





4. Fair minimum wages and collective bargaining: a key to recovery

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Long term, only fair minimum wages and strong collective bargaining structures can stabilise employees' income as part of a demand-led and socially acceptable recovery strategy."

Torsten Müller, ETUI

Introduction

Almost overnight, the outbreak of the Covid-19 pandemic in March 2020 turned European economies upside down. In February 2020, the European Commission (2020a) was still forecasting a continuation of the (modest) growth of previous years, but economic performance more or less collapsed in all European countries a few weeks later. The new economic context emerging from the pandemic also has far-reaching implications for wages and collective bargaining. During an economic crisis, growing levels of unemployment or uncertainty about job security can make it harder for trade unions to negotiate higher wages. Other matters, such as safeguarding employment, typically rise to the top of the negotiating agenda during bargaining rounds.

From a European perspective, however, one of the key questions in light of the current Covid-19 crisis is whether policymakers have drawn the right set of conclusions from the last crisis in 2008/2009, when the crisis management based on austerity and internal devaluation not only prolonged the crisis itself but also had tragic social consequences and undermined the political support for the European project as a whole (Hermann 2017; Müller et al. 2019). In the field of wages and collective bargaining, the most important initiative was launched before the outbreak of the pandemic, with Ursula von der Leyen's statement that 'within the first 100 days of my mandate, I will propose a legal instrument to ensure that every worker in our Union has a fair minimum wage' (Von der Leyen 2019: 9) and the subsequent proposal of a Directive on adequate minimum wages in the EU (European Commission 2020b).

In order to assess whether the proposed Directive would really ensure fair minimum wages and supports multi-employer collective bargaining, this chapter will review the Commission's more general approach to wages and collective bargaining, and will chart the development of wages, minimum wages, collective bargaining and strike activity, with the ultimate objective of identifying key elements of the Directive that need improvement in order to make fair minimum wages and strong collective bargaining part of the Covid-19 recovery strategy.



For the first time since 2011, there was no explicit CSR on wages and collective bargaining."

Wage developments

Figure 4.1a Country-specific recommendations in the field of wages (2011-2020)



Main trends:

- 1) Marginal focus on wages;
- 2) Progressive decrease of CSRs addressing wages as a cost for productivity, in favour of CSRs addressing wages as a labour condition;
- 3) In 2020 there are only three CSRs, all implicit and only addressing jobs in so-called 'essential' sectors

Source: Author's own compilation based on Clauwaert (2011-2019) and Rainone (2020).

Is the Minimum Wage Directive a game changer?

In the field of wages and collective bargaining, the management of the crisis in 2008/2009 generated pressure on wages, imposed cuts and freezes on minimum wages, and forced the decentralisation, and in some countries even the dismantling, of multi-employer collective bargaining systems (Schulten and Müller 2015). In the aftermath of Covid-19, there is no more pressing or urgent a policy question than what the approach of policymakers will be to the issue of wages and collective bargaining in the context of the wider recovery strategy currently being developed. Will it be the same, and largely discredited, mixture of austerity and internal devaluation, or will measures be taken to pursue a demand-side strategy built on fair wages and strong collective bargaining to stabilise and boost internal demand?

The first signs are encouraging. Policymakers at both European and national level responded swiftly with impressive emergency rescue packages to stabilise national economies. Moreover, the fact that the European Commission did not abandon its initiative to establish fair minimum wages across Europe in the face of this crisis can be read as a sign that, this time, the importance of fair minimum wages and strong collective bargaining, and the essential contribution that they can make to the recovery strategy, will receive the recognition it deserves.

After years of political debate (Schulten et al. 2015), the proposal of a Directive on adequate minimum wages is a watershed in the history of European social and economic integration for two main reasons. Firstly, because for the first time ever, the Commission has taken legislative action to ensure fair minimum wages and to promote collective bargaining in Europe. Secondly, the proposed Directive demonstrates that minimum wages and collective bargaining are no longer exclusively

Figure 4.1b Country-specific recommendations in the field of wages (2011-2020)

Category	Sub-category	CSRs 2011		CSRs 2012		CSRs 2013		CSRs 2014		CSRs 2015		CSRs 2016		CSRs 2017		CSRs 2018		CSRs 2019		CSRs 2020		
		Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	
		Wages	Reviewing wage indexation	0	5	0	4	0	2	0	3	0	0	0	0	0	0	1	0	0	0	0
Reform wage setting mechanism	Productivity		0	7	0	7	0	6	0	6	0	8	1	4	2	2	2	1	0	1	0	0
	Improvement labour standards		0	0	0	0	0	0	0	0	0	2	0	2	0	4	1	0	0	2	0	0
	Other		0	1	1	0	0	1	1	4	0	3	3	1	2	2	4	2	1	1	0	0
Reform wage setting mechanism for specific sectors	Productivity		0	0	0	0	0	0	0	0	0	0	1	0	1	0	1	0	1	0	0	0
	Improvement labour standards		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Other		0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	1	3	0
Subtotal	0		13	1	11	0	9	1	13	0	13	5	8	6	8	9	4	2	5	3	0	
Total	13		12	9	14	13	13	14	13	13	14	13	7	3								
TOTAL SOCIAL CSRs	95		106	116	140	143	117	124	124	136	226											
% CSRs on wages compared to total social CSRs	14%	11%	8%	10%	9%	11%	11%	10%	5%	1%												

Source: authors' own compilation based on Clauwaert (2011-2019) and Rainone (2020).

“*Particularly striking is the absence of a clear definition of what the Commission means by ‘adequate’ minimum wages.*”

viewed as an impediment to the downward flexibility of wages and competitiveness.

However, while in principle the proposed Directive represents a welcome new approach to minimum wages and collective bargaining in the context of the Covid-19 crisis, it also leaves important questions unanswered. Particularly striking is the absence of a clear definition of what the Commission means by ‘adequate’ minimum wages. All the proposed Directive has to say in Article 5, dealing with adequacy, is that ‘Member States shall use indicative reference values to guide their assessment of adequacy of statutory minimum wages in relation to the general level of gross wages, such as those commonly used at international level’ (European Commission 2020b: 24). While this hints at what can be called the ‘double decency’ threshold of 60% of the median wage and 50% of the average wage, a combination which is mentioned in the recitals, the Commission still shied away from setting a clear minimum threshold, below which no minimum wage should be set. Without such a clear minimum threshold, all the criteria that should guide the setting and updating of statutory minimum wages mentioned in the proposed Directive, such as the purchasing power of statutory minimum wages, the growth rate of gross wages, and labour productivity developments can just as easily be used to cement the status quo of inadequate minimum wages.

CSRs offer no support for fair minimum wages

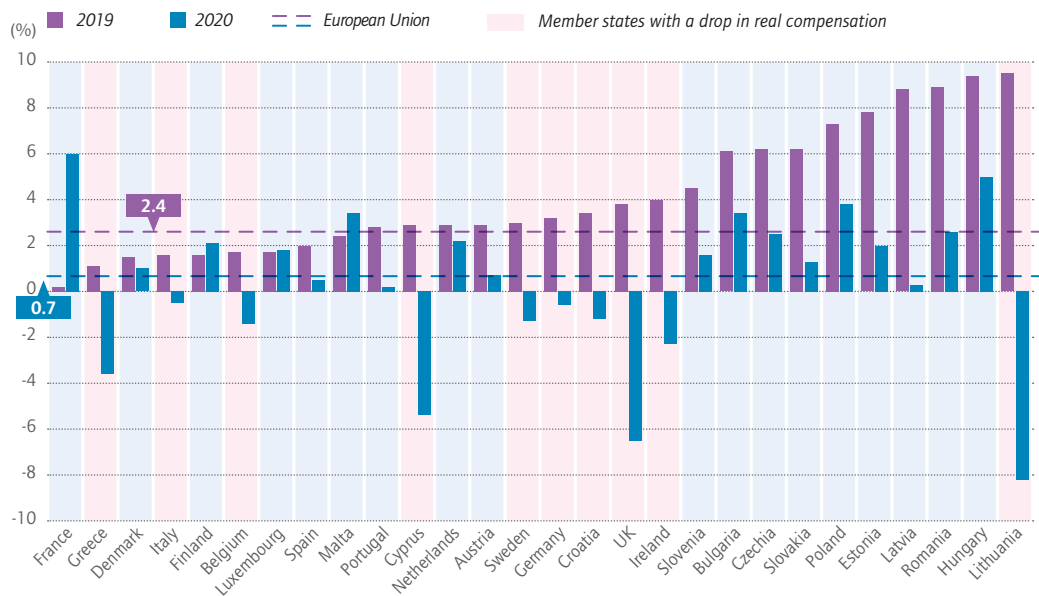
In the absence of a clear definition proposed by the Commission, the country-specific recommendations (CSRs) could provide a first pointer as to how the Commission is approaching the issue of wages and collective bargaining. In the past, the CSRs for countries with high relative levels of minimum wages, such as France and Portugal, had repeatedly contained

