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MINIMUM WAGE AS FOUNDATION FOR DIGNIFIED LIFE IN THE EU

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Abstract: *The COVID 19 pandemic has disclosed various pockets of low level of social protection of the EU parts of populations working for the minimum or even sub-minimum salary. This concerned mainly workers and employees in public health-care, education, social and care services as well as the service sector – such as retail, repair, hospitality, trade and small enterprise. The issue of differences in the level of the minimum salary in various member states of the EU has repeatedly come to the fore, posing a question of adequacy of the minimum salary or wage able to secure a life of human dignity across the EU.*

Key words: *minimum wage, human dignity, social protection, Directive on Adequate Minimum Wages in the EU*

1. International and European Origins of the Minimum Wage

> "*It seems to me to be equally plain that no business which depends for existence on paying less than living wages to its workers has any right to continue in this country*."
> (Franklin D. Roosevelt, 1933)

A minimum salary or minimum wage is the lowest remuneration that employers can pay their employees in exchange for their labour. The multiple socio-economic functions and importance of the minimum wage has been widely recognized and its legal enactments both on a national and international level date back many decades, or even a century. Closely linked to the first governmental recognition of the trade unions, the first legislatively adopted minimum wage appeared in New Zealand and Australia in 1894 and 1896, followed by the United Kingdom in 1909.

Europe saw the first minimum wage bills adopted after the First World War - in 1918 in Austria and Norway, in 1919 in Czechoslovakia, in 1923 in Germany, in 1926 in Spain and in 1934 in Belgium, for instance. In 1938 the statutory minimum wages were introduced in the United States in response to the Great Depression.

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The so-called Fair Labour and Standards Act not only set the first US minimum wage at 25 cents an hour, but also prohibited child labour and determined a working week at 44 hours. As officially stated, the purpose of the Act was to stabilize the economy after the Great Depression of 1929-33 through protection of the workers and employees, their minimum standard of living, health and well-being.

The important role in this development was played by the International Labour Organisation (ILO) that as of its inception in 1919 called for improvement of conditions of labour, including the provision of an adequate living wage. This was reiterated again in 1944, in ILO Declaration of Philadelphia, and more recently also in ILO Declaration on Social Justice for a Fair Globalization adopted in 2008 (ILO, 2021). As for the normative ILO Conventions, it was the Minimum Wage Fixing Machinery Convention No. 26 of 1928 that opened the first international legislative chapter covering this issue.

Complemented by ILO Recommendation No. 30 – calling for participation of women in bodies of wage-level determination, and protection of employers abiding to minimum pay standards from unfair competition, the ILO legislation not only assisted many domestic legislators, but proved its progressive spirit to be well ahead of inter-war times. In 1951, the coverage extended to agricultural workers and seafarers by the ILO Minimum Wage Fixing Machinery Convention No. 99. Almost two decades later, in 1970 the ILO Minimum Wage Fixing Convention No. 131 offered a yet broader protection, and set the current international principles and standards in this area vastly adopted across the world, including the most recent EU initiative.

These call for a broad scope of application and workers´ coverage, with exclusions from the minimum wage legislation to be kept to a minimum; regular adjustments of the minimum wage levels; full consultation with all social partners on an equal footing, and inclusion of independent experts in the design and operation of the system. The minimum wage levels must take into account the needs of workers and their families, economic factors, and they must include appropriate measures to ensure the effective application (ILO, 1970).

The objective is to protect the employees from "unduly low wages", even though neither the ILO Convention No. 131 nor the Proposal for the EU Directive on Adequate Minimum Wages in the European Union prescribe a single national, international or European minimum wage. The ILO Minimum Wage Fixing Recommendation No. 135 accompanying the abovementioned Convention allows for a single minimum wage of general application or a series of minimum wages applicable to particular groups of workers.

This provision respects national variations in socio-economic development, labour force organization, and corresponding variations - especially in countries like Austria, Italy, Denmark, Finland, Norway, Sweden or Switzerland, which traditionally set the minimum wage through the process of collective bargaining. In more specific terms, setting of minimum wage usually takes into consideration an array of social and economic factors such as labour demand and supply, productivity, average (median) wage, purchasing power, level of education and standards of living, but also competitiveness, operating costs and possible impact on jobs loss.

And while in centrally planned economies with full employment of the so-called Eastern bloc, including Czechoslovakia, the concept of minimum wage was suspended between 1945 and 1989, as all workers received a pay-scale salary (Macková, 2009), the profit-orientation of Reagan-Thatcherist era seeded suspicion and resistance to attempts of adequate expansion of workers´ rights, including decent salary levels.

