

Monitoring EU convergence
**Progress on convergence in the
socioeconomic area**



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Authors: IRS (Istituto per la Ricerca Sociale), University of Bergamo, and Massimiliano Mascherini (Eurofound)

Research managers: Massimiliano Mascherini and Martina Bisello

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European Foundation for the Improvement of Living and Working Conditions

Telephone: (+353 1) 204 31 00

Email: information@eurofound.europa.eu

Web: www.eurofound.europa.eu

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Introduction

Stable and steady upward socioeconomic convergence of EU Member States is evident over recent decades. However, the profound global financial and economic crisis of 2008–2010 interrupted this process. The impact of the crisis, both economically and socially, was felt more in some Member States and regions than in others. For this reason, the crisis has increased the focus on social and economic asymmetries of Member States and their resilience to react to economic shocks. The need to support social convergence alongside economic convergence has entered the current policy agenda prominently.

Launched in late 2017, the European Pillar of Social Rights aims to deliver new and more effective rights for citizens, to avoid social fragmentation and to strengthen upward social convergence of Member States. Linked with the principles of the Pillar, several policy options are being discussed to enhance social and economic convergence and to prevent asymmetries in the performance of Member States.

This policy brief provides an updated picture of socioeconomic convergence across and within the 28 Member States. Given the breadth of the socioeconomic sphere, the analysis focuses on four key indicators:

- real gross domestic product (GDP) per capita
- disposable household income
- national minimum wage level
- income inequality

These findings are taken from a forthcoming Eurofound report, *Progress on convergence in employment and the socioeconomic area*, due for publication in 2019.

The brief discusses in detail one policy option available at EU level to support socioeconomic convergence and prevent divergence among Member States: a European minimum wage policy.



Policy context

The European Union has been described by the World Bank as the ‘modern world’s greatest “convergence machine”’ for its capacity to propel poorer Member States to the status of high-income countries (Ridao-Cano and Bodewig, 2018). Empirical evidence shows that this convergence effect of EU membership applies not only to economic outcomes but also to social outcomes, such as employment, working and living conditions (Eurofound, 2018).

The economic crisis interrupted the EU’s consolidated upward convergence patterns and increased divergence of Member States, especially with regard to income inequality, employment and living conditions. While upward convergence has resumed since 2014 across most aspects of Member States’ economic and social performance, the effect of the crisis is still visible in that some employment and living conditions indicators have not returned to their 2008 levels. Given the uneven impact of the crisis, the idea that Member States should have additional policy tools in order to increase their resilience to shocks and to prevent future divergence has become central to the policy debate. Building resilience will also pay off in light of future challenges, such as demographic change,

migration and, especially, digitalisation and technological change.

The crisis has shown that the performance of Member States on social outcomes is likely to be negatively affected by economic downturns if not adequately addressed. The current debate on macroeconomic policies consistently highlights the need to assess the potential social costs and benefits of fiscal consolidation measures. With this paradigm shift, a new focus is being placed on the long-term risks, costs and consequences resulting from lack of attention to employment and social issues. Questions have been raised about the social feasibility of some reforms in recession periods that could be socially and economically harmful.

While enhancing economic growth has always been central in the policy discourse, much emphasis is now being placed on the social dimension of EU activity. The conviction that ‘social and economic convergence go hand in hand’ (Moscovici, 2017) has been widely endorsed. Strengthening the capacity of the EU to enhance socioeconomic growth and convergence must be pursued in order to preserve and consolidate the euro and to avoid public disaffection with the European project, a point noted by Commission President Juncker

in his opening statement to the European Parliament in July 2014. Furthermore, the 2015 Five Presidents' Report acknowledges at the highest political level the need for convergence in social performance and social cohesion, with a 'social protection floor' regarding education, pensions, healthcare and social security (Juncker et al, 2015).

The inclusion of the employment and social coordination mechanisms in the framework of the European Semester has further focused the attention of EU institutions on a wide range of social and employment policy issues. In addition, new indicators have been integrated into the macroeconomic surveillance mechanism to monitor the evolution of social and employment issues.

The European Pillar of Social Rights may have great potential to drive the development of tools that enhance the social dimension of the EU. While the implementation of the Pillar recognises that Member States and the social partners are at the front line of responsibility, the Commission can support this process through the use of legislation and budgetary instruments, and by ensuring tight coordination of economic and social policy. The European Semester could be an important instrument in this respect, and for promoting upward economic and social convergence.

Policy option to support upward socioeconomic convergence

In recent years, European institutions have promoted debate over a number of measures that may strengthen upward social convergence and reduce inequalities. Among the policy options discussed is the implementation of a European minimum wage scheme, namely an EU-coordinated approach to minimum wage policy that could tackle in-work poverty in the EU and help reduce the extent of low-wage competition, while also promoting economic development (ILO, 2016).

Ensuring the participation of the social partners in the determination and adjustment of minimum wage rates could also lead to outcomes that promote social cohesion.

Debate over EU minimum wage

The debate on a European minimum wage started in the 1980s, within the context of an increasing low-wage sector and a widening of the wage gap resulting from the expansion of the then European Economic Community. However, it is only recently, with rising inequality and deterioration of living conditions in the wake of the crisis, that the debate on the homogenisation and coordination of minimum wages in Member States and the introduction of a European minimum wage policy has accelerated.

The economic crisis placed the issue of wages in the spotlight, as wage reductions were considered crucial to maintain competitiveness and to recover from the recession. The Euro Plus Pact, which came into force in December 2011, arose from this discussion and aimed to incentivise Member States to undertake reforms in competitiveness, employment, sustainability of public finances and financial stability. In addition, the memorandums signed by countries that received EU bailouts frequently included reductions of minimum wage levels and reforms of collective bargaining systems among the measures to be implemented (Busch et al, 2013). In August 2016, the European Parliament's Committee on Employment and Social Affairs adopted the Report on social dumping in the European Union, which argued that wages should enable workers to lead a decent life and recommended

the establishment of wage floors in the form of a national minimum wage (...), with the objective of gradually attaining at least 60 % of the respective national average wage, if possible, so as to avoid excessive wage disparities, to support aggregate demand and economic recovery and to underpin upward social convergence.

