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Delegations will find attached document SWD(2020) 246 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Directive of the European Parliament and of the Council

on adequate minimum wages in the European Union

{COM(2020) 682 final} - {SEC(2020) 362 final} - {SWD(2020) 245 final}

Executive Summary Sheet

Impact assessment on a Commission proposal on Adequate Minimum Wages in the EU

A. Need for action

Why? What is the problem being addressed?

Ensuring that EU workers earn adequate wages is essential for guaranteeing fair working and living conditions, as well as for building fair and resilient economies and societies. However, in recent decades, low wages have not kept up with other wages in many Member States, thus aggravating in-work poverty, wage inequality, and the capacity of low-wage earners to cope with economic distress.

Minimum wages play an important role in this overall context. Minimum wage protection can be provided by collective agreements (as is the case in 6 Member States) or by statutory minimum wages set by legislation (as is the case in 21 Member States). When set at adequate levels, they ensure a decent living for workers, sustain domestic demand, strengthen incentives to work, and reduce in-work poverty and inequality at the lower end of the wage distribution. They also support gender equality, since more women than men are earning wages at or around the minimum wage.

However, many workers in the EU are currently not protected by adequate minimum wages. In the majority of Member States with national statutory minimum wages, minimum wages are too low vis-à-vis other wages and/or to provide a decent living. This can be illustrated on the basis of commonly used reference values: (i) national statutory minimum wages are lower than 60% of the median wage or 50% of the average wage in almost all Member States. In addition, specific groups of workers are excluded from the protection of national statutory minimum wages. In Member States relying on collective bargaining, some workers are not covered by minimum wage protection provided by collective agreements. The share of workers not covered is between 10% and 20% in four countries, and 55% in one country.

Some drivers behind this problem are common for both systems, namely: the declining trends in collective bargaining and lack of compliance with existing national provisions. In addition, some drivers are specific to statutory minimum wage setting systems, namely: the lack of clear and stable criteria to set and update minimum wages, the insufficient involvement of social partners, the use of lower rates for specific groups (variations), the application of reductions based on the value of equipment or other costs (deductions), and the use of exemptions.

What is this initiative expected to achieve?

This initiative aims at improving working conditions by ensuring that workers in the Union have access to minimum wage protection provided by adequate statutory minimum wages or agreements, and thus allowing for a decent living wherever they work. This objective is to be achieved while taking into account the effects on job creation and competitiveness, including for SMEs. The initiative does not interfere with the freedom of Member States to either set statutory minimum wages or promote access to collective agreements, according to the traditions and specificities of each country and in full respect of national competences and social partners' contractual freedom. In order to reach this general objective, the specific objectives of the EU initiative would be to improve the adequacy and increase the coverage of minimum wages.

What is the value added of action at the EU level?

EU action aims at providing the necessary momentum for reforming minimum wage setting systems. While setting minimum wages is a national competence, an EU framework would ensure that progress is not partial or uneven, supporting the process of upward social convergence to the benefit of the EU economy as a whole. Existing EU instruments, in particular the European Semester, have not been sufficient to address the existing shortcomings in national minimum wage setting systems. Without further policy action at EU level, more countries are likely to be affected by the problem. At the same time, individual countries may be little inclined to improve their minimum wage settings because of the perception that this could negatively affect their external cost competitiveness. EU action will ensure a level playing field for businesses and workers in the Single Market by supporting and enabling fair competition based on innovation and productivity while respecting adequate social standards. This cannot be achieved by Member States alone.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

Alongside the baseline scenario, three policy packages are considered, each combining measures in five areas: Collective bargaining in wage setting as well as enforcement and monitoring affect both countries relying on collective bargaining to provide minimum wage protection and those with statutory minimum wage setting systems. National frameworks to set and update statutory minimum wages, the involvement of social partners in

statutory minimum wage setting and variations in, and deductions and exemptions from minimum wages affect only statutory systems. The policy packages differ in terms of the role played by social partners in the governance of the minimum wage setting system and, in the specific case of Member States with national statutory minimum wages, the degree of discretion of governments in setting and updating minimum wages.

Package A asks all Member States to actively support collective bargaining on wage setting, with a view to strengthening the role of social partners, including by administrative extensions of the coverage of collective agreements. For Member States with national statutory minimum wages, it foresees a strong involvement of social partners in the setting of minimum wages and requires exemptions, variations and deductions to be banned. The adequacy of statutory minimum wages would be assessed against a national measure of decent living standards. **Package B** asks all Member States to support collective bargaining on wage setting, in particular when collective bargaining coverage is low. In addition, for Member States with national statutory minimum wages, it foresees that national frameworks include explicit criteria for minimum wage adequacy and indicative reference values, such as 60% of the gross median wage or 50% of the gross average wage, with an enhanced role for social partners as compared to the baseline. It also requires variations and deductions to be objectively justified and proportionate. **Package C** also asks all Member States to support collective bargaining on wage setting, in particular when collective bargaining coverage is low. In addition, for Member States with national statutory minimum wages, national frameworks are expected to mainly rely on automatic indexation, together with the use of reference values, to reach the objectives of the initiative while variations and deductions are required to be objectively justified and proportionate. **All packages** include the following provisions on enforcement and monitoring, but differentiating between the two types of systems: strengthening the enforcement of wages clauses in collective agreements and strengthening the enforcement of statutory minimum wages where they exist, ensuring compliance with collectively agreed wages and statutory minimum wages in public procurement, and enhancing monitoring and data collection mechanisms.