provisions designed to ensure that minimum wage developments do not harm competitiveness. Figure 4.1, which is based on Clauwaert (2011-2019) and Rainone (2020), provides a quantitative overview of the development of CSRs in the field of wages and collective bargaining from 2011 to 2020. In the analysis, a distinction is made between ‘explicit CSRs’, which are formal recommendations to be addressed by the respective Member State, and ‘implicit CSRs’, which are recommendations that only appear in the recitals. The relevance of the ‘explicit CSRs’ is higher because the Member States generally report the progress made in relation to those recommendations, but not necessarily to the implicit ones.

Figure 4.1 illustrates three key findings: first, in quantitative terms, the 2020 CSRs confirm last year’s trend of a decrease in the number of CSRs addressing wages and collective bargaining. In 2020, there were only three CSRs in this particular area. Second, all three CSRs are ‘implicit CSRs’ in the recitals, which means that for the first time since 2011, there was no explicit CSR on wages and collective bargaining. Third, and perhaps more crucially as regards content, all three CSRs aim at wage increases to make jobs in so-called ‘essential’ sectors more attractive: in Austria in the health sector and in Hungary and Poland in the education sector (Rainone 2020). There are no longer any CSRs, implicit or explicit, demanding that minimum wage increases be moderate, or the decentralisation of collective bargaining. The absence of bad news, however, is not necessarily good news. Also entirely absent are any recommendations supporting the restoration of multi-employer bargaining where it was dismantled as a consequence of the management of the crisis in 2008/2009. There is also a noticeable absence of any recommendation of minimum wage increases to ensure fair minimum wages in those countries where they are particularly low. Against this background, with the 2020 CSRs, European policymakers missed

Figure 4.2 Development of nominal wages* in 2019 and 2020** (change in percentage compared to previous year)

Real compensation per employee in the total economy (private consumption deflator).



Source: AMECO database (autumn 2020).
* Nominal compensation per employee
** figures for 2020 are forecasts

an opportunity to support the minimum wage initiative, one of the Commission's flagship social policy initiatives.

Solid nominal wage growth in 2019

Figure 4.2, which shows the development of nominal wages in 2019 and 2020, illustrates the full impact of the Covid-19 pandemic and, with it, the importance of fair minimum wages in stabilising workers' wages as a driver of the economic recovery. In 2019, nominal wages continued to grow dynamically, particularly in the central and eastern (CEE) European countries. The group of nine countries with a nominal wage growth of 6% is exclusively comprised of CEE countries ranging from Bulgaria (6.1%) to Hungary (9.4%) and Lithuania (9.5%). This group is followed by another group of 11 countries in which nominal wages grew between 2% and 6%. This group ranges from Malta, with 2.4%, to Slovenia, with 4.5%. The third group, with a nominal wage growth of 2% or less, consists entirely of western European countries, and ranges from France, with 0.2%, to Spain, with 2%. It is important to bear in mind that in accordance with the AMECO database, nominal wages are measured as nominal compensation per employee, a figure which not only includes wages and salaries, but also employers' social contributions. Under normal circumstances, nominal compensation and wages develop largely in parallel. In case of changes in the national social security systems, however, the two may diverge. This effect explains the low nominal wage growth in France, for instance: employers' social security contributions were lowered considerably in 2019 (Lübker 2020: 272). The opposite effect can be observed in Spain, where employers' social security contributions slightly increased and therefore

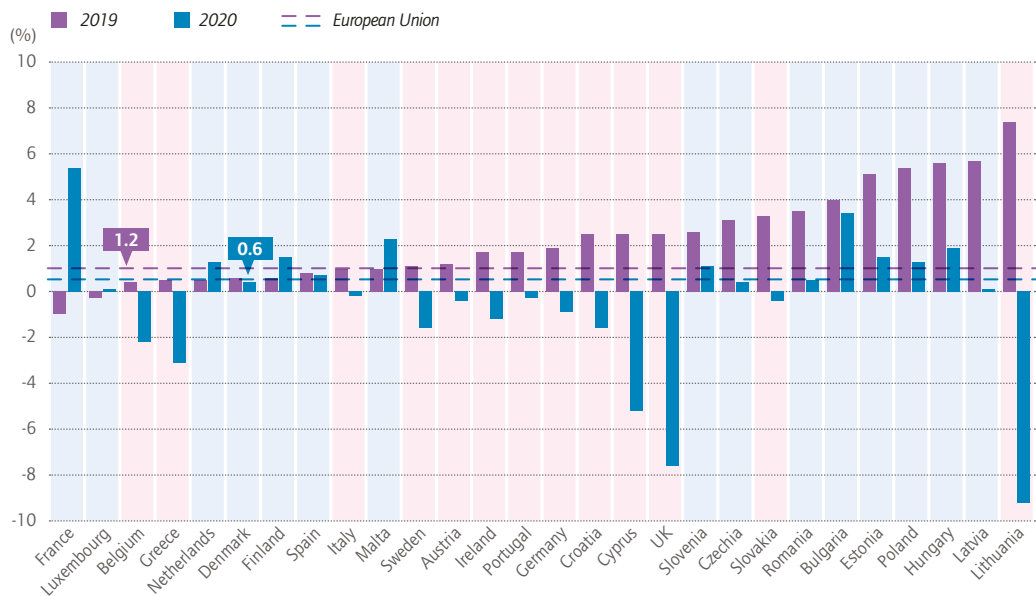
contributed to higher nominal wage growth (Lübker 2020: 272).

A collapse in wage growth in 2020

The figures for 2020 need to be treated with caution because they are shaped by various insecurities resulting from the unforeseeable economic impact of the Covid-19 crisis. First, they are based on European Commission forecasts; these are highly uncertain, since it is of course impossible to foresee the development of the pandemic and the economic impact of measures that Member States may have taken to contain its spread, which will shape the development of wages. Second, in the context of the crisis, wage developments in 2020 are influenced by two opposing effects (Lübker 2020: 273): on the one hand, the wage losses linked to the frequent use of short-time work schemes led to a decrease in nominal wages per employee, but, on the other hand, composition effects suggest an increase in nominal wages per employee. Employees on fixed-term contracts face a particularly high risk of becoming unemployed, and since workers on such temporary contracts typically earn lower wages, their exit from the labour market can potentially lead to an anti-cyclical increase in nominal compensation per employee.

With these caveats in mind, Figure 4.2 illustrates that the Covid-19 pandemic reverses the positive wage development of 2019. According to the AMECO database, nominal wages in 2020 will have decreased to varying degrees in ten countries, ranging from -0.5% in Italy to a startling decrease of -8.2% in Lithuania. A further nine countries are faced with a very modest increase in nominal wages of 2% or less. This group of countries ranges from Portugal, with 0.2%, to Estonia, with 2%.