So while after the Second World War the number of international community members with the minimum wage arrangements multiplied – counting European countries, but also many newly independent countries of Asia and Africa, and the scope of workforce actually covered rose from 20 to nearly 80% in 1970 in the U.S., the Anglo-American neoliberalism of 1980-ties brought this advancement into a halt, with the U.K. itself suppressing the trade unionism, dismissing of the wage councils and denouncing its previous commitment to ILO Convention No. 131 (Neumark, 2008).

The 1990-ties, however, led to a renaissance of the minimum wage legislative initiatives, due to entry of Central and Eastern Europe (CEE) into the „socially-oriented free-market economies“, strong social-democratic forces active across the continent, and human rights euphoria linked to unification of Europe, including integration of the CEE trade unions in the European Trade Union Confederation (ETUC) with the seat in Brussels.

Gradually, all CEE countries, Germany and the U.K. in 1999 anew adopted a statutory minimum wage, followed by post-apartheid South Africa in 1997, China in 2004, and Brazil, among others. The relevance of these arrangements has been proved, as well as the voids and insufficiencies seriously challenged in the last decade – during the financial crisis, and the present one of the COVID 19 pandemic that has hit us all.

2. Recent Challenges for the EU

In the EU of today, 21 out of 27 member states have statutory – i.e. legislatively codified minimum wages. The remaining minority of Denmark, Finland, Sweden, Italy and Austria, as well as Norway and Switzerland have social legal floors set through the collective agreements that ultimately cover the vast majority of up to 90% of all employees. This is due to a higher trade union participation and the corresponding weight in comparison with the countries of Central and Eastern Europe, where for example in Slovakia the collective agreements coverage protects only about 35% of employees (Macková, 2021, p. 109).

This has been caused by dissolution of large industrial entities during the post-1989 transition, high levels of unemployment and systemic pressures orchestrated by the CEE governments trying to attract the foreign capital. The weakened unionism and falling membership had consequently showed their debilitating effect on the employers-employees power dynamics. And despite post-1990 neoliberal policies, it is recognized that „the weak and fragmented bargaining and low levels of union coverage in Central and Eastern Europe (CEE) raise concerns about these countries’ potential to maintain competitiveness, tackle demographic and macroeconomic challenges, and catch up with Western European economic and social standards.“ (Magda, 2017).

The fact that higher wages do not only contribute to workers´ and their families´, but that they also improve the EU economies that are vastly driven by internal demand, has been long recognized (ETUC, 2021). Most of the minimum wage workers in Europe are in service sectors that are not exposed to international competition and whose services are performed within local markets.

Many COVID-19 essential workers such as care providers, cleaners, health workers and agricultural workers earn only the minimum wage. Higher income for these people directly benefits economies, due to their greater propensity to spend additional income. In addition, through the so-called 'ripple effects' fair minimum wages contribute to increase of wages in general, which reinforces their positive impact on internal demand and economic growth (ETUC, 2021a).

The higher minimum wage levels can therefore contribute to the upward-cycle convergence as well as to stopping the continually deepening of the inequality gap. The ETUC studies show that in 2021 almost 10% of all workers in the EU are at risk of poverty, while 70% of the minimum wage earners report at least some difficulty in making ends meet. At the same time, the number of workers covered by collective agreements decreased in 22 of the EU's 27 member states and two thirds of the EU member states provide a lower share of their annual GDP for employees´ wages than at the beginning of the decade, with the steepest decrease of 19% in Ireland and 11% in Croatia (ETUC, 2021c).

According to the Commission analysis, „women, young and low-skilled workers, single parents, as well as workers with non-standard contracts are more likely to be affected by inadequate minimum wages, while women represent the majority of minimum wage earners in all member states. Being a woman doubles the likelihood of being a minimum wage earner in Czech Republic, Germany, France, Croatia, the Netherlands, and Slovakia, while the pay gap in average wages between men and women declines in all EU countries as the minimum wage increases. On overall, in recent decades, minimum salaries have not kept up with other salaries in many EU member states. Structural trends reshaping labour markets such as globalization, digitalisation and the rise in non-standard forms of work, such as digital platforms, especially in the service sector, have led to an increased job polarization and precarity (European Commission, 2021).

3. International and European Guarantees of Human Dignity through Adequate Standard of Living

This social reality is in stark contrast with the EU model of a social market economy, welfare state and the actual fulfillment of the European ideal of shared prosperity. Adequate wages and convergence across the EU are essential to achieve adequate working and living conditions, building of fair and resilient societies – as also stated in the United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDG) 8 on decent work, SDG 10 on reducing inequalities among and within the countries, and SDG 5 on gender equality. It is also in line with an array of international human rights provisions adopted to aspire for, and to secure an adequate standard of living.

