Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

No. 133
July 2014

TRÉSOR-ECONOMICS

Mapping out the options for a European minimum wage standard

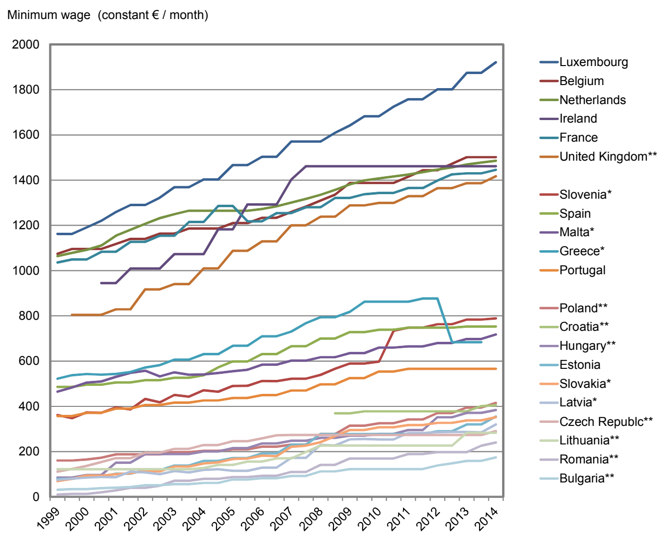
- Minimum wage standards in the European Union (EU) – when they exist at all – are highly heterogeneous, whether their levels are expressed in nominal terms or as a percentage of the median wage. Social partners and governments play different roles in the wage-setting process depending on countries, with varying rules and procedures for adjusting the minimum wage (frequency of adjustments and adjustment criteria).

- There are currently seven Member States (Germany, Finland, Austria, Italy, Cyprus, Sweden and Denmark) that do not have a national minimum-wage standard. These countries do, however, apply industry-specific standards that are negotiated by social partners. These industry-level agreements generally cover a large share of workers and sometimes set the minimum wage standard at relatively high levels, and can thus be seen as approximating a national minimum wage. Germany however plans to introduce a national minimum wage by 2017.

- Set at an adequate level, a European minimum wage standard could help to support living standards for the lowest-paid workers and improve the functioning of the European economy. The theoretical literature has shown that a well-calibrated minimum wage raises living standards for the poorest workers, without necessarily entailing negative effects on employment. In the European Union as a whole, a common minimum wage standard could lessen the prospects of social dumping and help prevent excessive wage competition.

- The introduction of a European minimum wage standard could take the form of a minimum-wage floor, expressed as a percentage of each country's median wage. Member States would of course be free to set their minimum wage rate above the floor. Although Treaty-related legal provisions make it impossible to introduce such a standard in EU law, a political commitment by Member States would be a significant first step. Practical issues relating to the minimum wage–such as the rules and procedures for adjustment–should be one of the themes on the European social agenda, and discussed in close cooperation with social partners.

Gross minimum wages differ widely in the EU and fall into three groups (constant)



*€/ECU series: Greece (2001 H1); Slovenia (2002 H1); Malta (2005 S2); Slovakia (2009 H1); Latvia (2014 H1)
**Series in constant €, average bilateral exchange rates, 1999-2014.

Source: Eurostat.