Figure 4.3 Development of real wages* in 2019 and 2020** (change in percentage compared to previous year)



Source: AMECO database (autumn 2020).
 * Real compensation per employee, deflator private consumption: total economy
 ** figures for 2020 are forecasts

42 million applications for support for workers on short-term work schemes were submitted (by April 2020)

The need to stabilise wages to deal with the demand shock

The potential impact of the Covid-19 crisis is even more striking when comparing the development of real wages in 2019 and 2020 (Figure 4.3). According to AMECO data, the number of countries with a negative development in real wages increased from two in 2019 to thirteen in 2020 – with a particularly pronounced drop in Lithuania (-9.2%) and the UK (-7.6%). By the same token, the number of countries with an increase in real wages of 2% or more dropped from thirteen in 2019 to only three in 2020. Even with the uncertainties of the 2020 figures, this illustrates the dramatic extent of the demand shock, resulting from the drop in real wages, which reduces employees' ability and willingness to buy goods and services. Furthermore, since the large majority of EU economies follow a wage-led demand regime (Onaran and Obst 2015; Stockhammer and Wildauer 2015), this demonstrates the need to stabilise the income of households as an important element of the strategy to overcome the current Covid-19 crisis.

Extensive use of short-time work

One measure taken to stabilise income was the widespread use and expansion of national short-time work (STW) schemes, which aimed to avoid unemployment by supporting workers' wages while at the same time allowing companies to flexibly adapt working hours to a temporary drop in demand. At the peak of the economic impact of the first wave of the Covid-19 pandemic, towards the end of April 2020, there were more than 42 million applications for support for workers on STW (or similar) schemes, which amounts to more than one quarter of the whole workforce in the EU27. If one includes Switzerland and the UK, the number rises to more than 50 million (Müller and Schulten 2020a). Even if not all applications led to an actual

STW arrangement, these numbers represent an all-time high. The significance of STW in preventing unemployment and in stabilising employees' income is even more evident when comparing these numbers with developments in the United States, where by the end of April, Covid-19-induced unemployment amounted to over 33 million people out of work.

The European Commission also recognised the importance of STW as a means to mitigate the negative impact of the Covid-19 crisis by proposing a 'European instrument for temporary support to mitigate unemployment risks in an emergency' (SURE), which was adopted by the Eurogroup finance ministers on 9 April 2020. The SURE programme provides €100 billion of loans to EU Member States in support of their national STW schemes 'that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked.' (European Commission 2020c: 2). In a nutshell, SURE can be seen as a European re-insurance scheme for the kind of national STW schemes which had already proved an effective tool to limit unemployment during the 2008/2009 economic and financial crisis. It operates on the basis that the EU would borrow up to €100 billion on the financial markets, using guarantees of up to €25 billion from the EU Member States. It would then lend the money raised to Member States to promote STW schemes and to close gaps where national STW systems reach their financial limits. The dramatic Europe-wide increase of STW during the current crisis underlines the relevance of the SURE programme, while at the same time raising doubts that its financial scope will be sufficient (Matthes 2020) – even more so in light of the second Covid-19 wave that emerged throughout Europe in October 2020. Furthermore, it is based on loans which will increase the public debt of countries using this scheme (Corti and Crespy 2020). Despite these caveats about the SURE programme, the use and support of STW both

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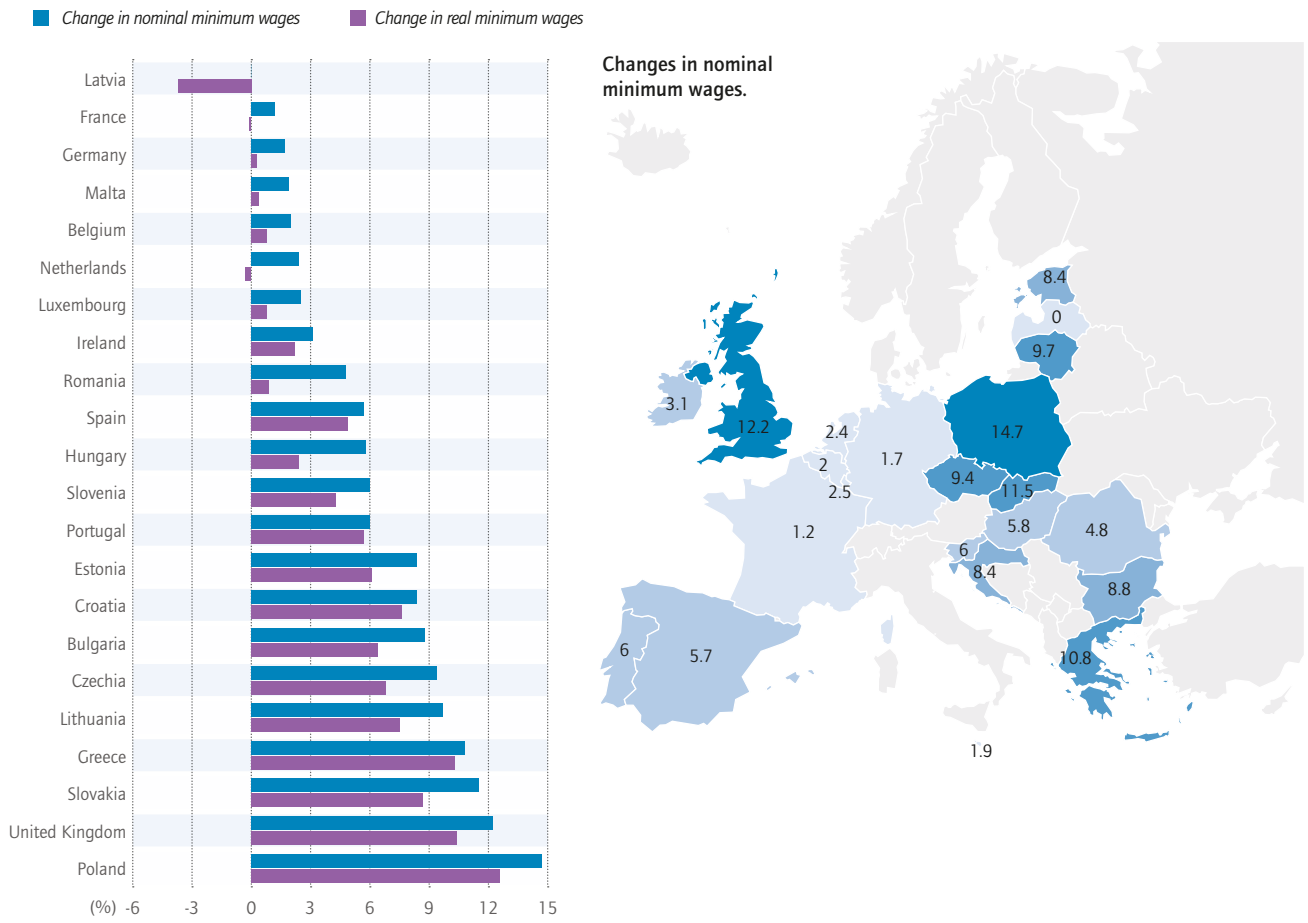
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at European and national level was an important tool to safeguard employment and wages, and thus also a recognition of the essential role of wages in the European recovery strategy.

Figure 4.4 Changes in nominal and real minimum wages (1 January 2019-May 2020)



Source: WSI Minimum Wage Database (WSI 2020).

Note: Calculation of changes based on minimum wages in Euros. Real development adjusted according to change in national consumer prices in 2019.

