employment effects were detected in Germany (76,500 employees), mainly due to a reduction of marginal part-time employment (Bonin et al, 2019). This effect was stronger in eastern Germany (Friedrich, 2019).

Studies from Germany and Ireland also found a reduction of working hours for minimum wage workers and investigated this further. Burauel et al (2019) estimates for Germany that there was a significant and robust reduction in contractual working hours among employees who are subject to social security contributions and earned less than the minimum wage before the introduction. The effect in 2015 was about 5% and corresponds to a 1.7 hours reduction in average weekly working hours. The effect on actual hours is smaller and estimated less precisely. In Ireland, a reduction of actual hours worked was detected following the rise of 2016. This was particularly driven by larger effects among workers with temporary contracts (-3.5 hours per week) (McGuinness and Redmond, 2018). A more recent study, also funded by the Irish Low Pay Commission, found that the 2018 increase in the Irish minimum wage did lead to some immediate reductions in the hours worked by minimum wage employees but only in particular segments of the economy. In the six-month period following the 2018 minimum wage rise, average hours worked by minimum wage employees, relative to other employees, fell by 1.6 hours per week in Dublin and 1.7 hours per week in the west region. Also, sectoral models indicate that the average hours worked of minimum wage employees in the manufacturing sector, relative to non-minimum wage employees, fell by 1.6 hours per week following the rate rise. The hours worked by minimum wage employees in the accommodation and food or wholesale and retail sectors were not affected. The reduced hours were found in the Dublin and west regions and in the manufacturing sector nationally. However, the changes did not persist into the second half of 2018, suggesting that any impacts were likely to have been temporary (McGuinness et al, 2019).
Table 13: Overview of recent empirical research in the EU, Norway and the UK on employment impacts of minimum wage increases, 2019