MINISTÈRE DES FINANCES
ET DES COMPTES PUBLICS

MINISTÈRE DE L'ÉCONOMIE
DU REDRESSEMENT PRODUCTIF
ET DU NUMÉRIQUE

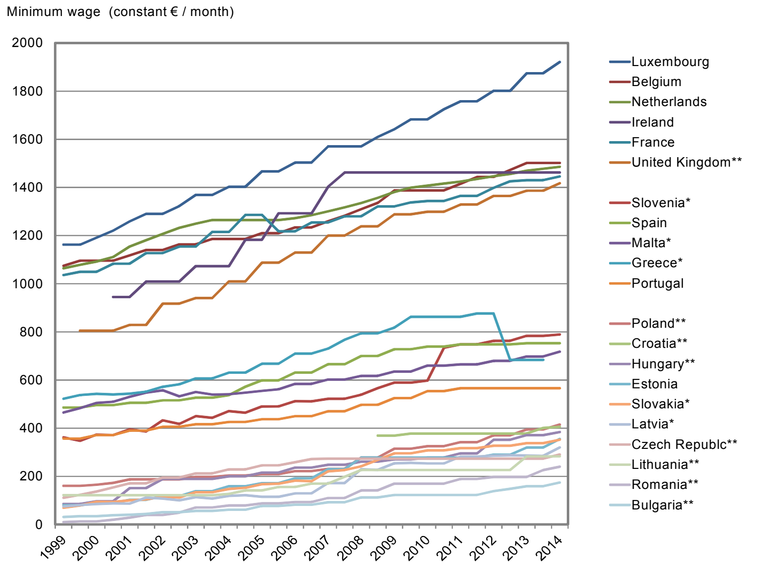
1. Minimum wages differ widely between EU Member States

1.1 There is considerable disparity in the level of gross minimum wages throughout the EU

Gross minimum-wage rates in the 21 EU Member States that have a minimum wage standard vary substantially, ranging from €174 per month in Bulgaria to €1,921 in Luxembourg[1]. However, these disparities are in large part explained by differences in living standards and productivity between EU Member States, and should therefore not be overinterpreted. This notwithstanding, three groups of countries–characterized by the persistence of the gap between them over time–still stand out (see Chart 1 and Table 1)[2]:

- Western European countries (Luxembourg, Belgium, Netherlands, Ireland, France, United Kingdom) have a high minimum wage (above €1,200 per month in 2014)
- Southern European countries (Spain, Slovenia, Malta, Greece, Portugal) have intermediate-level minimum wages (€600-800)
- Eastern countries have a relatively low minimum wage (below €400).

Chart 1: Gross minimum wages differ widely in the EU and fall into three groups (constant €)



* €/ECU series: Greece (2001 SH1) ; Slovenia (2002 H1) ; Malta (2005 H2) ; Slovakia (2009 H1) ; Latvia (2014 H1) ;
** Series in constant €, average bilateral exchange rates, 1999-2014

Source : Eurostat.

Table 1: Monthly minimum wages and gross nominal wages, 2014 H1

Monthly minimum wage in 2014 (current €)							
Luxembourg	1921	Spain	753	Slovakia	352	Germany	-
Belgium	1502	Malta	718	Hungary	344	Austria	-
Netherlands	1486	Greece*	684	Czech Republic	328	Italy	-
Ireland	1462	Portugal	566	Latvia	320	Cyprus	-
France	1445	Croatia	405	Lithuania	290	Finland	-
United Kingdom	1217	Poland	387	Romania	191	Sweden	-
Slovenia	789	Estonia	355	Bulgaria	174	Denmark	-

* For Greece: 2013 figure.
How to read this table: for countries outside the euro area, amounts have been converted into euros (highlighted in blue) using the current exchange rate.

Source: Eurostat.

The disparity in gross minimum wages is also apparent when they are expressed as a percentage of each country's median wage. Given the differences in living standards and productivity between Member States, comparisons are more revealing when minimum-wage rates are expressed as a percentage of national median wages. The differences are still apparent, but they are of lesser magnitude than when the comparison is based on wages expressed in nominal terms (see Table 2)[3]: most minimum wages lie between 45% and 50% of the median wage. In Spain and some Eastern countries, the rate is lower with the minimum wage standing at around 40% of the median wage. By contrast, minimum wages are comparatively high in France and Portugal, at 60% and 56% of the median wage respectively in 2010.

(1) These gross rates include employees' social contributions.
(2) Exchange-rate effects are particularly strong for the United Kingdom, where the minimum wage has risen in pounds sterling but fallen in euros owing to large exchange-rate swings since 2008. To cancel out these effects, we apply a similar bilateral exchange rate for each period, equal to the average of bilateral exchange rates against the euro between 1999 and 2014.
(3) The data shown here are for 2010, date of the latest Eurostat SES (Structure of Earnings Survey), which provides statistics on median wages in EU countries.