European Parliament, 2016, p.17

The European Pillar of Social Rights includes wages among the 20 key principles and rights to support fair and well-functioning labour markets and welfare systems in Europe, declaring that

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 his / her family in the light of national economic and social conditions...

European Commission, 2017a

The European trade unions are cautiously favourable to the idea. As underlined by Seeliger (2018),

trade unions in the EU have been discussing the implementation of a bottom limit for wages in the common market for more than a decade. While generally, trade unions from countries with weak collective bargaining can be expected to favour the idea of an institutionalized minimum wage, unions from countries with high coverage rates are ascribed a reluctance towards such bottom limits.

Seeliger, 2018, p. 1

Accordingly, the European Trade Union Confederation (ETUC), the major trade union organisation representing workers at European level, has emphasised some of the potential advantages of a European approach to minimum wages, while also expressing the need to proceed with care (ETUC, 2014; Schulten et al, 2015).

Among the advantages of a European minimum wage coordination mechanism identified by the ETUC is the increase in the wage levels of a relatively large group of workers ‘from an approach using 60% of the national median wage as the reference point for the minimum wage’. It also noted the positive effect on European citizens’ perception of the EU. However, ETUC warned of the potential negative effects too. It noted that a level set at 60% of the national median wage could be too low, especially in low-wage countries or in countries where wages were falling. It expressed concern about the reduced role of the social partners in wage determination and the potential transfer of competence on wages. It also underlined the danger of a European floor becoming a national ceiling when, especially in the context of the Posting of Workers Directive, the minimum wage could be used as a means for social dumping.

BusinessEurope, the confederation of European business, opposes any intervention at EU level on minimum wages. In 2012, it declared that it is ‘against EU imposition of standards on minimum wages’ (p. 5) as pay policy is outside the competencies of the EU. In its opinion, ‘the decision of whether to introduce a national minimum wage is and should remain a Member State competence’ (p. 5).

Key findings

- Although the economic crisis slowed Member State convergence in some outcomes, the analysis of socioeconomic indicators shows an overall EU trend of convergence in the 2000–2017 period towards better economic conditions, with increasing GDP per capita.
- The overall variability of GDP per capita is increasing across Member States. Nevertheless, the Member States that acceded since 2004 have been catching up with the richest western European countries since 1995.
- Upward convergence at EU level is evident in disposable household income and national minimum wage levels.
- Income inequality in the EU population has increased considerably, with increasing differences between Member States – this reflects the severe impact of the economic crisis.
- The variability among euro zone Member States is increasing and regional disparities have been growing since the onset of the crisis.
- Estimates show that the extent of regional convergence in both GDP per capita and household income is smaller in the euro zone than in the EU as a whole. Furthermore, there has been a significant divergence of euro zone peripheral regions for these indicators since the beginning of the crisis.
- A European minimum wage is among the policy options that have been discussed to support greater convergence in disposable income. It might also reduce the social impact of future shocks, the growing share of working poor, and income inequalities among countries, regions and population groups. The vast majority of Member States (22 of 28) have implemented a national minimum wage, which would constitute an essential part of the construction of an EU-level minimum wage policy.



Exploring the evidence

Monitoring socioeconomic convergence

The focus of this policy brief is upward convergence of Member States, and regions, towards better socioeconomic conditions. Eurofound (2018) has defined upward convergence for a given indicator as an improvement in the EU average level, moving towards a policy target, combined with a reduction of disparities among Member States. If all Member States improve their performance on the indicator while disparities are reduced, it is described as strict upward convergence.

Other patterns are possible:

- downward convergence (a decrease in performance and a reduction of disparities)
- upward divergence (an improvement of performance and an increase of disparities)
- downward divergence (a decrease in performance and an increase of disparities)

The socioeconomic area of research is wide and no single agreed definition exists in the literature. Eurofound's monitoring of

convergence in socioeconomic outcomes tracks indicators across four dimensions: macroeconomic, social protection, access to services and gender equality. This policy brief focuses on four socioeconomic indicators:

- real GDP per capita
- disposable household income
- income inequality
- national minimum wage level

A detailed analysis of the full set of indicators will be provided in the forthcoming report *Progress on convergence in employment and the socioeconomic area*.

Overview of trends

The process of political and economic integration of EU Member States has produced substantial economic benefits (Bongardt and Torres, 2013; ECB, 2017). The data analysed in this study show that between 1995 and 2017, real GDP per capita in PPS (purchasing power standards) increased in all 28 Member States. Depending on the measure of convergence used, however, convergent and divergent trends in this indicator can be identified. Nevertheless, while the overall variability among Member States has increased,

poorer countries have caught up strongly with the richer countries on this measure.

On average in the EU, GDP per capita grew from about 13,500 PPS in 1995 to almost 30,000 PPS in 2017. Patterns vary, however, in GDP per capita levels and its variability over different phases of that timespan: a steep rise between 1995 and 2007 (upward divergence); a setback in 2007 and 2008 against the backdrop of the economic crisis (downward convergence); and a recovery since then (upward convergence).

Until the 1990s, poor regions of the Member States grew faster than rich regions (Barro and Sala-i-Martin, 1992; Eichengreen, 2007). Convergence has continued with the expansion to 28 Member States, mostly driven by the rapid catch-up of the countries that joined the EU since 2004 (the EU13). The eastern European Member States particularly – the Baltic states, Bulgaria, Croatia, Hungary, Poland, Romania and Slovakia – show faster growth rates than other countries that had higher initial levels of GDP per capita.

This convergence is particularly evident since 2007 among non-euro zone countries and the EU13, which exhibited higher levels of disparity at the beginning of the 2000s. In the euro zone, the positive trend in real GDP per capita was accompanied by an increased variability among Member States, with GDP in Luxembourg and Ireland growing at a faster pace than in the other Member States.

Convergence is also evident in the income indicators – disposable household income and national minimum wage level – but the crisis exacerbated income inequalities in the EU population.