<table>
<thead>
<tr>
<th>Study</th>
<th>Country</th>
<th>Period covered</th>
<th>Dataset</th>
<th>Method</th>
<th>Main outcome variables</th>
<th>Main findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>López Novella (2018)</td>
<td>Belgium</td>
<td>2010–2015</td>
<td>Quarterly individual data on employment and wages from the National Social Security Office (NSSO)</td>
<td>Triple-difference-in-difference estimator, focusing on joint committees with and without abolishing youth minimum wage and on eligible 18–20 years old and ineligible 22 years old during 2013–2015.</td>
<td>Gross wages, probability of job retention including two quarters afterwards, access to the National Social Security Office (NSSO)</td>
<td>The study investigated the impact of the gradual reduction of youth sub-minimum between 2013 and 2015. Average gross wage increased by 3% with a stronger impact on the wages of the young workers. Positive impact on accessions probabilities of younger workers (under 18 years old).</td>
</tr>
<tr>
<td>ČMKOS (2018)</td>
<td>Czechia</td>
<td>2017–2018</td>
<td>Data from Czech Statistical Office (framework of national accounts (CzNA) based on the European System of Accounts (ESA95))</td>
<td>For this analysis, a panel regression was chosen, which uses annual data on the development of these variables for individual sectors broken down by two digit NACE sectors.</td>
<td>Number of full-time employees, value added, hours worked, labour productivity</td>
<td>The initial effect is a reduction of working hours (varying by sector). A 1% increase of the minimum wage led to a 0.2% decrease in the number of full-time employees. Only the sector agriculture, forestry and fisheries, mining and quarrying, and electricity, gas and water shows a positive impact on the number of workers.</td>
</tr>
<tr>
<td>Grossmann et al (2019)</td>
<td>Czechia</td>
<td>2012–2017</td>
<td>Average Earnings Information System (ISPV)</td>
<td>Difference-in-differences approach based on intensities of national minimum wage increases for different companies.</td>
<td>Employment and earnings of low-earning workers in private sector</td>
<td>Only for the year 2013, a small significant negative employment effect (+10% minimum wage increase led to a small significant negative employment effect). No significant effects on working hours, employee turnover, or replacement of employees with lower educational attainment detected.</td>
</tr>
<tr>
<td>Bonin et al (2019)</td>
<td>Germany</td>
<td>2013–2016</td>
<td>Germany Socioeconomic panel data (257 regions)</td>
<td>Difference-in-differences approach, based on difference in regional bite of the minimum wage.</td>
<td>Aggregate regional employment, employment-to-population ratio, number of jobs</td>
<td>Small statistically significant negative effects on total employment, employment, particularly in high-skilled occupations. No significant effects on regional unemployment.</td>
</tr>
<tr>
<td>Burauel et al (2019)</td>
<td>Germany</td>
<td>2013–2016</td>
<td>Structure of Earnings Information System (SIOPS)</td>
<td>Difference-in-differences approach, based on difference in regional bite of the minimum wage.</td>
<td>Contractual working hours and actual average working hours</td>
<td>As a significant reduction in contractual working hours among employees who are subject to social security contributions and earned less than the minimum wage, which corresponds to a 1.7 hours reduction in average weekly working time. The effect is smaller and estimated less precisely.</td>
</tr>
<tr>
<td>Study</td>
<td>Country</td>
<td>Period covered</td>
<td>Dataset</td>
<td>Method</td>
<td>Main outcome variables</td>
<td>Main findings</td>
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<tr>
<td>Friedrich (2019)</td>
<td>Germany</td>
<td>2015–2017</td>
<td>German social security record and Structure of Earnings Survey (VSE)</td>
<td>Difference-in-differences approach based on occupations with different share of minimum wage workers.</td>
<td>Employment (regular and marginal)</td>
<td>Small employment effects overall, but substantial differences between regions. Occupations in eastern Germany regions more affected. Eastern Germany: marginal jobs declined by 18,000 in the short term and by 52,000 in the medium term (-8% as compared to pre-reform). In western Germany: regular employment increased temporarily by about 110,000 – likely because of an upgrading of marginal jobs to regular employment.</td>
</tr>
<tr>
<td>Link (2019)</td>
<td>Germany</td>
<td>2011–2017</td>
<td>Ifo Business Survey (IBS) and administrative remuneration statistics</td>
<td>Difference-in-differences approach based on proportion of minimum wage workers in firms and location.</td>
<td>Expected price and employment changes over the next three months and realised changes for manufacturing companies</td>
<td>Insignificant (small negative) planned employment reductions. Firms which are more affected by minimum wage changes are much more (four times) likely to respond with planned price changes than with employment reductions.</td>
</tr>
<tr>
<td>Harasztosi and Lindner (2019)</td>
<td>Hungary</td>
<td>2001–2002; Data relate to 1997–2006</td>
<td>Hungarian Corporate Income Tax Data (CIT) and Hungarian Structure of Earnings Survey (SES)</td>
<td>Difference-in-differences approach based on companies’ proportions of minimum wage workers.</td>
<td>Employment, wages, labour costs, prices and profits</td>
<td>Small significant negative employment effects (-7.6%) in companies with a high share of minimum wage workers as compared to companies without (30,000 job losses out of 290,000 minimum wage workers). Wage effects: +58% in companies with a high share of minimum wage workers as compared to companies without (260,000 workers received a pay increase). A total of 75% of minimum wage increase passed on as price increase to consumers, 25% to profit decline.</td>
</tr>
<tr>
<td>McGuinness and Redmond (2018)</td>
<td>Ireland</td>
<td>2015–2016</td>
<td>Quarterly National Household Survey (QNHS)</td>
<td>Difference-in-differences approach; minimum wage workers working more than 14 hours per week and higher-paid workers as control group.</td>
<td>Employment (job loss rates), usual hours worked, part-time employment</td>
<td>Negative and statistically significant effect on the number of hours worked of minimum wage workers. Driven by larger effects among workers with temporary contracts (-3.5 hours per week). Increase of part-time employment, particularly among temporary minimum wage workers. Involuntary part-time jobs fell among both groups. It cannot be ruled out that the increase of part-time jobs was voluntary due to higher hourly wages. Some volatility in job loss of minimum wage workers over time, but no evidence for significant effects.</td>
</tr>
<tr>
<td>Lacuesta et al (2019)</td>
<td>Spain</td>
<td>2013–2017</td>
<td>Social security administrative labour records Muestra Continua de Vidas Laborales (MCVL)</td>
<td>Year-to-year changes in employment status resulting from an increase in wages.</td>
<td>Probability of losing the job and of workers earning less than the new minimum wage rate</td>
<td>The results suggest that the 2017 rise may have had an adverse effect on the probability of the group of workers with wages below the new minimum wage keeping their jobs.</td>
</tr>
</tbody>
</table>
In-work poverty

In 2017 simulations by Arpaia et al (2017) showed that the overall impact of statutory minimum wage increases on aggregate poverty reduction would be significant, but small. This is mainly because most of the poor are unemployed or inactive, and therefore not reached by minimum wage increases. Higher impacts of minimum wage increases on aggregate poverty can be expected in countries with a larger share of the workforce earning the minimum wage.