These include Article 25 of the Universal Declaration of Human Rights, Article 11 of the International Covenant on the Social, Economic and Cultural Rights, Article 14 of the UN Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), Article 27 of the UN Convention on the Rights of the Child, Article 28 of the UN Convention on the Rights of Persons with Disabilities, and Article 4(1) of the European Social Charter – recognising the right of workers to remuneration such as to give them and their families a decent standard of living.

To address this key area on the level of the EU, especially in times of crisis, on 28 October 2020, the European Commission presented a Proposal of a Directive of the European Parliament and of the Council on Adequate Minimum Wages in the European Union (28.10.2020 COM(2020) 682 final 2020/0310 (COD).

4. Proposal for a Directive on Adequate Minimum Wages in the EU

The aim and purpose of the proposed Directive is to contribute to promotion of workers wellbeing in a competitive social market economy listed the Article 3 Treaty on the Functioning of the EU (TFEU), through improvement of living and working conditions enshrined in the Article 151 TFEU. It is also to contribute to material fulfillment of the aspirations set forth in the Article 31 of the Charter of Fundamental Rights of the EU in relation to workers' right to fair and just working conditions.

Finally, principle 6 of the European Pillar of Social Rights (EPSR) adopted in November 2017, has been specifically dedicated to salary and wage levels, including the adequate minimum ones that provide for a decent standard of living. This is to be achieved through transparent, predictable and effective mechanisms adopted in member states respecting the national practices – i.e. the system of collective agreements, as is the case in six EU member states, or by statutory or legislatively guaranteed minimum salary levels, which prevails in more than twenty EU countries. The directive is also to promote collective bargaining and involvement of social partners in determining, updating and implementing statutory wages, as entailed in principle 8 of the European Pillar of Social Rights on social dialogue and workers´ participation.

It will also address gender equality and contribute to the reduction of the gender pay gap, and contribute to equal opportunities regardless of gender, race, age, racial or ethnic origin, religion or belief, disability or sexual orientation, according to principles 2 and 3 of the EPSR on gender equality and equal opportunities. Policy-wise, implementation of the European Social Pillar both at the EU and member-states level forms an integral part of the EU Strategic Agenda for 2019-2024 and its´ Action Plan. Setting the minimum wages legislative framework at the EU level has been in fact determined as one of its key actions.

With a view of improving working and living conditions in the Union, the Directive is to establish a framework for setting of adequate levels of minimum wages as well as access of workers to minimum wage protection, in the form of wages set out by collective agreements or in the form of a statutory minimum wage (Article 1). It will apply to workers with an employment contract or in an employment relationship as defined by law, collective agreements or practice with consideration to the case-law of the Court of

Justice of the European Union (Article 2). It is to actively promote capacity building of the social partners and collective bargaining coverage (Article 4.1a). Member States where collective bargaining coverage is below 70% of workers defined within the meaning of Article 2 shall in addition provide for a framework of enabling conditions for collective bargaining, either by law after consultation of the social partners or by agreement with them, and shall establish an action plan to promote collective bargaining. The action plan shall be made public and shall be notified to the European Commission (Article 4.2).

Article 5 - addressing "adequacy" is a crucial one in material sense. Both setting and updating of the statutory minimum wages is to be guided by clear and predictable criteria of adequacy with the aim to achieve decent working and living conditions, social cohesion and upward convergence.

This shall include, as a minimum – the purchasing power of statutory minimum wages, taking into account the cost of living and contribution of taxes and social benefits; the general level of gross wages and their distribution; the growth rate of gross wages, and the labour productivity developments. In nominal terms, despite overall increase in the last decade, ten Central and East European member states still have minimum wages below €700 per month – with Bulgaria being at the level of €332, Hungary €442, Romania €458, Latvia €500, Croatia €563, Czech Republic €579, Estonia €584, Poland €614, Slovakia €623 and Lithuania €642. Five member states located mainly in the South ranged between €700 and €1 100 per month, with Greece at €758, Portugal €776, Malta €785, Slovenia €1 024 and Spain €1 108. France at €1 555, Germany €1 614, Belgium €1 626, the Netherlands €1 685, Ireland €1 724 and Luxembourg €2 2022, lead the scale. For comparison, the minimum wage in January 2021 in the U.K. was €1765 and in the United States €1 024 (Eurostat, graph 1).

However, the disparities in minimum wages across the EU Member States are considerably smaller once price level differences are taken into account: when expressed in purchasing power standard (PPS).