B is the preferred package because it best balances the achievement of the policy objectives with the related costs, and allows reaching the policy objectives in a proportionate manner. It respects well-established national arrangements and leaves room for discretion of Member States and social partners.

A Directive, Council Recommendation and a combination of the two were considered as legal instruments. The preferred instrument would be a Directive, as it provides enforceable minimum requirements, while leaving room for the Member States to define the method and form of intervention to achieve the objectives.

Who supports which option?

There was general agreement amongst stakeholders on the importance of protecting workers with fair minimum wages. Respecting national traditions, social partners' autonomy and respect of collective bargaining were the leitmotif of consultations. All social partners, a majority of Member States' delegates from the relevant Council Committees, and the members of the European Parliament, favoured strengthening collective bargaining and the involvement of social partners in statutory minimum wage setting. Trade unions called for stable and clear criteria for setting minimum wages, with some Member States' delegates in favour. Most employers considered this a national competence. Trade unions were in favour of banning/limiting exemptions/variations, but employers were against. Member States' delegates had a divided opinion on this. There was broad support to enhance compliance, but some employers considered this a national responsibility. On the legal instrument, a large number of employers and several Member States' delegates were in favour of a non-binding instrument that could take the form of a Council Recommendation, while trade unions, some Member States' delegates, as well as one leading social NGO, supported a Directive.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

The preferred package will lead to higher minimum wages in about half of the Member States. About 25 million workers could benefit from these increases if Member States with statutory minimum wages increase these to 60% of the median wage or 50% of the average wage. The increases of statutory minimum wages could exceed 20% in a number of Member States. Minimum wage increases would result in a reduction of wage inequality and in-work poverty of 10% and a reduction in the gender pay gap by about 5% on average if if Member States with statutory minimum wages increase these to 60% of the median wage or 50% of the average wage. Increased minimum wages are expected to improve work incentives.

Strengthening and increasing the coverage of collective bargaining on wage setting will benefit workers by fostering wage growth in all Member States. Moreover, strengthening enforcement and monitoring of minimum wages will help ensure that workers benefit from actual access to minimum wage protection and are paid the wages they are entitled to. In Member States relying on collective bargaining, support to collective bargaining on wage setting will increase the number of protected workers, as well improve adequacy where it is low. In countries with statutory minimum wages, the use of clear and stable criteria to guide the setting and updating of minimum wages, as well as the stronger role of social partners will improve the adequacy of minimum wages and the business environment. In addition, limiting variations and deductions implies that fewer workers will

receive sub-minimum wages.

What are the costs of the preferred option (if any, otherwise main ones)?

Economic impacts include increased labour costs for firms, increased prices and, to a lesser extent, lower profits. Estimates suggest that about ¾ of the economic cost of higher minimum wages is borne by consumers, while about ¼ is borne by firms. The impact on firms is mitigated by the fact that the consumption of low-wage earners increases, thus supporting domestic demand. The increase of the total EU wage bill is expected to be moderate, about 1% (EUR 51-53 billion per year), if Member States with statutory minimum wages increase these to 60% of the median wage or 50% of the average wage. Impacts on aggregate competitiveness are also expected to be small. In addition, the improved minimum-wage setting mechanisms should dampen possible negative impacts on firms. The package provides sufficient flexibility for Member States to take into account economic conditions and impacts on particular sectors, regions and SMEs.

The possible negative impact on employment is expected to be limited. It would be about 0.5% of total employment, if Member States with statutory minimum wages increase these to 60% of the median wage or 50% of the average wage. The benefits of the minimum wage increases to concerned workers would greatly outweigh the possible negative employment impact on these workers.

How will businesses, SMEs and micro-enterprises be affected?

SMEs employ about 87% of minimum-wage earners (as compared to about two-thirds of all workers). They are expected to be affected by a similar proportion of direct costs for firms. The magnitude of impact on SMEs will be determined by the national criteria established to determine the levels of statutory minimum wages. An increase of statutory minimum wages to 60% of the median wage or 50% of the average wage in all countries with a statutory national minimum wage would imply an increase in net costs of around EUR 12 billion. Yet, possible negative impacts on SMEs are expected to be limited. Firstly, they are likely to be able to pass on increased labour costs to consumers by increasing prices. Secondly, increased minimum wages may also increase demand for their services. Potential negative impacts of increased labour costs for SMEs would be partly counterbalanced by more gradual and predictable minimum-wage increases, which would improve the business environment.

Will there be significant impacts on national budgets and administrations?

Minimum wage increases determined by the national criteria set in line with this initiative, are expected to improve the balance of public budgets (below 0.1% of GDP). The effects on administrative burden are expected to be limited since it aims to strengthen institutions and procedures that are already in place.

Will there be other significant impacts?

Yes, all packages will have an impact on fundamental rights. They are expected to support gender equality and help reduce the gender pay gap as the majority of minimum wage earners (about 60% in the EU) are women.

D. Follow up

When will the policy be reviewed?

The Commission will evaluate the initiative 5 years after it enters into force in line with the Better Regulation Guidelines. Progress towards achieving the objectives of the initiative will be monitored by a series of indicators related to the objectives of the initiative.