Table 2: Gross minimum wages expressed as percentage of gross median wages in 2010[a]

	Monthly median wage (€) 2010 SES	Monthly minimum wage (€) 2010 SES	Minimum wage as % of median wage
France*	2 240	1 344	60%
Portugal*	989	554	56%
Slovenia	1 206	666	55%
Greece**	1 588	863	54%
Belgium	2 727	1 388	51%
Lituania	465	232	50%
Netherlands	2 861	1 412	49%
Latvia	522	254	49%
Ireland	3 085	1 462	47%
Malta	1 397	660	47%
Slovakia	653	308	47%
Croatia	823	388	47%
Bulgaria	265	123	46%
Hungary	569	264	46%
United Kingdom	2 462	1 123	46%
Poland*	709	319	45%
Spain	1 687	739	44%
Luxembourg*	4 166	1 704	41%
Romania	340	139	41%
Estonia	700	278	40%
Czech Republic	777	307	40%
Germany	2 726	0	0%
Austria	2 315	0	0%
Denmark	3 970	0	0%
Italy	2 033	0	0%
Finland	2 706	0	0%
Cyprus	1 609	0	0%

a. The data shown here are for 2010, date of the latest Eurostat SES, which provides median-wage statistics for EU countries. The SES provides explicit data on wage distributions in Europe but covers only wage-earners in companies with more than ten employees. When compared with OECD data–which cover fewer countries–the difference between the two sources are not significant except for France, Portugal, Poland (where the differences in minimum wages as a % of the median wage range from two to three percentage points), and, Luxembourg (median wage of €4,160 according to the OECD versus €3,069 according to the SES).

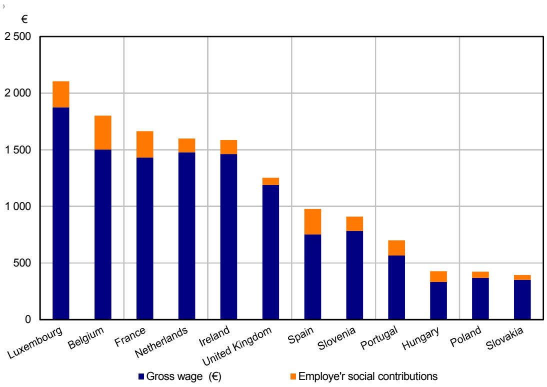
* Median-wage data from SES except for France, Portugal, Luxembourg, and Poland (OECD data).
* *Greece later lowered its minimum wage by more than 20% in mid-2012.

Source: Eurostat, 2010 Structure of Earnings Survey (SES).

Although many parameters are factored into decisions regarding job creation and location choice, labour costs (gross wages plus employers' social contributions) are a crucial factor for firms. Wage heterogeneity is not significantly increased or reduced when employers' social contributions are taken into account (see Charts 2). In countries with specific mechanisms for reducing labour costs of labour for low-wages– France and, to a lesser extent, Belgium– the cost of minimum-wage labour (relative to the median wage) remains similar to that of the other EU economies. Both countries, however, are still at the top of the ranking of the relative cost of minimum-wage labour.

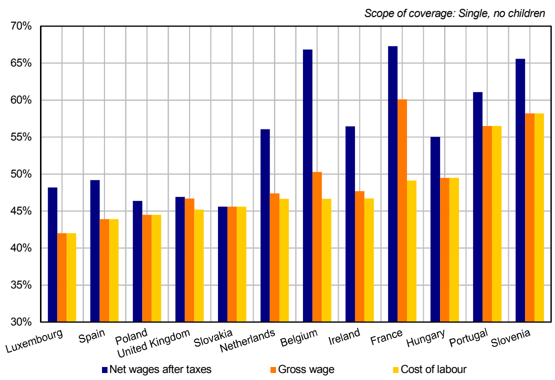
Chart 2: International comparison of the cost of minimum-wage labour

Monthly minimum wages (gross and "super-gross"): international comparison



Sources: Eurostat, monthly minimum wage in 2013; OECD, employers' social contributions, 2011 data.

Ratios of minimum wage to median wage in selected EU economies



Sources: OECD and Eurostat (2011 data).

These figures do not account for the effects of the "Crédit d'Impôt pour la Compétitivité et l'Emploi" (CICE), which entered into force in 2013 and aims to reduce the cost of labour, nor do they account for the effets of "Pacte de responsabilité et de solidarité" which was still being discussed by Parliament when this Treasury-Economics was written, and which will lower social contributions starting in 2015.