Household incomes were relatively stable in the first years of the crisis. This initial stability presumably reflects the strong stabilising impact of tax and benefits systems. However, in 2012, there was an increase in income dispersion (European Commission, 2014). This occurred even though almost all Member States increased statutory national minimum wages (in nominal terms) during the crisis. Nevertheless, in many Member States, the minimum wage did not keep up with average

wage levels (European Commission, 2014). Actions taken by national industrial relations systems, such as minimum-wage setting or tripartite pacts, helped to prevent increasing income inequality and poverty, especially in countries where the strength of the social partners and collective bargaining underwent a structural decline (Vaughan-Whitehead and Vazquez-Alvarez, 2018).

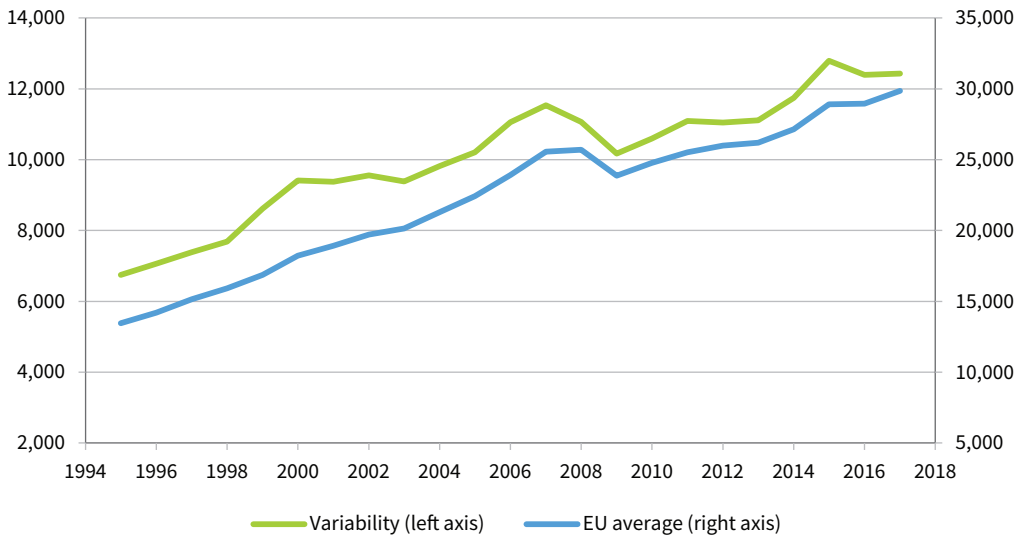
In spite of upward convergence in disposable household incomes in the aftermath of the crisis (2011–2012), the crisis increased income inequality in the EU population and increased the socioeconomic heterogeneity of Member States. In fact, there has been a reversal of the convergence towards lower income inequality recorded before the crisis, with the EU as a whole converging towards higher levels of poverty and inequality. During the crisis, poverty increased significantly in most Member States, including among people of working age (18–64 years) due to rising joblessness, lower work intensity and increasing in-work poverty (European Commission, 2014). The non-euro zone countries were most badly affected, with Bulgaria, Estonia, Lithuania and Romania showing high and increasing levels of inequality.

Detailed analysis of four indicators

The rest of this section looks in detail at convergence trends in the four socioeconomic indicators. In order to capture different aspects of convergence and provide firm conclusions about increases or decreases in the extent of disparities, the analysis uses a methodology developed by Eurofound (2018). This applies three measures of convergence:

- verifying whether Member States are moving closer together, meaning that the disparities between them are lessening (sigma-convergence)
- assessing the overall distance of the Member States from the best-performing Member State, as the exemplary model (delta-convergence)

Figure 1: Convergence trend in real GDP per capita, EU, 1995–2017 (PPS)



Note: Variability is measured using the standard deviation.

Source: Authors' calculations based on European Union Labour Force Survey (EU-LFS) data

- establishing the extent to which the most poorly performing countries have caught up with the best-performing countries (unconditional beta convergence)

For all four indicators, convergence among and within Member States is investigated. The analysis compares patterns within and outside the euro zone as well as patterns in the EU13 versus the EU15.

Real GDP per capita

Real GDP per capita is the total value of all the goods and services produced by a country in a particular year (controlled for inflation rates), divided by the number of people living there and expressed in PPS.

Over the period 1995–2017, GDP per capita in the EU grew constantly, even though there was a setback in 2007–2008 against the backdrop of the crisis (Figure 1). The variability of GDP among Member States followed a similar pattern, which increased over the whole period, albeit with some oscillations.

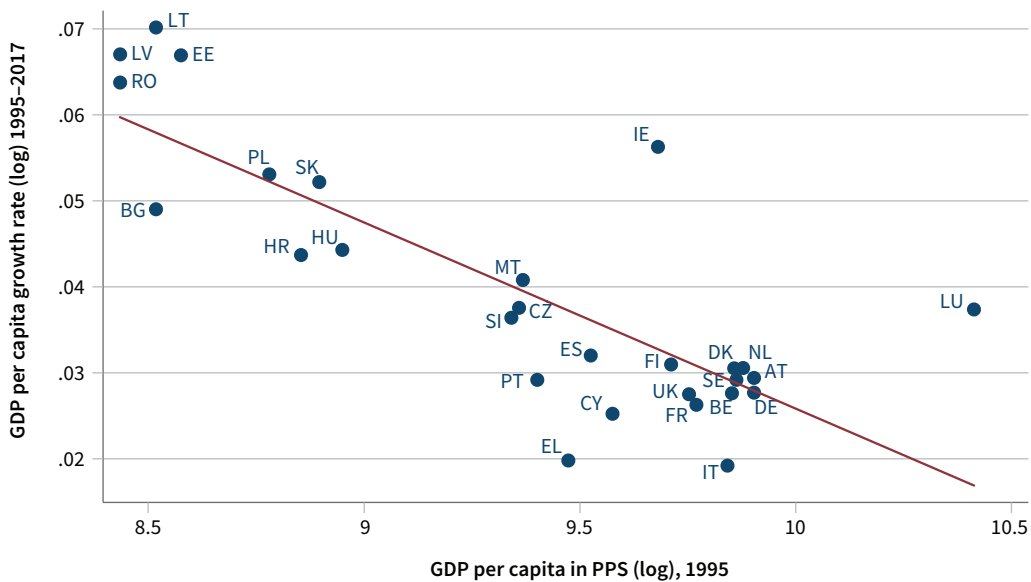
However, when the data are analysed further, considerable differences emerge between country groupings. The increase in variability among countries was much more pronounced in the euro zone than outside, especially in the crisis and post-crisis periods. In fact, from 2007 onwards, non-euro zone countries converged.