So while the highest nominal wage in Luxembourg is 6.6 times higher than the lowest one in Bulgaria, counting in the purchasing power standard, or price differences between Bulgaria and Luxembourg, the highest minimum wage has the purchasing power only 2.7 times more than the lowest one. Similar situation is, for instance, between Slovakia and Romania, where the former´s nominally higher minimum wage drops below the latter once the purchasing power and price levels, especially of food and groceries, are counted in.

Adequacy indicators commonly used at international level, especially the Kaitz index, compare the minimum wage to the median wage or the average wage. In addition, a standard of decent living defined by the Council of Europe's compares the net minimum wage to the net average wage. However, in 2018 the minimum wages represented over 60 % of the median gross earnings in only four member states of France (66 %), Portugal (64 %), Slovenia (62 %) and Romania (61 %).

The minimum wages ranged between 50 % and 60 % of the median gross earnings in eleven Member States: Belgium and Lithuania (both 50 %), Greece (51 %), Germany and Slovakia (both 52 %), Ireland (53 %), Luxembourg, the Netherlands and Poland (all 57 %)

followed by Hungary (58 %) and Bulgaria (59 %), and in six member states of the Czech Republic, Croatia and Latvia (all 49 %), Spain (44 %), Malta (43 %) and Estonia (42 %) the minimum wages were less than half of the median earnings (Fig.1.).

