

# The EU Directive on Adequate Minimum Wages: Preliminary Assessment of Potential Impacts

The Directive on Adequate Minimum Wages in the European Union, adopted by the European Parliament and the Council in October 2022 and to be transposed in national law by November 2024, is an important EU instrument aimed at revitalising Europe's social dimension. With its dual and interlinked objectives of ensuring adequate minimum wage levels and strengthening collective bargaining, the Directive acknowledges the positive role that social dialogue, collective bargaining, and minimum wage regulation play in promoting inclusive economic growth and social cohesion by limiting social exclusion and earnings inequalities.

It should be emphasised that the Directive does not impose obligations on Member States to introduce a statutory minimum wage or to declare collective agreements universally applicable when wage formation is carried out exclusively via collective agreements, as is the case in the Nordic countries, Austria, and Italy. Nor does the Directive aim to set a uniform minimum wage level across Europe, rather it specifies certain criteria, such as a statutory minimum wage corresponding to 60% of the median wage, to ensure that adequate minimum wages are set at national level.

For the 22 EU Member States which have statutory minimum wages, the explicit aims of the Directive regarding the setting of adequate statutory minimum wages are as follows: to achieve a decent standard of living; to reduce wage inequality; to help to close the gender wage gap; to reduce income disparities by lowering levels of in-work poverty, and to contribute to the promotion of social cohesion and upward social convergence within the EU. Another part of the directive deals with the issue of coverage and affects every Member State: the aim is to have 80% of workers covered by collective agreements.

Drawing on a review of the theoretical and empirical literature on minimum wages, the aim of this report is to analyse the potential socio-economic consequences of the Directive on Adequate Minimum Wages in the European Union. Taking an institutional and gender perspective, it assesses the extent to which the Directive may constitute an effective instrument to improve the pay and working conditions of men and women in Europe, reverse the trend in increasing inequalities, help close the gender wage-gap, and reduce gender income disparities by reducing in-work poverty.

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The most recent comprehensive review on the employment impact of a moderate increase of statutory minimum wages found no significant employment effects, either for men or for women.<sup>1</sup> Overall, empirical studies on the impact of minimum wages on wage distribution suggest that an increase in minimum wages significantly increases the wages of low-paid workers. This provides strong evidence that minimum wages, by compressing the wage structure at the bottom end of the wage distribution, reduce wage inequality, particularly for women, who are overrepresented among low-paid workers. Furthermore, a moderate increase in minimum wages not only appears to have an equalising effect on wages but also on

<sup>1</sup> An increase up to 60% of the median wage, see Dube (2019).

the earnings distribution at the lower end of the wage distribution. The distributional impact of an increase in minimum wages on household income distribution is the subject of greater controversy. Nevertheless, recent evidence from the United States reveals positive distributional effects of a rise in minimum wages and a reduction of working poor households.

When it comes to the impact of minimum wages on the gender wage gap, a review of available empirical literature shows that increasing minimum wages does contribute to reducing pay disparities between men and women. This finding supports the objectives of the Directive and consistent with the European Commission's pre-assessment, which found that an uprating of minimum wages in the EU would decrease the gender wage gap on average by around 5%.

In order to assess the impact of the Directive's aim of increasing levels of collective bargaining, the report analyses the pattern of industrial relations systems across the EU. This analysis shows that systems with certain characteristics – high union density and collective bargaining coverage rates, balanced bargaining power between the two sides of industry, and centralised, coordinated, multi-employer collective bargaining systems – appear not only to favour better working conditions, greater wage and gender equality, but also to deliver better labour market outcomes, economic growth and social cohesion. Labour market governance by the social partners and a developed (tripartite and/or bipartite) social dialogue process, as in the Nordic countries or in Belgium not only seems to better reconcile economic efficiency and social justice, but it also appears better adapted to provide an effective and fair response to the challenges linked to globalisation, demographic, technological change and the green transition. The report also shows that minimum wages tend to have stronger wage equality effects when combined with strong union and high collective bargaining coverage.

As far as gender equality and industrial relations systems are concerned, a review of available evidence shows that the higher wage floors found in countries with high union density, high coverage rate of collective bargaining and highly centralised wage setting raise women's relative pay and reduce the gender wage gap, since women are to a larger extent located at the bottom end of the wage

distribution. Consistent with this evidence, the aim of the Directive (i.e. to increase the collective bargaining rate in all Member States to 80% and, for Member States with minimum wages, to actively involve the social partners in the setting of minimum levels) should lead to a reduction in the gender wage gap.

Furthermore, the analysis shows that the Nordic countries and Belgium, characterised by strong and independent social partners playing a crucial role in the production of labour market norms, wage formation, social protection and welfare state arrangements, score highest among EU countries on the Gender Equality Index. Not only is women's representation in national parliaments and political bodies among the highest in the world, their high level of trade union membership and involvement in collective bargaining/social dialogue helps put gender equality issues at the top of the political agenda. The strong feminisation of the labour force coupled with the significant modifications in the employment structure, from manufacturing to the services sector, means that, today, union density in the Nordic countries is significantly higher for women than for men. On the other hand, countries with fragmented systems, low union density, low coverage rates of collective bargaining, and less involvement of social partners in the production of labour market and social norms, score lowest on the Gender Equality Index among EU Member States.

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In light of these findings, a priority should indeed be to strengthen the representativeness and autonomy of social partners and their institutional capacity to shape labour market and social norms. Such a policy strategy is in line with the aim of the Directive to promote social dialogue and collective bargaining at national level in order to ensure the setting of adequate minimum wage levels that enable a decent standard of living, reduce wage inequality, help close the gender wage gap, reduce the incidence of low-paid workers, and contribute

to upward social convergence within the European Union.

If the policy objective of the EU, as illustrated by the adoption of the Directive, is to change direction and to move towards industrial relations systems characterised by high collective bargaining coverage rates and powerful and autonomous social partners playing a crucial role in the production of fair labour market norms, there is, however, a long way to go. This is especially true in Member States that have highly decentralised and non-coordinated, fragmented bargaining systems, such as the single-employer bargaining regimes prevalent in the majority of Central and Eastern European countries. These countries are characterised by both low union density and low coverage rates of collective bargaining, and they are currently far from achieving the target for collective bargaining coverage of 80%. Political and institutional support for upwards convergence in the EU towards a regime of industrial relations favouring a system of labour market governance based on autonomous

and strong social partners and constructive social dialogue will be important. This will require effective monitoring, implementation, and financial and political support at both national and EU level.

The Directive on Adequate Minimum Wages in the European Union, in particular the uprating of statutory minimum wages, can thus contribute to improved pay and working conditions of men and women in the labour market and reduce gender wage and earnings inequalities at the lower end of the wage distribution. It must, however, be stressed that gender differences in, for example, labour supply, should continue to be addressed with other policy instruments. Such instruments include the safeguarding and development of public services, the development of public childcare and elderly care facilities, the development of work-life balance arrangements, such as generous and flexible parental leave systems, the development of life-long learning facilities as well as the development of gender neutral fiscal and social protection systems.