Disparities increased with respect to the best-performing country, Luxembourg, whose GDP per capita outperformed that of all other EU countries.

The analysis also shows that the EU13 have been catching up with the richest western European countries over 1995–2017. As Figure 2 shows, the Baltic states, Bulgaria, Croatia, Hungary, Poland, Romania and Slovakia, in particular, grew faster (as indicated by their position on y-axis) than other countries with higher initial GDP levels, especially since 2010. Among the EU15, convergence in GDP is no longer taking place.

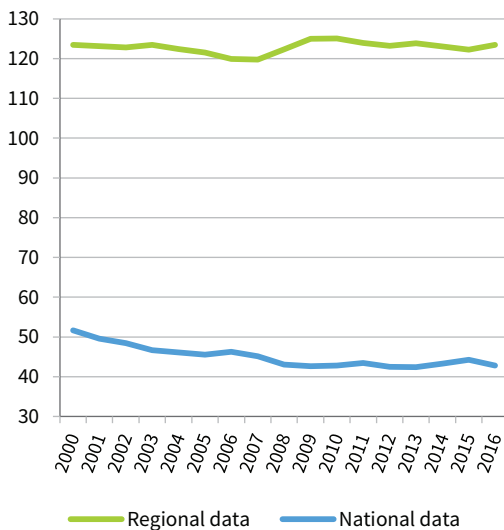
Overall, the pace of convergence in the EU is estimated at 2% a year.

Figure 2: Catch-up of poorly performing with best-performing Member States, real GDP per capita, EU, 1995–2017



Source: Authors' calculations based on EU-LFS data

Figure 3: Regional versus national convergence in GDP per capita, EU, 2000–2016



Note: Variability is measured using the coefficient of variation.

Source: Authors' calculations based on EU-LFS data

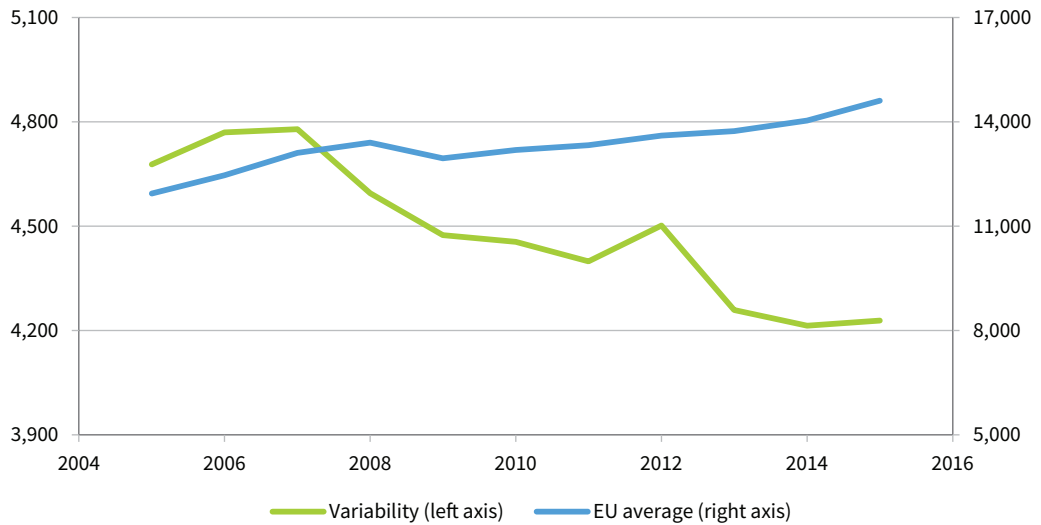
Regional trends

The analysis of regional data at NUTS 2 level¹ shows that disparities in GDP per capita were higher among EU regions than among EU Member States (Figure 3). Regional disparities were also higher within the euro zone than outside. Between 2000 and 2016, there is no evidence of a catch-up among EU regions. In fact, the poorest regions were catching up with the richest only in the period 2000–2010.

Disposable household income

Disposable household income is measured as the balance of primary income and the redistribution of income in cash (social contributions paid, social benefits in cash received, current taxes on income and wealth paid, as well as other current transfers), based on final consumption and expressed in PPS. (Data for this indicator for all 28 Member States are available for a restricted period: 2005–2015.)

¹ The Nomenclature of Territorial Units for Statistics (NUTS) is a classification of the economic territory of the EU. NUTS 2 are basic regions for the application of regional policies.

Figure 4: Convergence in disposable household income, EU, 2000–2017

Note: Variability is measured using the standard deviation.

Source: Authors' calculations based on EU-LFS data

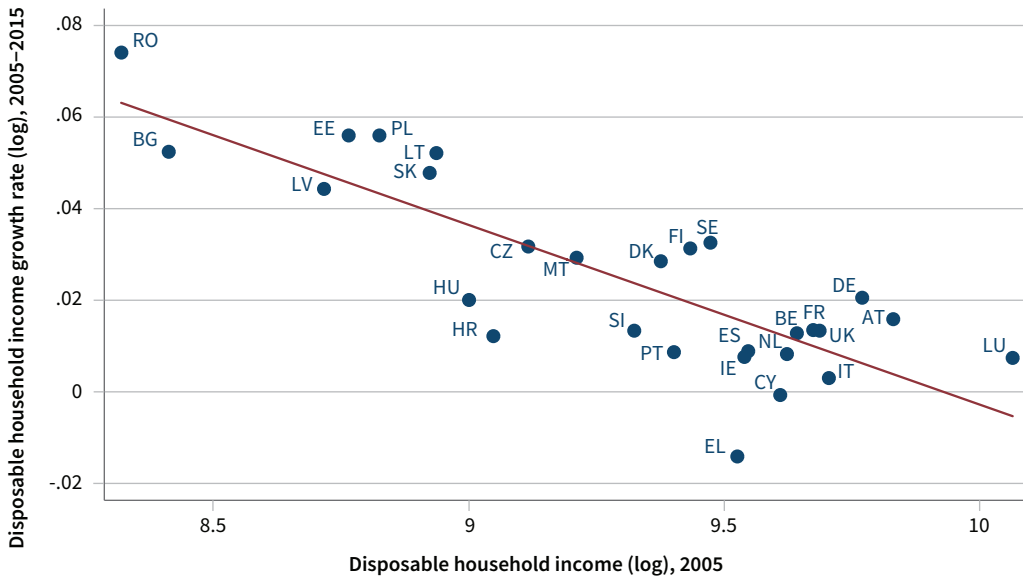
During 2005–2015, there was **upward convergence** in disposable household income: on average, it increased from 11,900 to 14,600 PPS, and the variability of Member States decreased (Figure 4).