Minimum wage developments

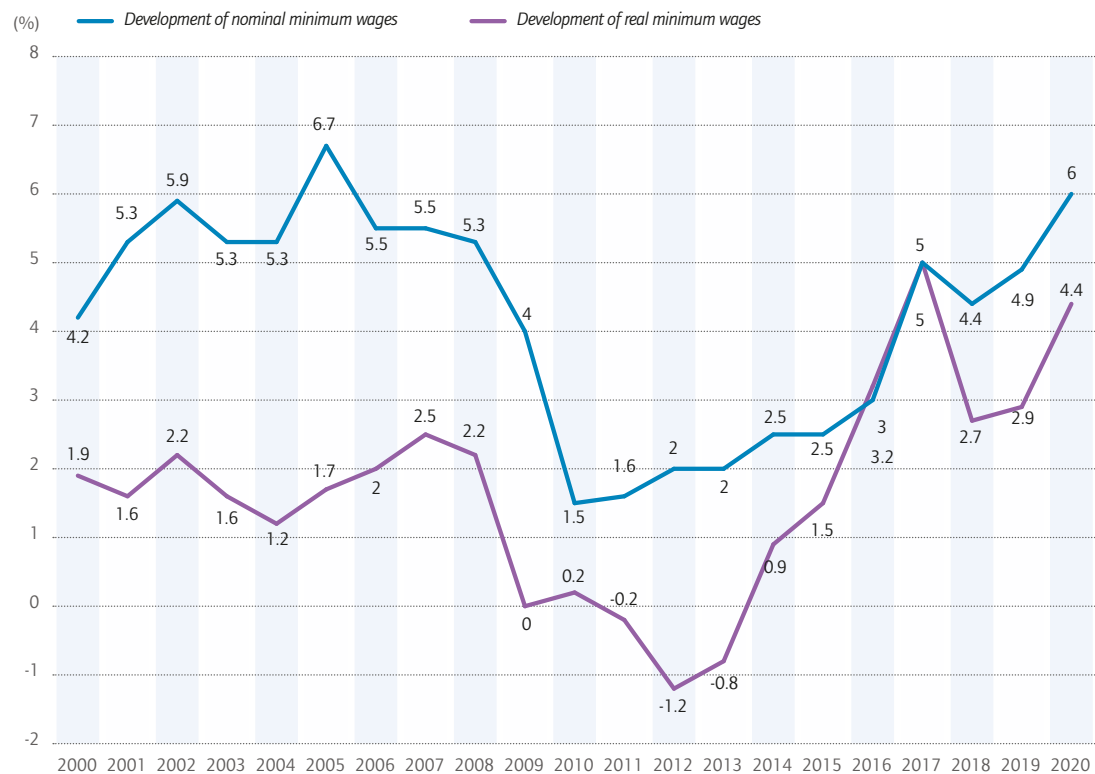
Dynamic minimum wage growth as an economic stabiliser

Another way to stabilise the economy from the demand side is to increase minimum wages, since employees at the bottom of the wage structure are more likely to spend the additional money available than are employees further up the wage structure. Figure 4.4 illustrates that in 2019, statutory minimum wages continued to grow dynamically. In 17 of the 21 EU countries with a statutory minimum wage, changes were introduced, with effect from 1 January 2020. In 2019, Latvia was the only country in which the minimum wage was not increased at all; but discussions were held with a view to increasing the monthly minimum wage from €430 to €500 at the beginning of 2021 (Schulten and Lübker 2020: 9). The other exceptions were: Greece, where the minimum wage was increased by more than 10% in February 2019; Ireland, with a minimum wage increase of 3.1% in February 2020; Belgium, with an increase of 2% in March 2020; and the UK, where the minimum wage was increased by more than 12% in two stages, in April 2019 and April 2020. This comparatively strong increase in the UK is part of

the government strategy to end low pay. In autumn 2019, the Conservative government announced that it would increase the adult minimum wage for employees aged 25 and over – the so-called National Living Wage – to £10.50 (or two thirds of the median wage) over the next five years until 2024. The caveat, however, was that this would only be implemented if the country's economic situation allowed such an increase (Low Pay Commission 2019).

With respect to changes in the nominal minimum wage, three broad groups can be distinguished. The first group of countries, with a very dynamic growth rate of 8% or more, comprises nine countries, ranging from Estonia and Croatia, with 8.4% each, to Poland, with an increase of 14.7%. With the exception of Greece and the UK, this group consists exclusively of CEE countries. The strong increase of nominal minimum wages in CEE countries means that developments in 2019 followed the pattern of previous years, with a further convergence of minimum wages in the EU. The second group, with increases of between 4.8% and 6%, comprises five countries: Romania (4.8%), Spain (5.7%), Hungary (5.8%), and Portugal and Slovenia with 6% each. The third group comprises countries with a comparatively modest growth rate of around 3% or less. With the exception of Latvia, this group is made up exclusively

Figure 4.5 Development of statutory minimum wages in the EU, 2000-2020* (in %, median change from previous year**)



Source: WSI Minimum Wage Database (WSI 2020)

Note: * Median of the national change rates: 1 January vs 1 January of the previous year. On the basis of 22 EU countries with a statutory minimum wage (including the UK, as of 1 January 2020).

** Price-adjusted according to change in the national consumer prices from the previous year.

of western European countries, ranging from France, with a nominal increase of 1.2%, to Ireland, with an increase of 3.1%. Taking into account the development of consumer prices, the modest nominal increases in this third group of countries mean that the growth of real minimum wages was below 1%. In the following three countries, minimum wage earners even suffered real wage losses for the second time in a row, having already experienced a decline in real minimum wages in 2018: France (-0.1%), the Netherlands (-0.3%), and Latvia (-3.7%).

In some countries, minimum wage increases for 2021 have already been decided. At the beginning of October 2020, the Irish government, for instance, approved an increase in the Irish National Minimum Wage to €10.20 per hour, effective from 1 January 2021 (Department of Employment Affairs and Social Protection 2020). In Germany, on 30 June 2020, the Minimum Wage Commission submitted its recommendation for a staged increase of the minimum wage over the next two years. According to the proposal, the minimum wage will increase to €9.50 on 1 January 2021, to €9.60 on 1 July 2021, to €9.82 on 1 January 2022 and finally to €10.45 on 1 July 2022 (Mindestlohnkommission 2020). Although the increase in 2021 and at the beginning of 2022 will be fairly modest because of the Covid-19 crisis, the overall increase over two years will amount to 11.8%; this increase is thus more dynamic than the increase of collectively agreed wages in the last two years, which is the orientation mark for the Minimum Wage Commission (Bispinck 2020). Although the biennial recommendations of the Minimum Wage Commission are not legally binding, the government usually follows the recommendations.

The dynamic minimum wage development in individual countries is reflected in the development of minimum wages in the EU, as measured by the median of the changes in 22 EU countries. As Figure 4.5 illustrates, in 2019 the median increase of nominal minimum wages in the EU was 6%. Over the last 20 years, a higher annual median increase (of 6.7%) was recorded only in 2005. Taking inflation into account, the median increase of real minimum wages in the EU was 4.4%, which is also the second-highest increase in the last 20 years.

Dynamic minimum wage growth set to continue

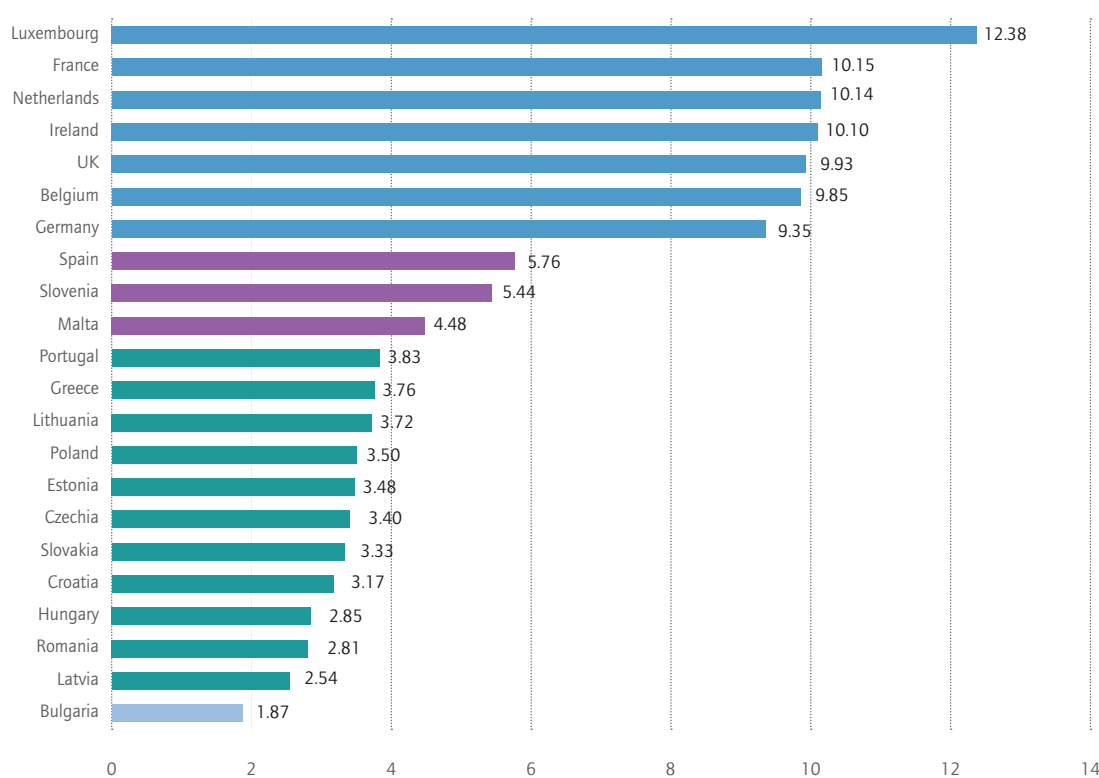
There are three main factors that suggest that dynamic minimum wage development will continue in the future, despite the Covid-19 pandemic. First, in many countries, the substantial increase of statutory minimum wages is part of broader government strategies to fight low pay, in-work poverty and wage inequality. The example of the UK has already been mentioned. Further examples include Poland, where the government explicitly justified the minimum wage increase with the intention to transform Poland's business model from an extended workbench and a source of cheap labour for the West into an economy whose growth is based on innovation and modernisation (Schulten and Müller 2020). In October 2019, the government further