There was limited new research on the impacts of minimum wage increases on in-work poverty reported. An overview of national policies to combat in-work poverty in the EU and candidate countries was published by the European Social Policy Network (Peña-Casas et al, 2019). Minimum wages can have a direct impact on reducing in-work poverty, the study suggests, but has a long list of further instruments that countries have in their toolboxes, as summarised in Table 14.

The study also shows – in line with Eurofound (2017) findings – that the policy discourse on in-work poverty is – albeit growing – still limited.

There are few examples of recent quantitative studies which estimated the impacts of the level or changes to the minimum wage and its effect on in-work poverty. Among them were studies in Austria, Croatia, Germany and the Netherlands.

An Austrian ex ante study looked at the effects on at-risk of poverty and on in-work poverty of the increase of minimum wages to €1,500 or €1,700, respectively, and suggested moderate effects. As the at-risk of poverty threshold of 60% of median incomes is a relative measure, the increases of the minimum wage would increase the proportion of those at risk of poverty (from 13.09% of total population to 13.33% or 13.23%). The number of working poor (employed, at risk of poverty) on the other hand would decline from 269,000 to 268,000 or 264,000 persons (-800 or -5,000 workers). These effects would be stronger, if the risk-of-poverty threshold were to remain constant (Ederer et al, 2017).

For Croatia, estimates based on EU-SILC show that the at-risk-of-poverty rate among minimum wage earners was 17% in 2014, which is lower than the rate for the total Croatian population of 20% or the unemployed of 43%, but higher than overall in-work poverty rate of 5%. Minimum wage earners and members of their households accounted for around 4% of the poor. Simulation results for a 10% minimum wage increase show limited effects on poverty and income inequality: Having assumed no employment and no wage spillover effects in a static environment, their results point to reduction of country-wide at-risk-of-poverty rate by 0.2 percentage points if the poverty threshold is fixed, and virtually no change if the poverty threshold increases to 60% of new median disposable income. Despite an almost doubled number of minimum wage workers, the poverty rate among them is shown to decline by a mere 2 percentage points to 15%. The effect is found to be somewhat stronger for female minimum wage earners, with their poverty rate sliding down from 13% to 9%. In such a setting, the Gini coefficient for gross wage distribution is expected to decline from 28.5 to 28.2 (Nestić and Blažević Burić, 2018).

The German Mindestlohkommission also procured research from the Institute of Employment Studies (IAB), to investigate whether the introduction of the minimum wage had an impact on reducing in-work poverty and workers’ dependency on benefits to top up their pay (Bruckmeier and Becker, 2018). The expectations from ex ante research that the impact...

Table 14: Policies influencing in-work poverty

<table>
<thead>
<tr>
<th>Direct influence on in-work poverty</th>
<th>Indirect influence on in-work poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Minimum) wage policies</td>
<td>Childcare policies</td>
</tr>
<tr>
<td>Taxes and social security contributions</td>
<td>Healthcare and long-term care</td>
</tr>
<tr>
<td>In-work benefits</td>
<td>Housing, heating and transport costs</td>
</tr>
<tr>
<td>Family benefits</td>
<td>Lifelong learning</td>
</tr>
<tr>
<td>Guaranteed minimum income schemes</td>
<td></td>
</tr>
<tr>
<td>Active labour market policies</td>
<td></td>
</tr>
<tr>
<td>Tackling labour market segmentation</td>
<td></td>
</tr>
</tbody>
</table>

Source: Based on Peña-Casas et al, 2019

50 The authors estimate three scenarios: a 10% increase of minimum wages for all countries with statutory minimum wages, a move towards 40% of average wages, and an increase towards 50% of minimum wages (for countries which are currently below).