There are currently seven Member States (Germany, Finland, Austria, Italy, Cyprus, Sweden, and Denmark) that do not have a national minimum wage standard, but instead apply industry-specific minimum wage standards that are negotiated by social partners. These industry-level agreements generally cover a large share of workers and sometimes set the minimum wage rate at relatively high levels, which can thus be seen as approximating a national minimum wage. The coverage rate[4] is estimated at nearly 100% in Austria and Italy, between 81% and 90% in Denmark, and 90% in Finland and Sweden[5]. Wages negotiated by industry agreements expressed as a percentage of the average wage are relatively high (between 45% and 60% of the average wage depending on the country and industry)[6].

Until recently, Germany did not have a national minimum wage either, but the new coalition that took office after the September 2013 legislative elections has decided to gradually introduce one between 2015 and 2017 (see Box 1). Previously, the minimum wages negotiated through industry agreements had a coverage ratio of approximately 70% and were set at relatively low rates.

Box 1: **Introduction of a minimum wage in Germany**

The minimum wage was a key issue in debates prior to the legislative elections of 22 September 2013. The resulting coalition agreement calls for the introduction of a national gross minimum wage of €8.50/hr or about 55% of the median hourly wage, which would make it one of the highest in the OECD. It will be implemented gradually. First, a minimum rate of €8.50/hr, introduced on 1 January 2015, will apply to all wages not covered by collective agreements. But a transition period is planned until 31 December 2016 for industries in which a general minimum wage of under €8.50/hr is currently in effect.

Since the mid-1990s, the proportion of poor workers[a] in Germany has risen steadily, reaching 20% in 2010. The increase is apparently due to changes in minimum wage systems, which have entailed a rapid decrease in coverage rates and a weakening of collective bargaining mechanisms. Today, several minimum wages are applied, with large segments of the labour force excluded. In 2010, an estimated 37% of employees were not covered by collective agreements in Western Europe versus 51% in Eastern Europe.

The introduction of a national minimum wage should therefore affect a significant part of the labour force. Statistics indicate that some 12% of German wage-earners, or approximately 4.5 million workers, are being paid a gross hourly wage of less than €8.50/hr in 2014 and would therefore be directly concerned by the establishment of a minimum wage. The impact would differ depending on the sectors, types of contracts, and regions concerned. The German institute IWH reckons that the introduction of a minimum wage of €8.50/hr in 2011 would concern more than 25% of wage-earners in Eastern Europe compared with 12% in Western Europe[b]. The study also finds that the proportion of beneficiaries was higher among part-time workers than among full-time workers, at 18.6% versus 9.4%. Earnings differ significantly by sector: workers in agriculture and the hotel/restaurant sector would benefit from the introduction of a minimum wage more than workers in industry, where minimum wages generally exceed €8.50/hr.

a. "Poor" workers are defined as those earning less than 60% of median income.
b. Knabe, A. and Schöb, R. (2008), "Minimum Wage Incidence: The Case for Germany", *CESifo Working Paper*, no. 2432, Munich.

1.2 Rules and procedures for adjusting the minimum wage also differ across the EU

Differences in minimum wages across the EU can be found not only in their rates, but also in the rules and procedures for adjustment. Real income levels and employment of minimum-wage earners are crucially affected by these adjustments. Differences between countries relate to the frequency of adjustments, to the roles played by social partners and governments, as well to the parameters that are taken into account. Minimum wages are usually adjusted annually. Adjustments are however more frequent in some countries (Greece, Netherlands, Spain), and less so in others (Ireland, Latvia). In most Member States, the adjustment is carried out by the government after consultations with or following recommendations from social partners. However, the importance and power of different stakeholders in the decision-making process vary from one country to another. In Belgium, for example, the decision is taken by the social partners alone; in the Netherlands, by the government alone. A final difference concerns the parameters that are taken into account for determining the size of the adjustment, which may include past changes in consumer prices, a factor reflecting overall economic conditions, or inflation and productivity forecasts (see Table 3).