announced that it intended to raise the minimum wage to 4,000 Polish złoty (approximately €930) over the next three years, until 2023 (Owczarek 2019). This would correspond to an increase of 90% from 2018. In Slovakia, in October 2019 the parliament adopted an amendment to the Minimum Wage Act, which stipulates that from 1 January 2021, in the event that trade unions and employers do not reach an agreement, the minimum wage will be set by the government to at least 60% of the average gross monthly wage of the two previous years (Schulten and Müller 2020). Similar measures have been taken by the new left-wing governments on the Iberian peninsula. In Spain, the government explicitly declared its intention to go beyond the recent minimum wage increases and to raise its level to 60% of the average wage by 2024. In a similar vein, the Portuguese government unveiled its plan to increase the national minimum wage to €750 per month by 2023. In the context of the current dynamic development of the minimum wage in Portugal this would mean a further increase of 18% (Schulten and Müller 2020).

The second factor that points to the continuation of the dynamic minimum wage development in the EU are the numerous trade union campaigns for substantial minimum wage increases in all parts of the EU (Schulten and Müller 2020). In western Europe, for example, the Federation of Dutch Trade Unions (FNV) in the Netherlands and the General Labour Federation of Belgium (ABVV/FGTB) are campaigning for a minimum wage of €14. This would mean an increase of 42% and 38%, respectively. In Germany, where the minimum wage was only introduced five years ago, the trade unions advocate a much faster increase and demand that the minimum wage be raised from the current €9.35 to €12, which would correspond to an increase of 28%. Even in Luxembourg, where the minimum wage is already by far the highest of all countries, trade unions are calling for an additional structural increase of 10%, which would bring the minimum wage close to €14. Concrete minimum wage initiatives also exist in other western European countries (France, the UK, and Ireland), in southern Europe (Malta, Portugal and Spain) and in central and eastern Europe (the Baltic states, Bulgaria, Croatia, Poland, Romania, Slovakia and the Czech Republic), where demands for a minimum wage increase vary between 10% and 30% (Schulten and Müller 2020). Furthermore, the example of Austria shows that trade union minimum wage campaigns need not be limited to countries with statutory minimum wages. The Austrian trade unions demand that no collectively agreed wage should be below €1,700 a month. What all these trade union campaigns have in common is the principal objective of raising the existing minimum wages to a level that ensures a decent standard of living, thus making them genuine living wages (Schulten and Müller 2019).

The push to substantially raise minimum wages is furthermore supported by the mounting empirical evidence that the dire predictions of many economists that higher minimum wages would have catastrophic effects on employment (see, for example, Neumark and Wascher 2007) did not materialise in practice. A

Figure 4.6 Statutory national minimum wage per hour, in euros (May 2020)



Source: WSI Minimum Wage Database (WSI 2020).
 Note: Conversion of national currencies into euros based on average exchange rate in 2019.

recent comprehensive overview of the international evidence commissioned by the Conservative UK government found that even significant minimum wage increases have only very limited negative employment effects (Dube 2019). Against this background, for the UK, Dube (2019) sees enough scope to raise the minimum wage to at least two thirds of the national median wage.

Different worlds of minimum wages

Despite these minimum wage increases, in particular in CEE countries, there is still a substantial variation in the statutory minimum wage levels in the EU, ranging from €1.87 per hour in Bulgaria to €12.38 in Luxembourg. As Figure 4.6. illustrates, three major groups of countries can be identified: the first group comprises seven western European countries with minimum wages of around €10. After the frontrunner Luxembourg, the highest minimum wages currently exist in France (€10.15), the Netherlands (€10.14), and Ireland (€10.10). They are followed by minimum wages of just under €10 in the UK (€9.93) and Belgium (€9.85). Germany, with a minimum wage of €9.35, comes in last in this group. Since Figure 4.6 shows the absolute level of the national minimum wage for all countries in euros, it is important to bear in mind the impact of exchange rate developments. The figure for the UK, for instance, is heavily influenced by the devaluation of the British pound vis-à-vis the euro since the Brexit vote in June 2016. Based on the average exchange rate of the 2000s, the current UK minimum wage of £8.21 would be at €11.78, which in turn would be closer to the level of the frontrunner Luxembourg than to that of the

other countries of this group (Schulten and Lübker 2020: 5).

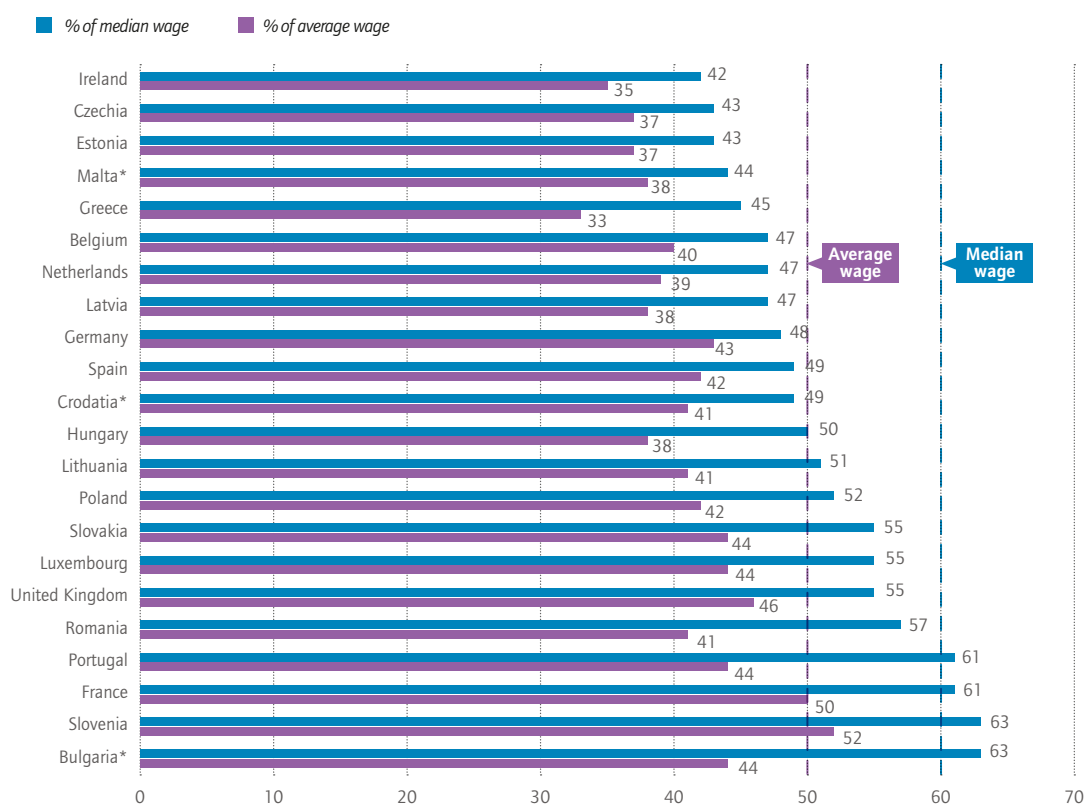
A second, relatively small group includes only three European countries with minimum wages between €4 and €6. This group includes Malta (€4.48), Slovenia (€5.44), and Spain (€5.76). The third group, by far the largest, consists of a dozen EU countries with minimum wages below the €4 mark. These include the southern European countries Portugal (€3.83) and Greece (€3.76) as well as ten central and eastern European EU Member States, where minimum wages range from €1.87 (Bulgaria) to €3.72 (Lithuania).