Convergence patterns were similar for Member States both inside and outside the euro zone, although the variability among countries followed different trends in the two zones. Among euro zone countries, clear upward convergence took place. Among non-euro zone countries, disparities increased between 2005 and 2007–2008, followed by more consistent upward convergence from 2008 onwards, albeit accompanied by an increase in disparities in 2012.

There was an overall reduction in disparities with respect to the best-performing country – Luxembourg – between 2005 and 2015, despite some oscillations. Luxembourg has a very high disposable income per capita compared to most other Member States. Few other countries have comparably high incomes, apart from Austria and also Germany, which is catching up at a fast pace.

Figure 5 illustrates the catch-up of poorly performing countries over 2005–2015. Member States with lower disposable household income in 2005 (x-axis) show higher rates of growth (y-axis); these include Bulgaria, Estonia, Latvia, Poland and Romania. Conversely, countries with higher initial levels, such as Cyprus, Greece and Italy, grew at lower or negative rates.

Figure 5: Catch-up of poorly performing with best-performing Member States, disposable household income, EU, 2005–2015



Source: Authors' calculations based on EU-LFS data

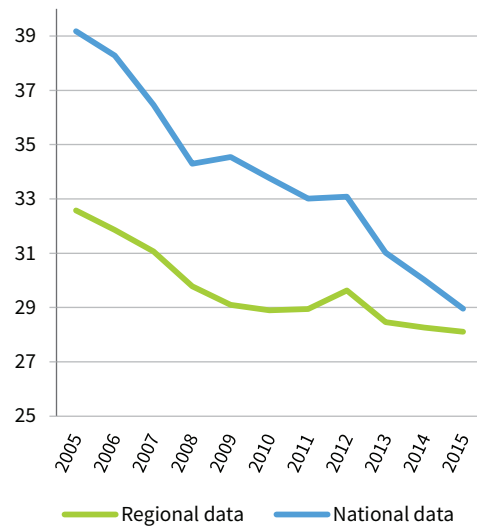
Overall, the pace of convergence is estimated at 4% a year, which rose after 2010, especially among the EU13.

Regional trends

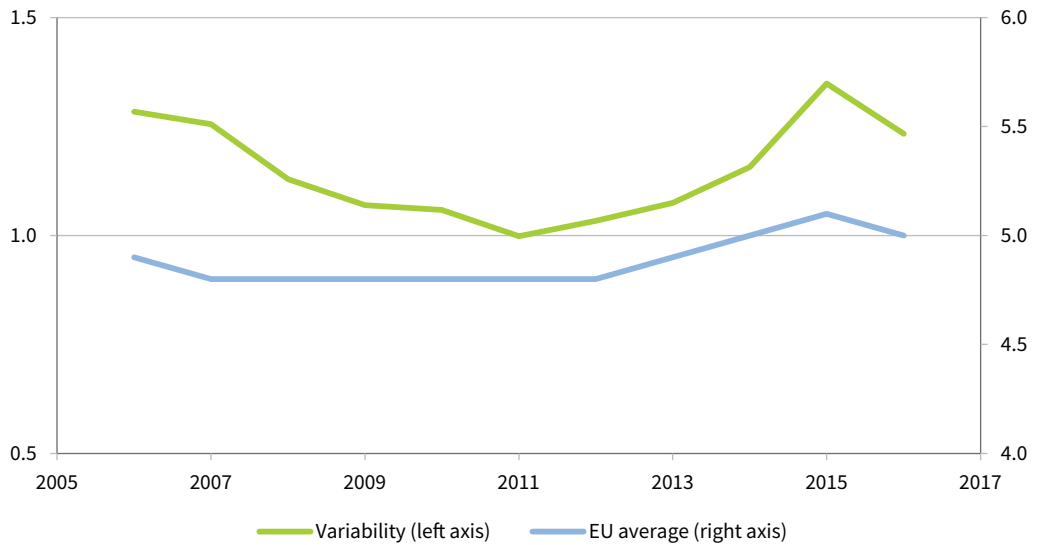
The analysis of NUTS 2 data shows a reduction of disparities in disposable household income at regional level. Disparities were smaller among regions than among countries until 2012, when the variability among regions tended to increase (Figure 6). In the euro zone, the regional data show a lower variability compared to national data, but divergence is evident in the aftermath of the crisis (2009–2012). Regions of Member States outside the euro zone show upward convergence over the whole period.

The catch-up during 2005–2015 occurred at 3% per year and was faster in 2005–2010 than afterwards. Moreover, regions outside the euro zone and in the EU13 show higher rates of convergence compared to regions in the euro zone and in the EU15.

Figure 6: Regional versus national convergence in disposable household income, EU, 2005–2015



Note: Variability is measured using the coefficient of variation.
Source: Authors' calculations based on EU-LFS data

Figure 7: Convergence trends in income inequality, EU, 2006–2016

Note: Income inequality is measured using the income quintile share ratio; variability is measured using the standard deviation.

Source: Authors' calculations based on EU-LFS data

Income inequality

Income inequality is measured in this study using the income quintile share ratio. This is measured as the ratio of the total income of the 20% of the population with the highest income (the top quintile) to that of the 20% of the population with the lowest income (the bottom quintile). (Data for this indicator are available only for 2006–2016 and are not available at NUTS 2 level.)

Income inequality shows **downward divergence** overall in 2006–2016: on average, it increased from 4.9 to 5 in the EU, and the variability among Member States increased (Figure 7). Downward divergence is particularly evident in the more recent period 2012–2015.

Different patterns are evident within and outside the euro zone during the period. Income inequality consistently increased in the euro zone, with some oscillations. By contrast, it declined significantly between 2007 and 2010

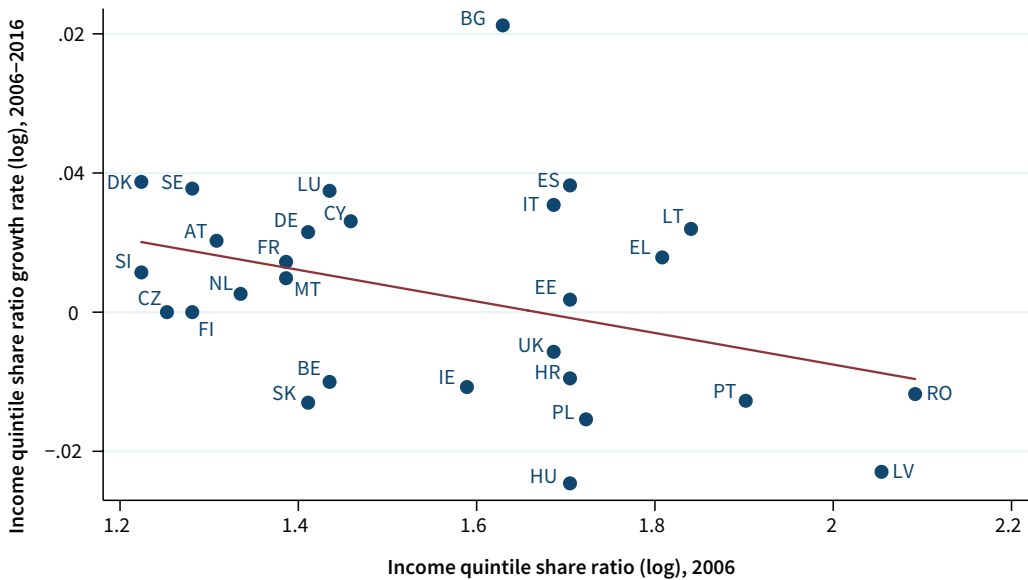
in Member States outside the euro zone, rising again between 2012 and 2015.

Looking at developments from a demographic perspective, convergence in this indicator is quite similar for women and men, although the decrease in disparities across EU countries in 2007–2011 is stronger for women than for men.

There was a reduction in disparities across the Member States with respect to the best-performing countries – the Czech Republic and Slovenia – between 2006 and 2011 (notwithstanding a sudden increase in the crisis year 2009), followed by an increase in disparities between 2011 and 2015.

A modest catch-up process occurred over 2006–2016: countries with higher income inequalities, such as Latvia and Portugal, had larger reductions in the income quintile share ratio during the period (Figure 8). However, the catch-up was stronger in 2006–2010 than in more recent years.

Figure 8: Catch-up of poorly performing with best-performing Member States, income inequality, EU, 2006–2016



Source: Authors' calculations based on EU-LFS data

Overall, the pace of convergence over the period 2006–2016 in the EU is estimated at 2% per year.

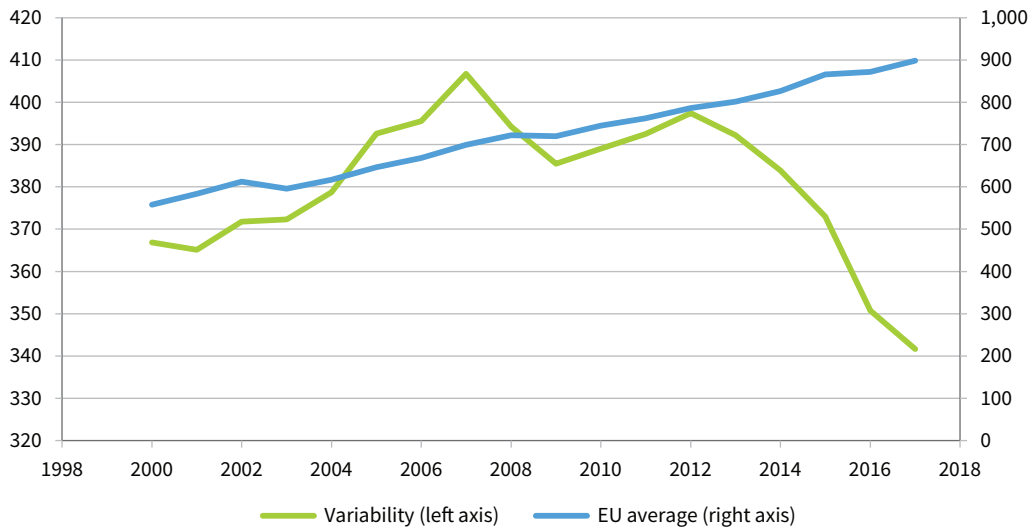
National minimum wage level

The national minimum wage level indicator is based on Member State national minimum wages for employees in all sectors, or at least in a majority of them, expressed in PPS.² (No analysis at regional level was conducted as data at NUTS 2 level are not available for this indicator.)

In 2000–2017, monthly national minimum wages showed **upward convergence** in 20 Member States. On average, the indicator increased from 524 PPS to 915 PPS, while the variability among Member States decreased (Figure 9). However, disparities among countries show different patterns depending on the subperiod. They increased in 2000–2007 and 2009–2012, indicating upward divergence, but then they rapidly declined after 2012, exhibiting clear upward convergence.

² The analysis includes only the Member States that had a national minimum wage in force during the entire period considered, 2000–2017. These are Belgium, Bulgaria, Croatia, the Czech Republic, Estonia, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

Figure 9: Convergence trends in national minimum wage levels, EU, 2000–2017



Note: Variability is measured using the standard deviation.

Source: Authors' calculations based on EU-LFS data

Euro zone Member States had higher minimum wages together with higher variability among them than the non-euro zone Member States. Moreover, while the euro zone converged upwardly, the non-euro zone Member States show clear upward divergence between 2000 and 2006, followed by a decline in disparities.

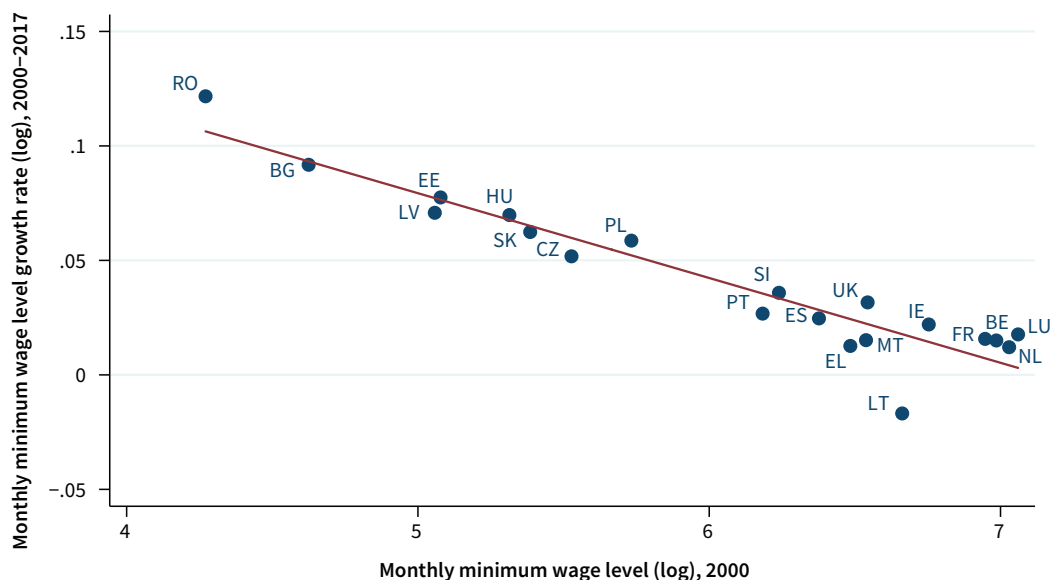
There was an overall increase in disparities with respect to the best-performing country, Luxembourg, between 2000 and 2017. Luxembourg outperformed all other Member States, with monthly minimum wages in PPS ranging from 1,150 to almost 1,600. Few countries reduced the gap with Luxembourg;

these were Estonia, Hungary, Poland, Romania and the United Kingdom.

A catch-up process is evident over 2000–2017 at 4% a year: countries with lower national minimum wages in 2000, such as Bulgaria, Estonia and Romania, show higher rates of growth, whereas countries with higher initial levels grew at a lower or negative rate; these include Lithuania and the Netherlands (Figure 10).

The speed of convergence was higher among the EU13 and the countries outside the euro zone. The pace of catch-up is higher since 2010.

Figure 10: Catch-up of poorly performing Member States with best-performing Member States, national minimum wage levels, EU, 2000–2017



Source: Authors' calculations based on EU-LFS data

Exploring an EU-level minimum wage

In the Policy context section (p. 2), it was noted that one option discussed to support socioeconomic convergence is a European minimum wage scheme. Here we examine how minimum wage mechanisms operate in the Member States, and implementation considerations were such a scheme to be adopted.

Current situation

Currently, minimum wage policy is under the competence of Member States, although some related aspects are addressed indirectly in the EU social acquis, for example references to collective bargaining in Article 28 of the European Charter of Fundamental Rights and to dignity in working conditions in Article 31. A large majority of Member States (22 out of 28) has a national minimum wage; in the remaining 6, minimum wages are set in collective agreements for specific sectors or occupations.

Minimum wages are implemented very differently across the Member States. To begin with, the regulatory instrument used to determine the level varies. In most, 17 in all, a single national minimum wage is determined by statutory regulation. This approach is implemented mainly in western Europe, Germany, and central and eastern Europe. A single national minimum wage fixed by collective bargaining is implemented in five Member States, including Belgium and some eastern Europe countries. Sectoral or occupational minimum wages set by collective bargaining are implemented in five Member States – Austria, Italy and the Nordic countries (Denmark, Finland and Sweden). In these countries, minimum wages can differ depending on the industry, and the worker's position, occupation or age. Finally, minimum wages are statutory for certain occupational groups in Cyprus.

Turning to the scope and applicability of minimum wages, some countries have a single national or universal minimum wage, whereas those with minimum wages set only at sectoral

or occupational level can sometimes have large variations in coverage. Those systems with single national schemes are characterised by the establishment of a general lower wage threshold, usually at national level, which applies to all employees (with some exceptions). By contrast, sectoral or occupational schemes do not have general lower wage thresholds, but set minimum wages for specific sectors or occupational groups (Schulten, 2015).

With regard to the level of minimum wages, they ranged from between €261 per month in Bulgaria to €1,999 per month in Luxembourg in January 2018 (Eurostat, 2018). Variation is higher among euro zone countries than in non-euro zone countries. These differences are lower when purchasing power parities (PPPs) are applied to household final consumption expenditure. If a relative measure of minimum wages – as a percentage of median earnings – is used, the minimum wage varied from 37% of median earnings in Spain to 61% in France in 2016, according to OECD data on 19 Member States (Schulten, 2014).

Setting a level

The main, and the most controversial, feature of a potential European minimum wage policy is the level at which it would be set, and the definition of what ‘fair wages that provide for a decent standard of living’ or ‘adequate minimum wages’ – as expressed in the European Pillar of Social Rights – are. Different approaches have been considered, with the most common being the definition of minimum wages as a proportion of average wages, of median wages, or of gross national product (GNP) per capita or per worker, each of which has its own implications (Fernández-Macías and Vacas-Soriano, 2015).

Most of the proposals suggest the establishment of a certain percentage of the national median or average wage, and the

most frequently suggested percentage is 60%. The Council’s European Committee of Social Rights has put forward a definition according to which a ‘fair’ or ‘decent’ wage is at least 60% of the average net wage. Similarly, the Parliament has called on the Commission to set an EU target for minimum wages of at least 60% of the relevant average wage.