(4) Percentage of the labour force covered by wages negotiated in industry-specific agreements.
(5) These coverage rates may not include the sometimes large share of undeclared workers, presumably paid lower wages.
(6) See Funk, L. and Lesch, H. (2005), "Minimum wages in Europe", http://www.eurofound.europa.eu/eiro/2005/07/study/tn0507101s.htm.

Table 3: Minimum-wage adjustment procedures in EU Member States

	Adjustment frequency	Adjustement body	Adjustement criteria
Belgium	Annual	Social partners	Indexation ("health index" of prices)
Czech Republic	Annual	Statutory regulation: government, after consulting the social partners	CPI
Estonia	Annual	Bipartite agreements: government decree, based on a decision by the social partners	Forecast for CPI, productivity, and economic situation
France	Annual	Statutory regulation: government decree, after consulting the social partners	Change in price index and hourly wage
Greece	Bi-annual	Bipartite agreements: government decree, based on a national collective agreement	CPI
Hungary	Regular	Statutory regulation: government, after agreement is concluded by tripartite council	
Ireland	Every 16 months	Statutory regulation: government, based on a social pact with the social partners	
Latvia	Irregular (every 1-2 years)	Statutory regulation: government, after consulting the social partners	
Lithuania	Regular	Statutory regulation: government, on recommendation of tripartite council	
Netherlands	Twice a year	Statutory regulation: government	Change in collectively agreed wages
Poland	Once or twice a year	Tripartite agreements	Forecast for CPI and other economic indices
Slovakia	Annual	Tripartite agreements	Relationship with average wage and general economic situation
Slovenia	Annual	Statutory regulation: government, based on a decision by the social partners	Expected inflation
Spain	Once or twice a year	Statutory regulation: government, after consulting the social partners	Forecasts for inflation, productivity, and economic situation
United Kingdom	Annual	Statutory regulation: government, based on recommendations by the Low Pay Commission	General economic situation

Source: Funk, L. and Lesch, H. (2005), "Minimum wages in Europe". CPI: consumer price index.

2. If set at the right level, an EU minimum wage would improve the functioning of the EU economy

2.1 Expected effects of the introduction of a minimum wage for Member States

The introduction of a minimum wage would raise living standards for the most vulnerable workers. Assuming a weak impact on employment, the implementation of a well-calibrated minimum wage would help raise living standards for lower-income households by increasing their earnings. Given that the propensity to consume is higher for workers in this category, the gains in income would almost entirely translate into higher consumption.

The effect of the introduction of a minimum wage (or its increase in countries where a minimum wage standard already exists) on employment largely depends on its level. If set at an adequate level, the minimum wage would most likely have no negative impact on employment (see Box 2). For workers, a minimum wage could lead job-seekers to intensify their efforts and generate an increase in labour supply, with higher wages strengthening incentives to enter the labour market. For businesses, there are several ways in which profitability could be preserved after the introduction of a minimum wage. One possibility would be the increase in job-matching quality, as posited by efficiency wage theory.

By contrast, an excessively high minimum wage would need to be offset by compensation mechanisms, such as cuts in employers' social contributions as enacted by France and Belgium. Otherwise, the minimum wage would have negative effects not only on employment–particularly for the most vulnerable categories such as young people and low–skilled workers-but also on economic activity and competitiveness.

Box 2: **Expected effects of a minimum wage on employment**

The recent economic literature, both theoretical and empirical, shows that there is no straightforward relationship between minimum wages and employment. A moderate minimum wage would not have significant negative effects on employment, whereas a high minimum wage would.

Theoretical models

In classical economic models, the minimum wage can be a source of unemployment. In a perfectly competitive labour market, a minimum wage below the equilibrium wage has no impact on employment. By contrast, a minimum wage above the equilibrium wage can lead to the exclusion of certain categories of workers–such as low-skilled workers and young people–from the labour market. The reason is that when a minimum wage higher than the equilibrium wage is introduced, the productivity of the least skilled workers no longer covers their hourly cost, thus reducing their employability.