In the absence of national statutory minimum wages, the minimum wage level in countries where minimum wages are determined by (sectoral) collective agreements can only be determined by analysing the lowest collectively agreed wage groups. Against this background, in the northern European EU states Denmark, Finland and Sweden, the lowest collectively agreed wages in the classic low-wage sectors such as hairdressing, cleaning, and hospitality are generally between €10 and €12 per hour. In Austria, the collectively agreed minimum wage is just under €9, or just under €10.40 if the generally compulsory payment of 14 months of wages is taken into account. In Italy, the lowest collectively agreed wages are between €6 and €7, and in Cyprus the minimum wages for some occupational groups vary in the range of €4.50 to €5.50 (Schulten and Müller 2020).

What is a fair minimum wage?

The value of a minimum wage is not only determined by its nominal or real value, but also and most

Figure 4.7 Minimum wage as % of full-time median and average wages (2019)



Source: own calculations based on OECD Earnings Database (OECD 2020) and European Commission 2020d
* data for 2018

importantly by its level in relation to the national wage structure. This relative level can be calculated using the 'Kaitz index', which measures the minimum wage as a percentage of the national average or the median wage. The latter is the wage that divides the overall wage structure into two equal segments, i.e. one half of all wage earners earns more and the other half earns less.

As an analogy to the relative income indicators widely used in poverty research, a minimum wage below 50% of the median wage can be described as a 'poverty wage' in relation to the individual employee, while a minimum wage at 50-60% can be described as a wage with a high risk of poverty (UNECE 2017). A minimum wage can therefore only be considered fair or appropriate if it is at least 60% of the median wage. A minimum wage of at least 60% of the median wage is the wage that should enable a single full-time worker to avoid a life in poverty, regardless of living and household circumstances, without relying on state transfers. Finally, a 'low wage' is a wage that is below two thirds (66.66%) of the median wage. In the international academic and political debate, 60% of the national median wage is, therefore, usually taken as the benchmark for adequate or fair minimum wages (Schulden et al. 2015).

As Figure 4.7 shows, in 2019 all national minimum wages in the EU were below the low wage threshold of two thirds of the median wage. Only four countries (Bulgaria, Slovenia, France and Portugal) had a minimum wage that was above 60% of the median wage. Of the 21 EU countries (plus the UK) who have a statutory minimum wage, the minimum wage in seven countries is at a level of 'high risk of poverty' (between 50% and 60% of the median wage),

while in 11 other countries the minimum wage is below 50% of the median and can be described as a 'poverty wage'. The group in which minimum wages are well below the relative poverty threshold also includes countries such as Belgium, Germany, Ireland and the Netherlands, which in nominal terms have some of the highest minimum wages in the EU. Figure 4.7, therefore, demonstrates that in most EU Member States, statutory minimum wages are still far from guaranteeing a decent living standard.

In the countries with collectively bargained minimum wages, the Kaitz index can in turn only be determined approximately by comparing the lowest collectively agreed wages with the national median wage. Accordingly, the highest minimum wages are found in Denmark and Sweden, where the lowest collectively agreed wages in the low-wage sectors account for between 60% and 70% of the median wage. In Finland and Italy, the lowest collectively agreed wages vary between 50% and 60% of the median wage, while in Austria and Cyprus they are generally below 50% (Schulden and Müller 2020).

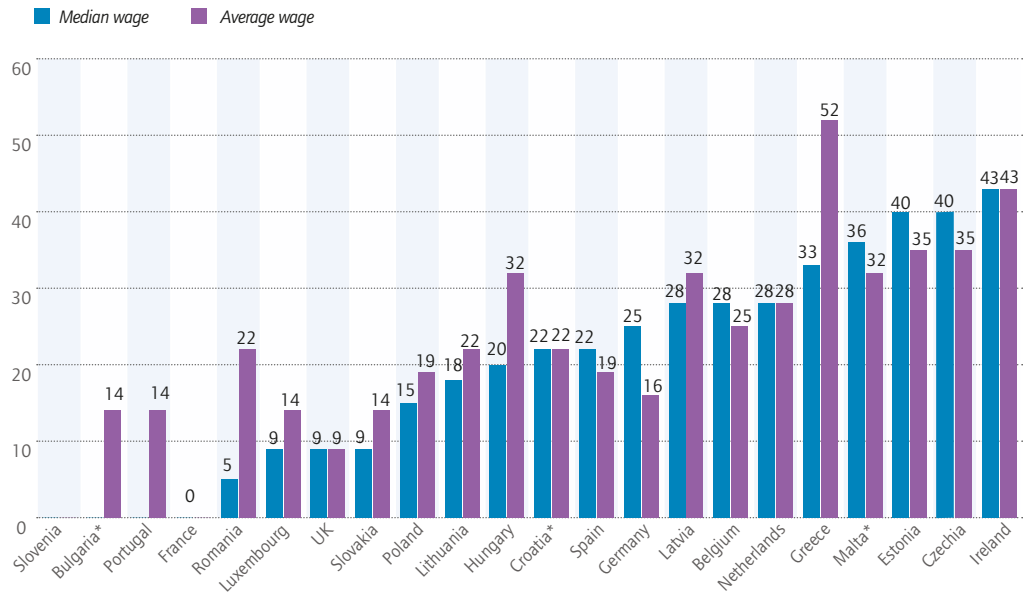
The need for a 'double decency' threshold

The fact that a country meets the 60% median wage threshold, however, does not necessarily mean that its minimum wage provides an adequate standard of living. In Bulgaria, Portugal and Romania, for instance, the comparatively high Kaitz indices do not reflect the adequacy of minimum wages as much as they reflect poor wages overall. The relatively high Kaitz indices in these countries are primarily the result of a highly polarised wage structure with a



The key measure, however, to ensure that workers can make ends meet from a minimum wage that meets the double decency threshold is the strengthening of (cross-) sectoral collective bargaining."

Figure 4.8 increases (%) in the minimum wage needed to reach 60% of the median and 50% of the average (2019)



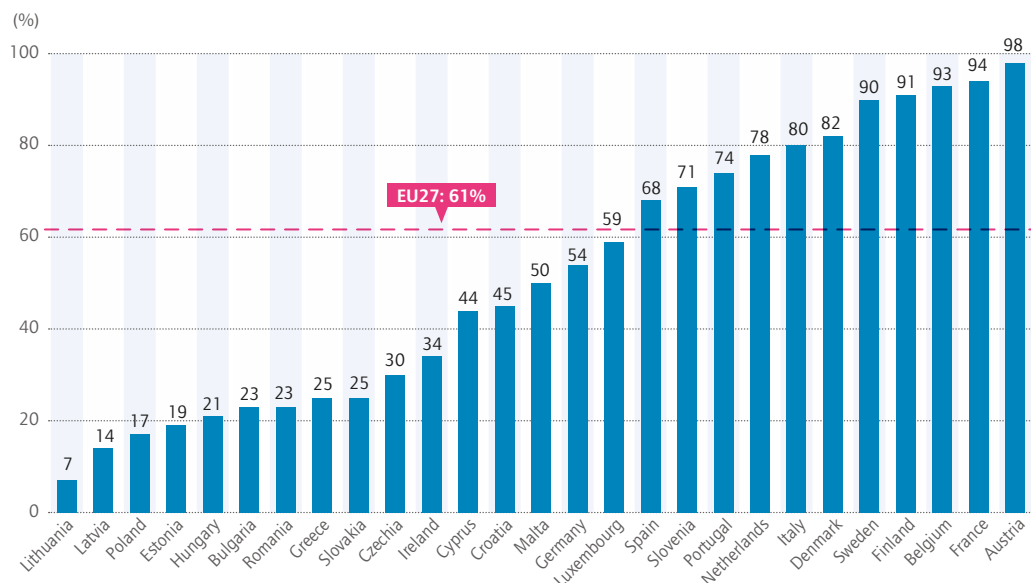
Sources: own calculations based on OECD Earnings Database (OECD 2020) and European Commission (2020d)
* data for 2018

high concentration of employees at the lower end of the wage spectrum. The Kaitz index measured as a percentage of the median is therefore not enough for setting fair minimum wages.