51 This concerns the ‘unemployment benefit II’. It is paid to people in work (or unemployment) on top of other earnings, with the objective to secure a decent life.
would not be large, were confirmed: No robust and statistically significant reduction of the number of minimum wage workers falling under the at risk of poverty threshold were found for the years 2015–2016. This could be not least due to the design of the level of the German minimum wage: the level of €8.50 of 2015 was set so as to be enough to ensure a single adult worker on average weekly working hours to earn above the minimum existence threshold (Pfändungsfreigrenze).

However, only 3% of minimum wage earners fall under this category; the remaining part live in different household constellations or have a lower number of working hours. Similar results were found for the case of top-up pay (ALG II): workers remunerated at the hourly rate of the minimum wage would require a very high work-intensity, so as not to be eligible for the benefit anymore, while in reality the majority of workers obtaining ALG II have a low work-intensity and are in unstable employment.

Prices and company profits

When labour costs rise due to the increase of wages (all other components equal), companies can opt to pass the increase on to their clients (consumers or other companies). How their profits are affected depends on total revenues (and the quantity of goods and services they are able to sell at a specific price, so ultimately how consumers or clients react to changes in absolute or relative prices).

There are two recent interesting studies to report: one which analysed the impact of the large minimum wage increase in Hungary in 2001–2002, and another which focused on the introduction and development of the German minimum wage.

The Hungarian study showed that firms employing minimum wage workers experienced a large increase in their total labour costs, which was mainly absorbed by higher output prices and higher total revenue. Many firms substituted labour with capital and their profits fell slightly. Their results suggest that the burden of the minimum wage increase fell mainly on consumers: 75% of the increase in labour costs were paid by clients through higher revenues (prices) while 25% came in the form of lower profits (Harasztosi and Lindner, 2019).

Equally, a recent German study demonstrated that consumers had to bear the ‘lion’s share’ of the minimum wage introduction, with a very quick and large increase of higher prices being passed on to consumers: a 1% increase in the minimum wage yielded a +0.82% increase of prices. Based on data from a survey panel of 5,000 companies, it showed that employers who were more affected by increases of the minimum wage (employing a higher proportion of minimum wage workers), tended to increase their prices more frequently than other companies as a response. This practice was visible across the whole economy – including the manufacturing sector – and not only limited to low-paying sectors. The study also

Box 11: Measuring in-work poverty

There are in principle two possibilities how to measure (in-work) poverty.\textsuperscript{52} The first one is relative: where the low-earnings household is identified in relation to other, such as the median household earnings in the same country. For this purpose, Eurostat regularly publishes income levels for different at-risk-of-poverty rate thresholds (such as 40%, 50% or 60%) based on the EU-SILC.

The second option is to define it in absolute terms and see whether a household can afford a certain basket of goods. Eurostat includes a list of nine basic items (for example, being able to pay rent, mortgage or mobility bills; adequate heating; a washing machine, a TV) on the EU-SILC and records how many items from this list a household is not able to afford. Depending on the number of items, this is referred to as (severe) material deprivation.

The first (relative) approach has been criticised, due to its sensitivity to shifting median incomes. When the median income falls, fewer people appear in the at-risk-of-poverty statistics. In addition, focusing too much on the relative indicators for in-work poverty could result in missing those that are actually materially deprived (Darvas, 2017 and 2020).

As the absolute wage and price levels vary substantially between countries, the basic items a person can buy in one country as compared to another, will be rather different and not necessarily related to where the household stands in relation to others within the same country.

\textsuperscript{52} The concept as presented here relates to poverty. In-work poverty draws on the same concept but is focused on people in work.
showed that firms with lower exporting shares and more local markets were more likely to pass the increases on. A rough calculation shows that aggregate producer prices in the manufacturing and services sectors prone to the minimum wage increased by approximately 0.24% in response to the minimum wage. Producer prices were raised more in eastern Germany (+0.80%) than in western Germany (+0.19%) as well as in the services sector (+0.37%) in relation to the manufacturing sector (+0.13%) (Link, 2019).