However, recent economic theory argues that the introduction of a minimum wage, if set at a moderate rate, can, in certain conditions, have a positive effect on employment. In a monopsony–a situation where a single firm offers jobs–a firm can deliberately reduce wages by reducing its demand for labour. By creating conditions similar to those of a competitive market, a minimum wage above the equilibrium wage can increase employment (Manning, 1995[a]). This argument is particularly relevant for segments of the labour market where the skills and bargaining power of workers are weakest. Other theoretical models, called "matching" models[b], also suggest that an adequate minimum wage can create incentives for unemployed workers to intensify their job search and improve the quality of the matching process. Firms can afford lower profits, as the wages paid at equilibrium may still be below productivity, as is the case in a monopsony. Better matches in the labour market can also raise productivity, thus benefiting firms.

From a macroeconomic standpoint, the rise in domestic demand entailed by the introduction of, a minimum wage or its increase in countries where a minimum-wage standard already exists can have a knock-on effect on the economy if its effect on employment is not negative. As workers who benefit from the introduction of a minimum wage have a potentially above-average propensity to consume, an increase in their earnings would be almost entirely passed on to consumption, stimulating the economy and hence employment.

Empirical studies

Empirical studies underscore the fact that the elasticity of employment at minimum wage rates is slightly negative, and even non-significant in some countries with moderate minimum-wage rates. In the United States, for example, where the minimum wage is less than 40% of the median wage, the elasticity of employment at minimum wage rates has been found to be sometimes null and sometimes slightly negative according to different studies (see the literature review by Neumark and Washer (2007) on the impact of the minimum wage in the U.S.). Card and Krueger (1994)[c] actually find a positive impact of the minimum wage on employment in the fast-food sector, whose firms may be regarded as having a monopsony in the labour market. In the United Kingdom, most studies (Metcalf 2007[d] ; Stewart 2004[e]) agree that the introduction of a minimum wage equal to 46% of the median wage in 1999 had no negative effects on employment.

By contrast, empirical studies on France, where the minimum wage is high relative to the median wage, show a high sensitivity of employment to the level of the minimum wage. Abowd et al. (1999), for example, show that workers whose wages have fallen below the minimum wage after a rise in the latter are more likely to lose their jobs than workers whose earnings have stayed above the minimum wage. A 1% rise in the minimum wage, the authors find, reduces the likelihood of remaining employed by 1.3% for men and 1% for women paid at the minimum wage. In a later study, Kramarz and Philippon (2001) find an elasticity of 1.5, slightly above previous estimates. Recent papers by Cahuc, Carcillo, and Le Barbanchon (2013) show that employment at minimum-wage level is highly sensitive to its rate in small businesses in France. In the simulations carried out for the HCFIPS report (High Council for the Financing of Social Protection, or Haut Conseil du Financement de la protection sociale in French), dated March 2014 and entitled "Point d'étape sur les evolutions de la protection sociale", the High Council's baseline hypothesis for the long-term elasticity of employment to its cost was fixed at –0.9 at the level of the minimum wage.

a. Manning, A. (1995), "How do we know that real wages are too high?" *The Quarterly Journal of Economics.*
b. In these models, both employers and employees seek the best match.
c. Card, D. and Krueger, A. B. (1994), "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania", *The American Economic Review*, 84(4), pp 772-793.
d. Metcalf, D. (2007), "Why has the British National Minimum Wage had little or no impact on employment ?", *CEP discussion Paper* No 781.
e. Stewart, M. (2004), "The impact of the introduction of the UK minimum wage on the employment probabilities of low wage workers", *Journal of the European Economic Association.*

2.2 A minimum wage set at an appropiate rate and combined with the right adjustment mechanism would have beneficial effects at the European level

First, the introduction of a well-calibrated EU minimum wage would lessen the prospects of "social dumping" in the EU and ensure that wage competition between Member States does not turn into a race to the bottom. In a highly integrated trade area such as the EU, and even more so in the euro area, wage competition can turn into a non-cooperative game where the equilibrium–characterized by widespread wage restraint–does not constitute a social optimum. Establishing a common minimum wage floor for all Member States would ensure that no single Member State could act as a free rider by adopting a unilateral wage-competition strategy.