Particularly in CEE countries, it is customary (including among trade union and political advocates) to use the average wage as the reference value for the relative minimum wage level. A European regulation which uses both the median and the average wage as benchmarks for fair minimum wages would therefore be much more in line with political realities in all EU countries, while integrating the various national initiatives for a substantial minimum-wage increase into an overall European strategy. The European standard for adequate minimum wages in the European Commission's proposed Directive should therefore be clearly defined in the legal provisions

at 60% of the median and 50% of the average (Müller and Schulten 2020b). Figure 4.8 shows by how much the minimum wage in various countries would have to rise to reach the respective minimum floors. Application of the double 60/50% decency threshold would lead to a (sometimes considerable) minimum wage increase in all EU countries with a statutory minimum wage with the exception of Slovenia and France. In twelve countries the 60% of the median threshold, and in six countries the 50% of the average threshold, would have the greater impact; in four countries (the UK, Ireland, Croatia and the Netherlands) the outcome would be the same. The double decency threshold would thus take into account the large differences in national wage structures and contribute to a general upward convergence of minimum wages across Europe.

Figure 4.9 Collective bargaining coverage in the EU27 + UK (2016-2018*)



Source: ICTWSS Database Version 6.1, November 2019 (AIAS 2020).
Note: Percentage of workforce covered by a collective agreement.
* most recent data available



It is not surprising that the countries with the highest decline in collective bargaining coverage over the past 20 years were affected by decentralisation of collective bargaining.”

The need to strengthen collective bargaining

This, however, still leaves unresolved the fundamental problem that, overall, in countries with low wages – for instance, as a result of low collective bargaining coverage – even a minimum wage which meets the double decency threshold may not be sufficient to ensure a decent standard of living. Minimum wages calculated on the basis of the double decency threshold should thus be subjected to a ‘real life’ test, for instance by using a country-specific basket of goods and services, defined with the full involvement of trade unions and employers’ organisations, as to whether they secure a decent standard of living. In order to ensure a level playing field across Europe, the overall categories of the elements to be included in the basket of goods and services should also be defined at European level.

The key measure, however, to ensure that workers can make ends meet from a minimum wage that meets the double decency threshold is the strengthening of (cross-)sectoral collective bargaining, which in turn ensures a higher collective bargaining coverage. According to calculations based on a sample of 48 OECD countries, the level of bargaining accounts for about three quarters of the cross-national variation in bargaining coverage (Visser et al. 2015). Thus, as illustrated in Figure 4.9, the countries with the highest bargaining coverage are all countries in which multi-employer bargaining at (cross-)sectoral level is still the dominant mode of determining the terms and conditions of the employment relationship. By the same token, bargaining coverage in all countries characterised by single-employer bargaining is below 50%.

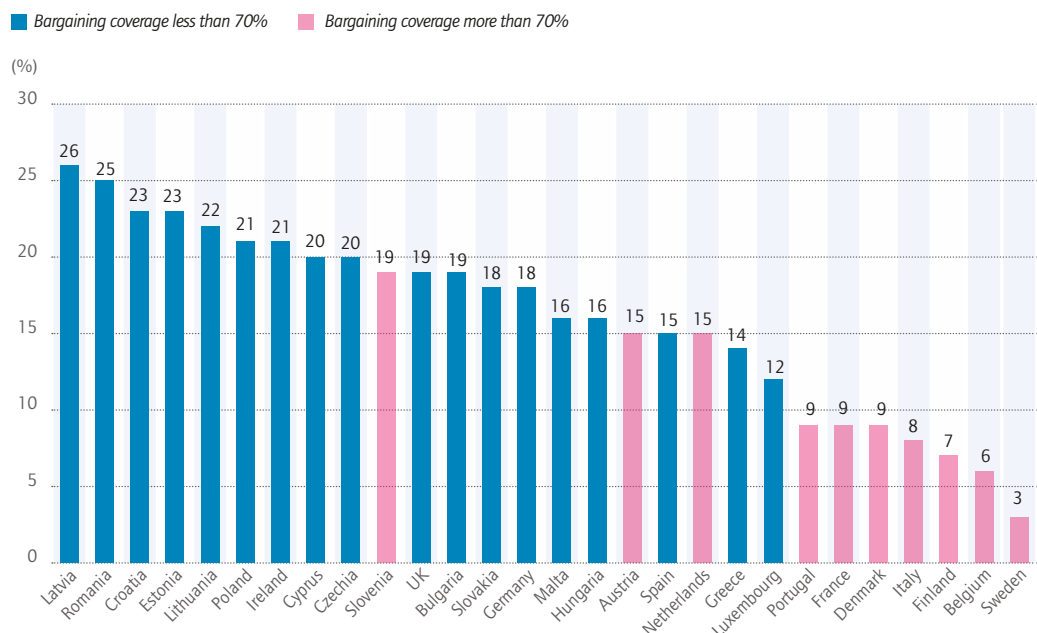
Every country with a bargaining coverage above the EU27 value of 61% shares at least one of the following three characteristics (Müller et al. 2019: 640): first, legal extension mechanisms, or functional

equivalents, that ensure that sectoral agreements also apply to companies that did not sign the agreement or are not affiliated to the employers’ association signatory to the agreement; second, erga omnes practices that extend agreements at company level to all workers of the respective company, regardless of whether or not they are unionised; and third, broad-based bargaining parties that are willing to participate in collective bargaining and hence ensure wide coverage of collective agreements. The latter applies to Denmark and Sweden, where no legal extension mechanism or erga omnes rules exist, but high bargaining coverage rests solely on the organisational strength of the two sides of industry. Against this background, it is not surprising that the countries with the highest decline in collective bargaining coverage over the past 20 years, particularly after the 2008/2009 economic crisis, were affected by measures that led to the decentralisation of bargaining and/or that suspended or curtailed legal extension mechanisms (Schulten and Müller 2015).

The consequence of the partly EU-induced dismantling of sectoral collective bargaining in the context of the handling of the 2008/2009 economic crisis was a drop in the overall bargaining coverage in the EU27 from 73% in 2000 to 61% in 2018. The proposed Directive takes account of this development. Article 4 explicitly requires Member States to take action to promote collective bargaining and to establish national action plans to increase bargaining coverage if less than 70% of workers are covered by a collective agreement (European Commission 2020b: 23). This is an important step to reach an overall wage level which is sufficient to ensure that minimum wages which meet the double decency threshold enable minimum wage earners to enjoy a decent living standard. However, in order to ensure effectiveness, the Directive should specify measures to be included in the action plans. These should be measures that in the past have proven to

**73%
to
61%**
Drop in the overall bargaining coverage in the EU27 (2000 to 2018)

Figure 4.10 Low wage sector and collective bargaining coverage in the EU and the UK (in % of full-time employees with a wage below two-thirds of the national median wage, 2014-2018*)



Source: OECD Earnings Database, Eurostat, ICTWSS Database (AIAS 2020).
Note: Percentage of full-time employees with a wage below two thirds of the national median wage.
* most recent data available

be effective in increasing bargaining coverage, such as less restrictive criteria for extension mechanisms, protection against victimisation of workers who exercise their right to collective bargaining and to join a union, and the right of access to the workplace for trade unions.