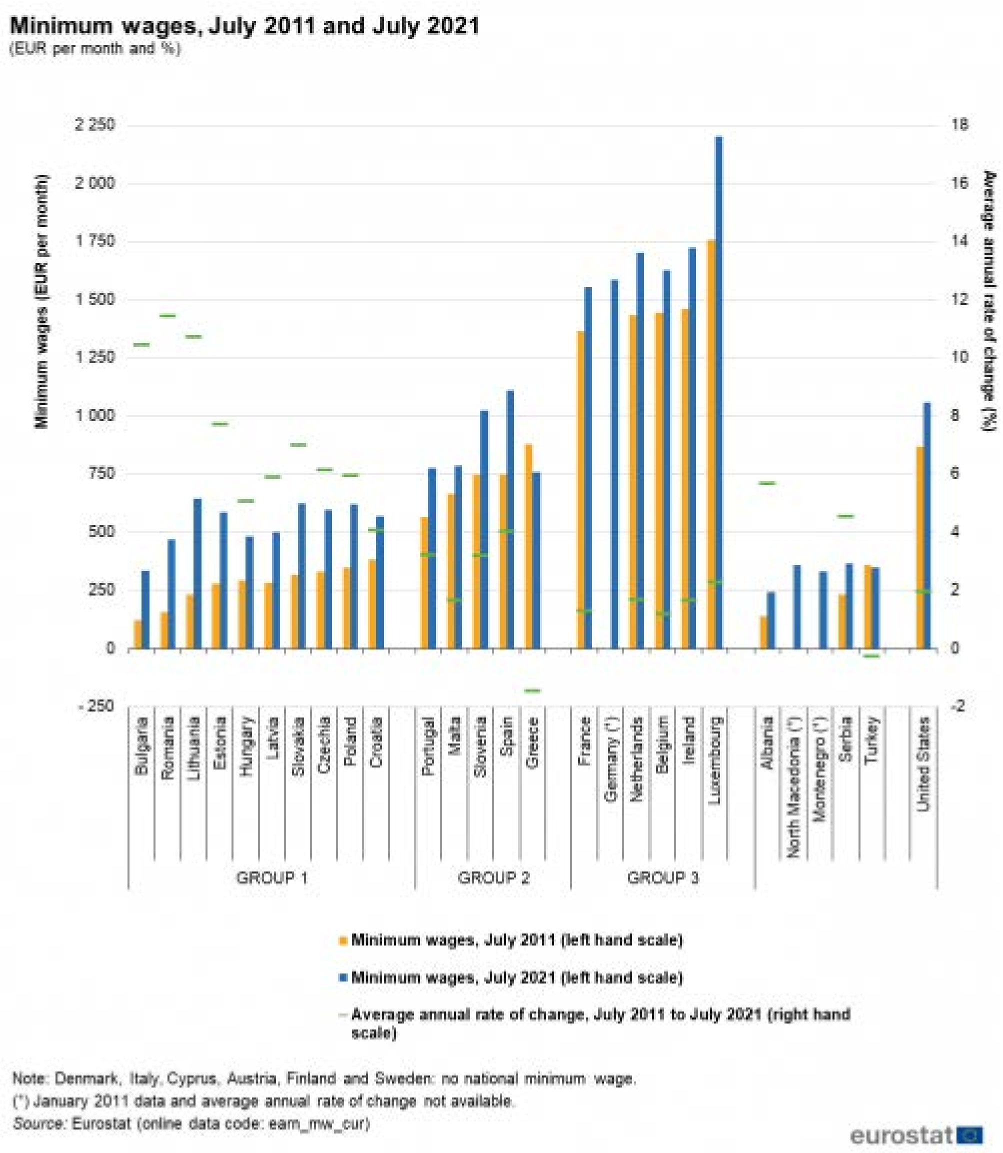

Fig.1. Minimum wage

Source: https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=Minimum_wage_statistics

Given that the proportion of employees being paid less than 105 % of the national minimum wage is not negligible - counting more than 15% in Slovenia, 14% in Bulgaria, 13% in Romania, 12% in Poland and 11% in France, for instance, while the higher levels of minimum wage have a positive impact on general wages too, it is estimated that more than 24 million employees receiving low wages in the EU would benefit from a pay rise, if the Directive are accepted and the threshold of adequacy of the minimum wage level across the EU would reach at least 60% of the median wage and 50% of the average wage in each respective country. Such standard would also result in a pay rise for at least a quarter of all workers in six member states, and substantial improvement of socio-economic situation of the vulnerable workers and women (ETUC, 2021b).

The proposed EU Directive on Adequate Minimum Wages from 28 October 2020, is therefore timely and laudable initiative. Based on Article 153 (1.b) of the Treaty on the Functioning of the EU on working conditions, it is to ensure upward salary convergence, while being applicable to all workers irrespective of their employment status or form of contract, the sector and the size of the undertaking they are employed in (Article 2 of the Proposed Directive), substantially limiting exceptions or variations leading to subminimum rates or deductions (Article 6).

Respecting the principle of subsidiarity – i.e. Member States´ competences, social partners' autonomy, and the nationally established mechanisms (Article 1.3), it by no means aims at nominally harmonised minimum wage, but explicitly recognises the key role of process of collective bargaining (articles 4 and 7), sets the framework for the effective access of workers to statutory minimum wage (Article 8) and the right to redress (Article 11). In its horizontal provisions the Directive is to introduce a detailed annual reporting by each Member State on its minimum wage data to the Commission (Article 10) and to reinforce the existing provisions of the Public Procurement Directive 2014/24/EU, in order to strengthen the implementation of minimum wages and collective bargaining (Article 9).

Finally, the Directive will have to be adopted by the European Parliament and the Council, while the Member States will have two years for its effective transposition into their domestic legal systems (European Commission, 2021).

5. Conclusion

The success of the EU integration project in the 21st century may substantially depend on convergence in socio-economic conditions of the EU citizens, including the wage levels. In addition to proven negative aspects of globalisation, the COVID-19 crisis has hit especially sectors with a high proportion of employees with low wages - such as retail, tourism and gastro-services, with particularly negative impact on the vulnerable parts of population, especially single parents, young employees and women.

The crisis has shown that many employees have not been sufficiently protected, as in the majority of EU member states the level of minimum wages is substandard, not reaching 60% of the gross median wage or 50% of the gross average wage. In 2018, the statutory minimum wage did not reach the level of securing an income for a single beneficiary necessary to be out of risk of poverty in nine EU countries (Eurostat, 2021b).

Social dumping through inadequate wages not only destroys workers´ dignity of work, but it also puts into disadvantage the employers and businesses that pay decent wages, which distorts fair competition and economic cycle, when the fruits of production remain out of reach of very those who contribute daily to its actual output.

On the other hand, when set at adequate levels, minimum wage protection ensures a decent living for workers, helps sustain domestic demand, strengthens incentives to work and reduces poverty, gender pay gap and inequality. The role of adequate minimum wage is crucial during the crises, such as financial one, and the current of COVID 19 pandemic.

As repeatedly stressed even by the European Central Bank and the European Commission only the upward wage convergence can ensure the correct functioning of the internal market and the economies of Central and Eastern Europe. The East-West wage gap narrowed only till 2008, but this development has slowed in the recent years. Higher wages are also decisive to prevent the "brain drain" – i.e. to retain skilled, educated and young workforce in their home countries of Central and Eastern Europe (European Commission, 2021).

To build and sustain socio-economically coherent, fair and prosperous EU, adequate minimum wage must attain legislative guarantees and actual materialization at the EU level and across Member States. Convergence in this respect is a key precondition of making regionally and socially fair Europe a reality.

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