Another German study also analysed the impact of the minimum wage introduction on profits, prices and productivity. Their results – based on difference-in-difference estimations based on establishment data – point to a significant increase in personnel costs, a reduction of net sales of intermediates and no effects on establishment-level productivity or capital investments (Bossler et al, 2020).
Minimum wage policies and rate changes tend to be met with a high level of interest from all sides in the annual discussions on this issue. This report on minimum wages, which is part of an annual series, looks at several of the current trends and issues as highlighted below.

Diverging views on the EU fair minimum wage initiative

European Commission President von der Leyen’s announcement to propose a legal instrument so as to ensure fair and decent minimum wages for all workers wherever they work has sparked hopes and fears in the EU. This annual review presents the first reactions from social partners and shows that the times ahead on discussing the proposal will in all likelihood continue to be controversial. There were some initial misinterpretations following the announcement: Some commentators interpreted it as ‘one’ level for all, others debated that it would likely mean that the setting would be harmonised and some actors thought the Commission would prescribe the introduction of statutory minimum wages. Even after the repeated assurances that the Commission will not interfere with the wage-setting traditions of Member States, the discussions to come are likely to be controversial and complex.

The strongest resistance stems from social actors in the Nordic countries that fear that any kind of EU regulation could undermine their national wage-setting models which are based on sectoral collective bargaining and have high bargaining coverage. The trade unions are split: while many are in favour of higher minimum wages, there is disagreement on how this could be achieved at EU level. Some employers stated they can see potential benefits of to having a clear framework guiding updates and establishing a level playing field. Other employers are against this and refer to the principle of subsidiarity, as well as arguing that the EU has no mandate to interfere in the area of pay.

Complexity in determining adequate and decent level of wages

In early discussions the proposal to determine an EU minimum wage relative to the national average of median wages (for example, 60% of the respective national median wage) was often repeated and partially already regarded as a core part of the initiative to come. At the stage of writing (mid-March 2020), however, the European Commission has not published their proposal on what the EU minimum wage initiative could entail. The background document to the social partner consultation refers to the ILO Convention on Fixing Minimum Wages,53 which in itself does not contain any reference to a particular threshold and it portrays the idea that adequacy of minimum wages is wider than the relative share of minimum wages in median or average wages. Beside this aspect on ‘fairness’ of wages in comparison to other workers in the same country, adequacy depends on the net level of wages, whether the take-home pay for workers is sufficient for them to purchase a decent basket of goods and services for them and their families, which is in turn strongly influenced by the price developments and purchasing powers in the country or region the worker is based in.

Increasing minimum wages compared to actual wages is not enough

In parallel to the speculations and controversies at the EU level as to whether the European Commission will propose that national minimum wages should reach a certain percentage of national median wages, there was a noticeable increase in the number of countries having a similar discussion at the national level. Either directly, such as in the cases of Poland, Slovakia or Spain, where the move towards 60% of median or average wages is being discussed or through government support for more substantial increases (Bulgaria, Lithuania, Portugal, Slovenia) for 2020 and beyond. While these debates are essentially national, some of them might have gained impetus from the EU minimum wage initiative.

53 No. 131 and Recommendation No. 135. As of 2020, only 10 EU Member States have ratified this Convention.
The report shows that since the beginning of the new millennium, statutory minimum wages in EU countries with available data have indeed become fairer in comparison to other workers’ wages: In the median EU Member State this relative share grew by 7 percentage points during 2000–2018. Yet, according to Eurofound’s estimates in 2017, 7 out of 10 minimum wage workers in the EU report having some to great difficulty in making ends meet, as compared to fewer than 5 out of 10 other workers. The range across the Member States, however, is large: from less than 10% of minimum wage workers in Denmark, Finland, Germany and Sweden, to 50% to 60% in Bulgaria, Croatia and Cyprus, and more than 80% in Greece.

The analysis in the report shows that there is no obvious correlation between a country’s proportion of minimum wage earners reporting difficulties to make ends meet and the relative level of minimum wages in comparison with other workers. Yet, countries with a higher absolute level of minimum wages in PPS do tend to have lower proportions of workers reporting such difficulties. This means even an increase of minimum wages to 60% of median wages might not be enough to reduce the proportion of (minimum) wage workers having difficulties to make ends meet. But an overall increase of minimum wage levels, as well as other wages might.

Regional differences in the purchasing power and impact of minimum wages

There is an important strand of empirical research, which uses differences in the regional incidence of minimum wage workers to determine the impact of minimum wage increases on employment or companies. Yet, the regional dimension has, with some exceptions, been less prominent in the policy discourse.