Sectoral bargaining to fight low pay

Figure 4.10, which illustrates the link between the number of low-wage earners and collective bargaining coverage, clearly demonstrates the significance of collective agreements in ensuring decent pay. Within the EU, there are large differences in the number of employees earning less than two thirds of the national median wage, ranging from 26% of the workforce in Latvia to just 3% in Sweden. However, of the 12 countries with the smallest proportion of low-wage earners, nine countries (marked in red in Figure 4.10) have a bargaining coverage of more than 70%; furthermore, these countries are all characterised by multi-employer bargaining at (cross-)sectoral level. It is, therefore, essentially the high level of collective bargaining coverage in these countries that limits the size of the low-wage sector.

Ways to strengthen sectoral bargaining

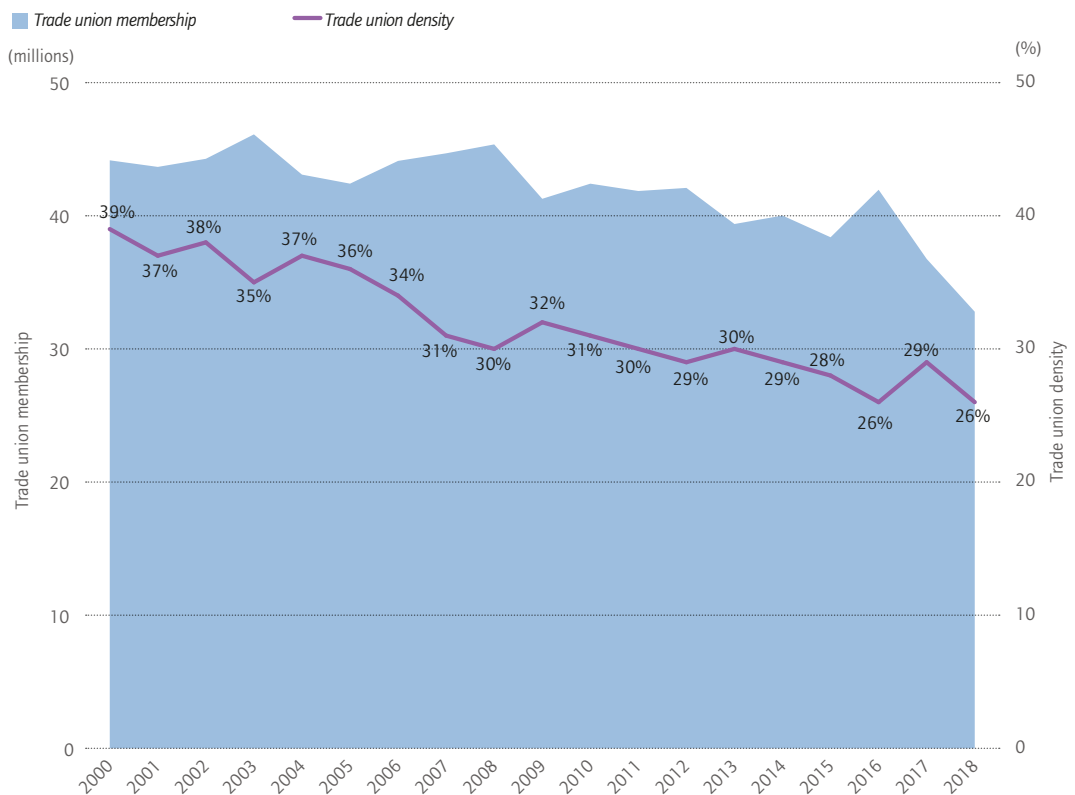
There are different ways to strengthen collective bargaining. An all-encompassing strategy includes firstly, strengthening collective bargaining 'from below' by fostering the formation of more encompassing bargaining parties with a stronger membership base; and, secondly, strengthening collective bargaining 'from above' by mobilising political and societal support for collective bargaining (Müller et al. 2019). While strengthening

collective bargaining from below is an important element in the overall approach, increasing unions' membership base and ensuring a union presence at the workplace is resource-intensive. In some countries and industries, trade unions are so weak that improving the regulatory capacity of collective bargaining will not be possible without the support of the state, i.e. strengthening collective bargaining from above. In this regard, the EU level can play an important supportive role: first, for instance, by including in the proposed Directive on adequate minimum wages the right for trade unions to gain access to the workplace (both physically and digitally) to organise workers without the fear of victimisation; second, by including in the public procurement rules the requirement to recognise the right to trade union organisation and collective bargaining as one of the conditions imposed on companies tendering for public contracts. This means that companies which refuse to bargain or implement collective agreements should be barred from state contracts, grants and other European financial support. Finally, European policymakers could use the country-specific recommendations to support and strengthen the development of multi-employer bargaining at (cross-)sectoral level. What works in one direction to decentralise and dismantle multi-employer bargaining could surely work in the other direction to reverse these processes. If European policymakers are serious about supporting strong collective bargaining institutions, then this should be reflected in the measures proposed in the country-specific recommendations. How the trade unions themselves are faring in terms of developing their membership base and in terms of their capacities to mobilise for collective action – and how these dimensions have been affected by the Covid-19 crisis – will be dealt with in the remainder of this chapter.

Trends in trade union density and strike activity

4.9%
is the total
annual
decrease of
trade union
membership
in 2010-
2016

Figure 4.11 Trade union membership (in millions) and density over time (2000-2018)



Source: OECD based upon administrative data and Visser (2016) for Bulgaria, Croatia, Cyprus, Malta and Romania.

A long-term decline in union membership...

The area graph in Figure 4.11 depicts the total trade union membership in the EU27 countries plus Norway, Switzerland, and the UK, from 2000 until 2018 (the latest year for which data are available for most countries). The years 2017 and 2018 are only illustrative here, as data are still lacking for several countries for those years. Continuous data are also not available for several countries, especially in central and eastern Europe, so that the pattern of the area graph is artificially uneven, that is to say it is determined by the availability of data. Nevertheless, what we can see is that total membership dropped from about 44 million members in 2000 to just under 42 million members in 2016. Taking into account only the countries for which continuous data are available from 2000 to 2016 (AT, BE, CH, CY, CZ, DE, DK, EE, ES, FR, IT, MT, NE, NO, SE, SI, SK, UK), then the 2000s are marked by a total annual decrease in membership of 4.6%. The total annual decrease stands at 4.9% in the period from 2010 to 2016.

...but some increases since the pandemic

It remains to be seen whether the outbreak of the coronavirus has stimulated positive attitudes towards unions among workers. Clearly, economic uncertainty caused by the Covid-19 pandemic, as well as growing concern over workplace health and safety issues, have, in certain industries, driven more workers into the arms of unions in at least some European countries. In Belgium, for example, a considerable growth in union membership has occurred since the pandemic (L'Echo, 23 March 2020). This can be explained by the involvement of the unions in the administration of unemployment benefits, known as the 'Ghent system'. For the same reasons, Swedish unions have seen a similar influx of new members (Bender and Kjellberg 2020). Membership increases also occurred in the Netherlands (Trouw, 8 May 2020). UNISON and Unite, the two largest unions in the UK, also report membership growth (Gall 2020). The same holds true for the UK's National Education Union. Whether this all means that there will be a 'next upsurge' (Clawson 2003) in union membership – historically associated with socio-economic turmoil and labour unrest – remains to be seen, however. And there are reasons to be cautious. The economic fallout of the pandemic is causing

mass layoffs and redundancies, which means unions should expect drops in membership as, in countries without a 'Ghent system' where union benefits and services are generally limited for them, unemployed workers leave to save on costs even if union dues are lowered for them. In countries where such a system is present, unions run the risk of becoming 'giants with feet of clay': large in numbers but weak in actual organisational power, especially if the relationship they build with those (unemployed) newcomers is mainly or solely based on 'instrumental motives' (Vandaele 2020).

Persistent country differences in union density

The line in Figure 4.11 shows a slow but almost inexorable decline in union density in Europe, for which the financialisation of the economy is just

one explanation (Kollmeyer and Peters 2018). If we only take into account the countries for which data is available for the whole period, i.e. from 2000 to 2018 (AT, BE, CZ, DE, DK, EE, ES, FI, FR, IT, NE, NO, UK), the picture looks as follows: while on average, more than one worker out of three was unionised in the period from 2000 to 2009, this average declined to nearly 31% in the period from 2010 to 2018 – a drop of three percentage points. