



Towards a European Pillar of Social Rights

WAGES

Wages are generally collectively negotiated by the social partners at different levels. To support competitiveness and job creation it is important that they evolve in line with productivity. The goal of minimum wages is to allow all persons in employment to enjoy a decent standard of living. They need to safeguard the ability of the low-skilled to find a job while at the same time making work financially attractive. National minimum wages usually apply to all employees, or at least to a large majority of employees in a country.

Challenges

A key challenge is to establish minimum wages that enable a decent standard of living while not discouraging recruitment of the least skilled. If fixed at too high levels, minimum wages may affect negatively the employment of low productivity workers, such as the low skilled or young workers (as their wage, and thus their cost, might be driven above their productivity level, i.e. the value of what they produce). At the same time, minimum wages need to be set at a level that provides incentives to work and help prevent in-work poverty.

To ensure predictable minimum wage evolutions along these lines, institutional frameworks for minimum wage setting should ensure transparent procedures for minimum wage updates, including involvement of social partners and independent experts, frequency of revisions and criteria for derogations. Furthermore, consistency with the tax-benefit system is necessary to ensure appropriate incentives to take up work, as well as to keep competitiveness conditions.

At the same time, overall wage developments directly influence competitiveness and employment outcomes. Wages are a part of the costs of production of goods and services and thus affect the competitiveness of firms, sector and whole economies. This is particularly important for the euro area, since costs and price adjustment is the only way of nominal adjustment in a monetary union. Too high wage growth compared to productivity growth influences negatively decisions to hire and employment opportunities. To allow wages and productivity developments to align over time, wage setting frameworks, including collective agreements, need to allow different wage increases across and within sectors. The effective coordination of bargaining modalities depends largely on national traditions. The level and distribution of wages affect consumption and thus have an impact on aggregate demand in the economy and economic growth.

Situation at EU level

The design of minimum wages is a national competence. Related aspects are however indirectly addressed in the EU social acquis, for example through references to collective bargaining in Article 28 and to dignity in working conditions in Article 31 of the Charter of Fundamental Rights of the European Union. The Employment Guidelines encourage wage-setting mechanisms allowing for a responsiveness of wages to productivity and to consider impact on in-work poverty, job creation and competitiveness when setting minimum wages.

Situation in the Member States

In the EU, there is a large variation in the level of minimum wages related to overall wages, in the form minimum wage takes and the way their levels are set. Minimum wages are generally presented as monthly wage rates for gross earnings, that is, before the deduction of income tax and social security contributions payable by the employee; these deductions vary between Member States.

Figure: Minimum wages as a percentage of the national mean wages¹



Source: Eurostat.

Minimum wages are generally statutory with universal application, while in some Member States, they are set in collective agreements, often at sector level with sometimes large variations in coverage. In others, the minimum wage is unique and universal. Some Member States have different levels for certain groups of workers (e.g. youth, apprentices or other selected groups). In some cases, minimum wages are adjusted automatically through indexation to price and/or wage developments, together with the possibility of discretion for topping up increases. In a few Member States, there are neither specific rules for minimum wage adjustment, nor any form of negotiations or institutionalised consultation with the social partners or with experts. Finally, while the timing of minimum wage adjustment is generally annual, this can also be shorter or longer, while in some Member States no specific adjustment frequency is foreseen.

International dimension

Article 4 of the revised European Social Charter refers to the right to a fair remuneration sufficient for a decent standard of living. ILO Convention 131 requires law-based approaches for minimum wage setting capable of determining and periodically reviewing/adjusting minimum wage rates.

¹ Average wage in industry, construction and services. 2015 data for Malta, Portugal and United Kingdom; 2013 for Belgium, France and Netherlands; 2014 for all the other countries.