

Minimum wages in 2021: Annual review

Introduction

The year 2020 was a difficult one for low-paid workers, including those on the minimum wage, as they were most affected by the loss of employment and reduced working hours and subsequent income loss due to the coronavirus disease 2019 (COVID-19) pandemic. The pandemic presented exceptional challenges for national decision-makers – governments and social partners, supported by experts – setting the new minimum wage rates for 2021. In most Member States, income-support and company-support schemes were quickly put in place, often on a large scale. The current EU initiative on minimum wages supports the view that adequate minimum wages can limit the fall in income in an economic downturn, help stabilise domestic demand and ensure that workers have access to employment opportunities, all of which are essential to support a sustainable and inclusive recovery.

Policy context

In 2019, European Commission President Ursula von der Leyen announced a legal proposal to ensure that every worker in the EU has access to a minimum wage that provides for a decent living, wherever they work. Following a two-stage consultation with the social partners, the Commission presented a proposal for a directive on adequate minimum wages in October 2020. It aims to establish a framework for countries on how to set minimum wages that are adequate, but it does not set or prescribe specific minimum wage rates.

According to the proposed directive, Member States with statutory minimum wages should at least take into account the purchasing power of minimum wages, along with the level, distribution and growth of gross wages and developments in labour productivity when updating or setting minimum wage rates. The Member States are also asked to use indicative reference values to guide their assessment of minimum wage adequacy, such as those commonly used at international level. Two possible values are mentioned as examples in the proposed directive: 50% of the average and 60% of the median gross wage.

The involvement of the social partners in setting and updating statutory minimum wages is a key element of the proposal. It also requires Member States with collective bargaining coverage below 70% to develop action plans with the aim of promoting collective bargaining.

Key findings

- Minimum wages were raised cautiously in most Member States from 2020 to 2021, with the median country recording an increase of 3% (in national currencies). Some Member States expressly held to previously announced commitments (Bulgaria, Croatia, Latvia, Portugal and Slovenia). Only a few Member States decided to freeze the level of their minimum wage into 2021, including (at the time of writing) Belgium, Estonia, Greece and Spain, as well as Cyprus for the occupational rates.
- Crisis-related adaptations of minimum wage regulations were few and were confined to the postponement of procedures (Greece and Poland), the renunciation of a legislative target (Slovakia) or opting to review decisions based on the availability of further data (Lithuania).
- In countries without statutory minimum wages (Austria, Denmark, Finland, Italy, Sweden and Norway) – depending on the timing of the bargaining rounds – collective bargaining was somewhat affected, and some renewals or pay increases were postponed. Wage increases were moderate, but bargaining overall proved reasonably stable in these countries.
- When asked about the main challenge they faced during the 2020 round of minimum wage setting, national decision-makers interviewed for this study most often referred to the general economic uncertainty surrounding the pandemic. Where forecasts could be made, they were more uncertain or volatile than usual. The move to virtual working practices did not prove too difficult for most, but there is a preference among negotiators for the return to face-to-face meetings.

- In 2020, employment loss for women was concentrated within occupations with higher shares of minimum wage workers.
- COVID-19-related income-support schemes were particularly important for low-paid workers, as these workers tended to be more affected by lockdown measures or reduced working hours than others. The generosity of these schemes varied. Only some countries limited the loss of earnings by introducing floors below which workers' incomes could not fall. When on short-time working schemes, workers in Estonia, France, Greece, Luxembourg, Portugal and Slovenia were at least guaranteed the minimum wage.
- The positions of the social partners on the proposed EU minimum wage directive remain unchanged. In general, employer organisations, including their EU-level representations, are most critical of the initiative and prefer a non-binding recommendation, but some can see value in clear and transparent criteria. Most trade unions are in favour of the initiative but would like to see it go further. Governments' positions are mixed, with the greatest resistance coming from Denmark and Sweden.
- The points of the proposed directive assessed most critically relate to the requirement for Member States to establish action plans when collective bargaining coverage is below 70% (Article 4) and the criteria for guiding countries' assessment of adequacy (Article 5). Trade unions from several central and eastern European Member States (where the degree of organisation is low and collective bargaining is limited) are particularly doubtful that a move towards 70% coverage can be achieved without the prior elimination of several obstacles. Overall, unions disagree with including labour productivity in the criteria to guide statutory minimum wage setting.
- In 2018, 23% of minimum wage earners in the EU reported difficulties or great difficulties in making ends meet, compared to 11.5% among the rest of employees. A total of 16% of minimum wage earners lived in materially deprived households, compared to 6% among the rest of employees.

Policy pointers

- Periods of crisis – such as the Great Recession and the COVID-19 pandemic – affect lower-paid and minimum wage workers more than other groups. It is especially important for low-paid workers that income-support schemes contain floors, below which their income cannot fall.
- Debates about the adequacy of minimum wages should not be limited to discussing the level of minimum wages in relation to other wages. Discussions on indicative thresholds (for instance, 60% of median wages or 50% of average wages) can quickly end up in technical discussions on measurements and data sources without addressing the real issue: whether low-paid workers who are earning the minimum wage are able to afford a decent standard of living that includes the ability to provide for dependants.
- When entering into debates on how to define adequacy, policymakers should consider additional indicators of adequacy, including subjectively reported ones (for example, being able to make ends meet) and objective ones (such as material deprivation) to identify the extent to which basic goods and services are or are not affordable for those earning the minimum wage.

Further information

The report *Minimum wages in 2021: Annual review* is available at <http://eurofound.link/ef21015>

Research manager: Christine Aumayr-Pintar
information@eurofound.europa.eu