The report highlights that the relative value of minimum wages can vary greatly within a country. Minimum wage workers and their families in capital regions or other more urbanised or richer regions usually have a much lower purchasing power than those in more rural or less economically developed regions. The inadequacy of universal national rates to take into account the different costs of living, has been taken up in some countries in the policy discourse (for example, in France, Italy, Lithuania and Spain), and they are also an integral part of some living wage campaigns (i.e. in Ireland and the UK), but have to date not resulted in any regionally differentiated rates. Collectively agreed minimum wages for sectors provide more room for manoeuvre in this regard, as industries or branches tend to be regionally clustered and agreements may be signed for a certain region (such as in Germany, Italy or Spain).

What minimum wage increases do

This annual review also looks into the most recently published research findings concerning the impacts of minimum wage increases on wages, employment, in-work poverty, prices and company profits. Five years after the introduction of the German minimum wage a substantial body of empirical research literature has become available, which assesses the short-term impacts of the reform. Despite dire ex ante predictions on likely job losses, the first assessments showed that employment overall has only been marginally impacted, hourly wages of minimum wage workers rose, but there were reductions of weekly working hours leading to lower growth in weekly earnings. Spillover effect to higher wages were moderate, and the reduction of wage inequalities and of in-work poverty – two main objectives of the reform – were not realised.

Relatively similar research results of the impact on minimum wage increases were also reported from other countries in the EU (see Chapter 6). Most authors however stress to be cautious and advise not to regard the findings concerning limited short-term employment losses as without costs: Many studied minimum wage increases were relatively moderate or incremental, were supported by a beneficial economic development and further employment effects, such as the automation of work or a reduction in hiring once posts become vacant, and can be expected to take longer to manifest (Neumark, 2019).

Minimum wages and in-work poverty

The extent to which minimum wage policies can contribute to reducing poverty levels in general and in-work poverty in particular is very relevant, as the reduction of the latter is among the core objectives of the EU minimum wage initiative. Research suggests that the impact on poverty reduction is rather low, as most low-wage earners are not necessarily poor. Impacts on

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54 Based on the EU-SILC.
55 But there are usually less of them in these regions, as companies are more likely to overpay the rate.
56 For example, Bruttel, 2019; Bureauul et al 2019; Caliendo et al, 2019.
in-work poverty exist but are also limited: the amount a household receives from a minimum wage tends to be enough to protect a single adult against the risk of in-work poverty but is often not enough to support more than one person (for example, in the case of single breadwinner households or single parents). The reduction of in-work poverty as such, may not be possible with minimum wage policies alone, but requires a broader set of instruments.

From minimum wages to living wages
Which basket of goods and services would be required to ensure a decent living for workers and their family? This is a key method of determining living wages, which are designed to ensure a basic but socially acceptable standard of living (Eurofound, 2018a). The report shows that only a few European countries – Ireland, Romania, Slovenia and the UK – reflect the value of minimum wages in relation to a certain basket of goods and services. In addition, minimum wage rate updates necessarily take into account the different impact price increases of essential goods (rents, food) may have on low earners who have to spend a higher proportion of their incomes on these.

Cross-national research on household reference budgets (Goedemé et al, 2015) – budgets that allow households to purchase a basket of goods and services considered essential for a basic but acceptable standard of living in a given region – has been carried out, in an EU pilot project, but has in practice been more relevant for debates about minimum income standards for welfare recipients rather than minimum wage earners. The concept is not new – the French SMIC was originally designed in such a way – but would require broader acceptance by all national actors according to their traditions in order to become operational (Eurofound, 2020b).

Evidence-informed decisions with meaningful social partner involvement
What route the EU minimum wage initiative will take will depend first and foremost on the social partners and national governments, as minimum wage setting is their domain. It is of particular importance to keep on monitoring the impact of minimum wage policies on companies, workers and their families and to be prepared to adapt policies, if there is evidence of detrimental or unintended effects. Well-resourced and independent research to support the social partners and governmental actors in their decisions, as well as to inform the national and EU-level political debates are key. The most notable change in national minimum wage-setting mechanisms into the new millennium was the increasing introduction of expert committees, which are entrusted with generating such unbiased evidence. Bringing evidence into the setting of minimum wages can be done in all wage-setting systems and would not interfere with national traditions. If this trend of establishing expert committees continues to spillover to other countries, it will be important to consider the role of social partners within such committees and to ensure that social partners representing low-paid workers and more affected industries or business segments are equally represented and heard.