Another option discussed is the creation of an EU-level body that would advise the Commission and Member States on minimum wages, adjusting the target on a yearly basis, depending on its evaluation of the economic and social situation, following the model of the UK Low Pay Commission. The degree of coordination in terms of industrial relations is another crucial element, since, as noted earlier, the means by which minimum wages are determined differ from one Member State to another. The homogenisation of these different systems would be a major challenge in the implementation of this policy option.

Regulation

The form of regulation at EU level or the mechanisms to be adopted for its implementation would also be a key element in the design of a European minimum wage policy. Some proponents advocate the use of ‘soft law’ mechanisms like the open method of coordination (OMC) based on the voluntary cooperation of Member States. Others call for ‘hard’ forms of coordination of minimum wages in the EU, but this approach would require a high and improbable level of consensus in the Member States, affecting not only governments but also the social partners and other stakeholders. Both approaches would be difficult to implement, but especially the hard form, given that wages are explicitly excluded at present from the EU treaties. There is no unanimity even about whether Member States would agree to the kind of soft coordination associated with the OMC.

Impact

The effects of a European minimum wage coordination policy would vary considerably between Member States and would largely depend on the mechanism selected for implementation. For both a soft or hard approach, the scheme would have a lower impact in those Member States that already have a statutory minimum wage system and in

those where a single national wage floor is negotiated in collective agreements at national level. By contrast, the effects would be strongly felt in those Member States where minimum wages are determined by collective bargaining at the sectoral or occupational level (Eurofound, 2014; Fernández-Macías and Vacas-Soriano, 2015).



Policy pointers

Upward convergence in socioeconomic outcomes

Socioeconomic convergence is crucial for the EU because it is at the root of shared economic prosperity, which is central to the European project and the creation of the euro. The empirical evidence from this study shows that Member States are converging towards better socioeconomic conditions, notwithstanding the negative effects of the crisis.

Macroeconomic indicators show the Member States that have joined the EU since 2004 catching up with the richest western European countries in real GDP per capita and disposable household income. Variability among countries of the euro zone is increasing, however, and regional disparities have been growing since the onset of the crisis.

Increased income inequality

In spite of the positive trends in three of the four socioeconomic indicators examined in the study, the situation regarding income inequality in the EU has deteriorated, and upward convergence has been interrupted since the onset of the crisis. The income quintile share ratio shows increasing inequality in the income distribution of the population and increased disparities among Member States. Although this indicator has begun to

recover since 2016, the findings indicate that particular attention should be given not only to reducing disparities among countries but also at reducing inequalities among the EU population.

European minimum wage policy option

The gravity of the crisis has increased the level of attention given to social asymmetries alongside macroeconomic asymmetries at EU level, underlining that social and economic goals influence each other. European leaders have recognised the high long-term risks and costs resulting from lack of attention to social issues. The European Pillar of Social Rights is one result of that recognition, aiming to ensure better working and living conditions across Europe and to fight social exclusion through better access to social rights, including education and training, social protection and health. Linked with the principles of the Pillar, a European minimum wage coordination mechanism has been widely discussed in recent years, as a way to support a greater convergence in disposable income and to reduce the number of working poor.

There are a number of arguments for and against the introduction of a European minimum wage policy. The main reasons given to support its introduction are the following.

- A European minimum wage policy, by increasing lower wages, would reduce in-work poverty and poverty risk, improving quality of life of EU citizens, especially in those Member States with very low wages (Schulten, 2012).
- The increase in lower wages, especially in low-wage countries, would contribute to upward social convergence and would reinforce the social dimension of the EU, which in turn would bolster EU citizens' confidence and belief in the value of the European project.
- A minimum wage is also justified for ethical reasons, as there may be a societal consensus around a threshold below which wage levels are not acceptable, even if there are employers and workers willing to transgress it (Fernández-Macías and Vacas-Soriano, 2015).
- From an economic point of view, a minimum wage policy at EU level could reinforce aggregate demand in Member States since low earners would have a higher propensity to consume (Herr and Kazandziska, 2011; European Parliament, 2016). Especially in countries with surpluses, a sharper increase in minimum wages could boost the domestic economy and thus help to reduce economic imbalances in Europe (Ministry for the Economy and Finance, 2015).
- Minimum wage coordination could also be an important complement to economic integration, deterring social dumping and excessive wage competition across Europe, which affects certain sectors of the economy, such as construction and road transport. In this way, it would also reduce the pressure on national bargaining systems caused by economic intra-EU migration, which would decline (Vaughan-Whitehead, 2010).

However, there are also well-founded arguments against such a scheme.

- The implementation of a European minimum wage policy is likely to be very difficult, as it would significantly affect national industrial relations systems and social partners' competences.
- It might not address the needs and specificities of each Member State and might erode existing local labour market institutions, hampering their effectiveness.
- It could affect the competitive position of Member States, especially as regards goods and services that require low-skilled labour and where Europe competes with third countries in low-paid sectors (Fernández-Macías and Vacas-Soriano, 2015).
- Finally, there is an important argument regarding the legal feasibility of such a scheme, as in principle, the EU has no competence with respect to wage levels or wage-formation mechanisms. Remuneration was explicitly excluded from the scope of the new social policy chapter of the Treaty on the Functioning of the European Union (TFEU) in Article 153.



Resources

All Eurofound publications are available at www.eurofound.europa.eu

Eurofound web topic, 'Monitoring convergence in the European Union':
<http://eurofound.link/convergence>

EU convergence monitoring hub: <http://eurofound.link/convergencehub>

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Socioeconomic convergence is at the root of the European project, and the need to address social convergence alongside economic convergence has risen to the top of the European policy agenda in recent years. This policy brief provides an updated picture of convergence in selected socioeconomic indicators across the EU Member States and regions. The study finds that Member States are converging towards better socioeconomic conditions, notwithstanding the negative effects of the crisis, although income inequality across the EU population has increased.

The brief also discusses a possible policy option for enhancing convergence, and avoiding divergence, within the EU – a European minimum wage.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social, employment and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75, to contribute to the planning and design of better living and working conditions in Europe.