Moreover, the introduction of a minimum wage could also strengthen domestic demand in countries running a trade surplus and promote the rebalancing of the euro area. Monetary unions cannot adjust their current accounts *via* exchange rate depreciation or appreciation. As a result, the only way for them to eliminate current-account imbalances is through price and wage adjustments, both in deficit and surplus countries. In surplus countries that do not currently have a minimum wage standard, the introduction of such a standard could therefore strengthen domestic demand and help to reduce current-account imbalances. Admittedly, the minimum wage cannot be the sole rebalancing instrument. Misalignments between wages and productivity may have other causes besides the minimum wage, and current-account imbalances may reflect other factors than cost-competitiveness, such as debt and investment dynamics or real-estate bubbles.

For countries that are currently in a process of internal devaluation (countries presently or formerly running current-account deficits), a minimum wage would not necessarily prevent adjustment in real terms. The introduction of this nominal rigidity would not be incompatible with internal devaluation. First, nominal flexibility is fully preserved for the entire wage distribution above the minimum wage. Second, real wage flexibility is also preserved, even at the level of the minimum wage, *via* changes in the price level. Third, according to some economists[7], the nominal rigidity created by the minimum wage could help to reduce the risk of a deflationary spiral, which is currently exacerbated by very low inflation and extremely high unemployment in certain Member States[8].

3. The definition of an EU minimum wage standard would strengthen Europe's social dimension

3.1 The introduction of an EU minimum wage standard could consist of a floor rate expressed as a percentage of each country's median wage

The differences in living standards in the EU or the euro area alone make it impossible to define a minimum wage in absolute value terms. However, it would be possible to define a minimum wage floor as a percentage of the median wage[9]. Member States would remain free to set the minimum wage rate above this EU floor. In its simplest version and in an initial stage, the floor could be set at 45-50% of the median wage[10], a rate slightly above the lowest ratio in the EU and the euro area (40% in Estonia and the Czech Republic). In a more ambitious version, a medium-term target could be defined, for example, at the rate of Germany's future minimum wage, i.e., around 55% of the median wage.

The impact of a minimum wage set at 55% of the national median wage, in terms of the number of workers concerned and the induced adjustment of their earnings can be estimated using the results of a recent Eurofound study (2014)[11]. The number of workers who would benefit varies significantly between countries, depending on the difference between the present minimum wage and the EU target considered (here, 55%). The proportion of workers concerned by the increase in the minimum wage to the EU floor rate would be substantial in Member States such as the Baltic countries, Ireland, and the United Kingdom. For example, almost 20% of workers would be concerned in Latvia and 13% in Ireland, versus 2% of workers in France, Portugal[12], and the Scandinavian countries. The strongest impact would be on women and young people, as well as in the service sector and small businesses.

3.2 Initially, a political commitment–perhaps limited to euro area Member States–would give substance to the social dimension of the Economic and Monetary Union (EMU)

Under current legislation and given Treaty provisions, the scope for legislative intervention by the EU on wages seems very limited. Article 153 of the Treaty on the Functioning of the European Union states that the EU "shall support and complement the activities of the Member States" in social fields such as workers' health and information, including through the adoption of minimum requirements by means of directives. However, Paragraph 5 of the article states that its provisions "shall not apply to pay, the right of association, the right to strike or the right to impose lock-outs." This stipulation therefore bars the EU from adopting legislative rules for the harmonization of minimum pay rates, and hence for a minimum wage.

Absent a revision of the treaties, a political commitment by the Heads of State and Government at the European Council could be envisaged to initiate the adoption of an EU-wide minimum wage standard. This political initiative would send a positive signal about the social dimension ands ambitions of EU integration. Given the diversity of national situations and the political sensitivity of the issue for certain countries, the initial impetus could come from the eighteen Member States of the euro area, of which four are not currently planning to introduce a minimum wage (Austria, Cyprus, Finland, and Italy). The EU Member States that are not currently part of the euro area could sign on to the initiative from the outset on a voluntary basis.

---

(7) See De Long, B. and Summers, L. (1986), "Is Increased Price Flexibility Stabilizing?" *American Economic Review*; Bhattarai, S., Eggertsson, G. and Schoenle, R. (forthcoming), "Is Increased Price Flexibility Stabilizing (Redux)?", *American Economic Review*; and Decressin, J. and Laiton, D. (2009), "Gauging Risks for Deflation", *IMF Staff Position Paper*.