Minimum wages in times of COVID-19
The COVID-19 pandemic will likely impact on the debate on the minimum wage. As the European economies are going into recession entailing increasing unemployment due to company closures and job cuts, loss of workers’ income and company revenues, it will be important to see how minimum wages can contribute to the policy mix governments and social partners are currently applying to cushion the economic and social impacts. In the recession following 2008, many countries have resorted to (general and minimum) wage freezes or cuts, with a view to maintain employment. Cuts in low-paid and temporary jobs, or reductions in their hours, tended to be the first measure adopted, while the ‘wage cushion’ often seen in higher-ranking jobs allowed cost savings through cuts in bonuses and other rewards (Eurofound, 2013). In some countries, however, the impact of wage devaluation was long and protracted, leading to the rise of in-work poverty and a sluggish trend reversal of same even in times of boom and high employment levels.

While it is of utmost importance to ensure that companies stay afloat and can afford to retain and pay their workers, wage cuts or freezes are not the first tool to resort to and should be proportionate and temporary.

Governments and social partners across Europe are currently working on ensuring a stabilisation of peoples’ incomes, via short-time working schemes and extension of unemployment payments or other income replacement or social protection schemes for self-employed or precarious workers. This is important to avoid that peoples’ incomes and expectations of their future earnings will aggravate recessionary forces, as demand declines. In the context of this sudden ‘external shock’ or ‘black swan’ to the European economies, minimum wage policies can also play a role in acting as
stabiliser of demand; particularly in cases, where other social protection measures are linked to the minimum wages rates. It is also likely, that in the short to medium term the share of minimum wage earners will increase, as more companies may seize to pay on top (especially when (re-)hiring workers). In the longer term, there will be likely further discussion on minimum incomes – and how these could be used as more automatic stabiliser of demand.
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Luxembourg


Netherlands


Poland


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**Spain**

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Annex 2: Methodological notes

Eurofound calculations based on EU-SILC data

Eurofound uses the 2018 release of European Union Statistics on Income and Living Conditions survey (EU-SILC) to estimate the share of employees that have full-time equivalent monthly earnings in the range of 90%–110% of the minimum wage applicable in the country (an alternative definition used by the European Commission considers a range of 80%–105%). The range is used to account for over- and under-reporting and to correct for rounding and conversion errors.

To make use of the data on annual labour income, the full-time equivalent gross monthly wage has been obtained by dividing the EU-SILC variable of annual cash gross earnings by the respondent’s number of months in full-time jobs and part-time jobs (see Brandolini et al, 2010). To adjust for the potential bias of workers with more than one job, this result has been multiplied by the ratio of hours worked in the first job to the total hours worked in all jobs. The following should be noted:

- some missing responses have been imputed based on the characteristics of the respondent
- data on annual earnings do not necessarily refer to one job in particular; the income can be earned in different jobs (either at the same time or consecutively)
- data refer to income earned in the previous calendar year, not the current one
- data are self-reported and may not reflect the true labour income in some cases

The dataset used does not include data from Ireland, Slovakia or the UK.

For countries without a statutory minimum wage, the following rates were applied in the calculations: Italy €1,500; Austria €1,500; Cyprus €840; Denmark €2,420; Finland €1,760; and Sweden €1,560.
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This report, as part of an annual series on minimum wages, summarises the key developments during 2019 and early 2020 around the EU initiative on fair wages and puts the national debates on setting the rates for 2020 and beyond in this context. The report features how minimum wages were set and the role of social partners. It discusses developments in statutory minimum wages and presents data on minimum wage rates in collective agreements related to 10 low-paid jobs for countries without statutory minimum wages. The report also includes a section on the regional dimension of minimum wages and presents the latest research into the effects of minimum wage changes on wages, employment, in-work poverty, prices and profits.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency established in 1975. Its role is to provide knowledge in the area of social, employment and work-related policies according to Regulation (EU) 2019/127.