The draft minimum-wage directive is a crucial first step but more needs to follow on the way to a social Europe.

On October 28th, the European Commission published its proposal for a directive on adequate minimum wages in the European Union. It’s a watershed in the history of European social and economic integration: for the first time, the commission is initiating legislative action not only to ensure fair minimum wages but also to strengthen collective bargaining in Europe.

In contrast to the aftermath of the 2008 financial crisis, adequate minimum wages and strong collective bargaining are no longer viewed as impediments to ‘flexibility’ and ‘competitiveness’ but instead as preconditions of inclusive growth in Europe. For decades, the dominant path of European integration, driven by market-liberalisation policies, had relentlessly weakened workers’ bargaining position. This directive will mark an important step towards a more social Europe, serving to recalibrate the power relation between workers and employers.

Adequate minimum wages

The directive has two fundamental objectives. First, as the title suggests, it aims to ensure that workers across the EU are protected by adequate minimum wages, allowing for a decent living wherever they work. Considering the large number of low-wage earners and the spread of in-work poverty, it is obvious that in most EU countries minimum wages are not set at an adequate level.

In search of a reasonable indicator of adequacy, the debate has largely focused on the Kaitz index, which describes the relationship between minimum and median or average wages. According to this measure, the minimum decency threshold for adequate minimum wages, below which no minimum wage should be set, is 60 per cent of the gross median wage and 50 per cent of the gross average wage for full-time workers. (The median is lower than the average because the half of the wage distribution above it is skewed upwards by a tail of top earners whereas the half below has a zero lower bound.)
The commission refers to this commonly used indicator in the ‘recitals’ of the directive, as a guide for the assessment of the adequacy of minimum wages. To the disappointment of many, however, it has not included the indicator as a binding criterion in the legal provisions. Instead, it proposes that every member state find its own definition of adequacy, using not only the Kaitz index but also other criteria, such as purchasing power, gross-wage growth and labour-productivity trends. This last category is especially problematic: it is not clear at all what productivity indicators, at what level, should be used.

Without a clear and common definition of wage adequacy at EU level, there is a clear danger that some member states will apply a very restrictive definition, which will fail to foster real improvement of minimum-wage levels. In its impact-assessment report, the commission has calculated that an increase of national minimum wages according to the double decency threshold—60 per cent of the median and 50 per cent of the average wage—would improve the wages of around 25 million workers in Europe. This estimate should be the decisive benchmark to measure whether or not the directive is a success: either it will genuinely contribute to the improvement of wages or it will remain a political symbol with no discernible impact. The inclusion of a more precise definition of adequate minimum wages in the legal provisions of the directive will thus be a core issue in the debates on its adoption.

**Strengthening collective bargaining**

According to the draft, the criteria for adequate minimum wages should only apply to countries with a statutory minimum wage—and the directive explicitly states that it does not impose an obligation on member states to introduce one. This, however, is where the second and more fundamental objective of the directive comes in, applying to all member states—the strengthening of collective bargaining as the main instrument to ensure fair wages and working conditions.

Collective-bargaining coverage varies widely across the EU27: more than 90 per cent of workers are covered by collective agreements in, for example, Austria, France and Belgium, while in some central- and eastern-European countries coverage largely falls below 20 per cent. Across the range, in many member states there has been a steady decline of coverage.

For the first time, the proposed directive would establish a minimum target for adequate collective-bargaining coverage. All member states in which coverage fell below 70 per cent would be obliged to prepare a national action plan for the promotion of collective bargaining—this would currently implicate 18 out of the 27.

Apart from this procedural rule, however, the directive is rather vague as to instruments to strengthen collective bargaining. The most concrete is an explicit stipulation, _vis-à-vis_ public procurement, that public contracts or concessions should be given only to companies which comply with wage levels set out in collective agreements for the relevant sector and geographical area. Missing however is recognition of the extension
mechanisms which in some European countries have proved an effective instrument to ensure high bargaining coverage—by making collective agreements binding on all employers in the sector, whether they are members of the employers’ association or not.

Other measures to strengthen collective bargaining would include improved protection against victimisation of workers who exercise their right to collective bargaining (and indeed just to join a union) and a guaranteed right of access to workplaces for trade unions. To ensure that the action plans really fulfil their purpose of increasing collective bargaining coverage to at least 70 per cent, the directive should at the very least specify supportive measures to be taken into consideration by member states.

Room for improvement

The proposed directive certainly has the potential to improve the wages of millions of Europe’s low-wage workers and strengthen their collective-bargaining position. To ensure its effectiveness however requires recognising there is much room for improvement, especially on more precise and binding criteria for adequate minimum wages and more practical tools for the promotion of collective bargaining.

The ball is now in the court of the European Parliament and the Council of the EU. It is up to them to ensure that the draft directive is amended to establish genuinely fair minimum wages for all workers and to provide for a critical mass of collective-bargaining coverage across the union.

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