(8) The minimum wage could contribute to current-account rebalancing in an even more direct manner with a mechanism for coordinating minimum-wage adjustments, depending on whether countries are running a current-account deficit or a surplus. This proposal was put forward by the OFCE, ECLM, and IKF in the 2014 *Independent Annual Growth Survey*: adjustments would still lead to increases in the minimum wage, but at a faster pace in surplus countries; rebalancing would thus be achieved through inflation differentials and not through the lowering of prices and wages. This mechanism, however, would require that the most competitive countries explicitly agree to a gradual erosion of their competitiveness relative to the other countries of the euro area, but also relative to the rest of the world..

(9) The adequate floor level for this EU minimum wage would need to take into account the specific features of Member States' labour markets, given the central role of the skill structure of the labour force in shaping the effects of the minimum wage on employment (See Box 2).

(10) Setting such a standard will require agreement on a common method for estimating median wages in each Member State.

(11) Fernández-Macías, E. and Vacas-Soriano, C. (2013), "A coordinated EU minimum wage policy", Eurofound.

(12) These two countries, where the minimum wage currently exceeds 55% of the median wage, offer some exemptions from the minimum wage–for apprentices hips for example.

At a later stage, if a new legal basis were introduced in the treaties, the EU floor rate could be set out in a directive, adopted by the European Council and Parliament. The directive would require Member States to establish a statutory minimum wage standard, expressed as a percentage of the median wage, while leaving them free to determine the appropriate legal instrument: a law or an inter-industry collective agreement. The directive could grant Member States latitude with regard to certain segments of the labour force, as is the case for apprenticeship in many Member States.

3.3 It is essential to include adjustments to national minimum wages in a common social dialogue involving EU social partners

Beyond setting a floor rate, the initiative could be extended by a continuing discussion on adjustments in national minimum wages, at the political level and in liaison with EU social partners. In practice, although the minimum wage can be set initially on the basis of each country's median wage, the use of the same rule to determine future adjustments is problematic. There may be significant gaps in productivity changes between median-wage workers and minimum-wage workers. A regular discussion at the political level on minimum wage adjustments could therefore be set up, so as to ensure a balanced treatment of all the issues at stake including: support for employment, competitiveness, symmetrical rebalancing of current accounts in the euro area, and the fight against poverty and inequality. If the initiative outlined above were confined to the euro area, the discussion could take place on a regular basis in a social Eurogroup bringing together the euro-area ministers of the Council for Employment, Social Policy, Health, and Consumer Affairs (EPSCO), plus the Eurogroup finance ministers.

Minimum wages are a key component of national equilibriums in terms of labour-market regulation. This is reflected in the diversity of methods used to set and adjust them. To guarantee the legitimacy of an EU standard setting a minimum wage floor, and to ensure its adoption by the social partners, the minimum wage should become a major topic of discussion between social partners at EU level. As a first step, the social partners could be invited to exchange views on the minimum wage as a contribution to discussions by the social Eurogroup described above.

The forums for social dialogue instituted by the EU treaties should be asked to address the subject of the minimum wage. Article 152, which states that "the Union recognises and promotes the role of the social partners at its level, taking into account the diversity of national systems", instituted the **Tripartite Social Summit for Growth and Employment.** The Summit meets twice a year before the spring and autumn European Councils of Heads of State and Government. It is attended by representatives of EU employers and workers, as well as of EU institutions. The **Committee for Social Dialogue**, which meets three to four times a year, is the main body in charge of bipartite and inter-industry social dialogue at EU level. To promote a greater awareness of the EU dimension by all stakeholders, issues relating to the minimum wage should be a priority for the social dialogue at EU level, particularly at the Summit and in the Committee.

Maxence BRISCHOUX, Anne JAUBERTIE, Christophe GOUARDO, Pierre LISSOT, Thomas LELLOUCH, Arthur Sode

Publisher:
Ministère des Finances et des Comptes Publics
Ministère de l'Économie du Redressement Productif et du Numérique
Direction Générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:
Sandrine Duchêne

Editor in chief:
Jean-Philippe Vincent
+33 (0)1 44 87 18 51
tresor-eco@dgtresor.gouv.fr

English translation:
Centre de traduction des ministères économique et financier

Layout:
Maryse Dos Santos

ISSN 1962-400X

Recent Issues in English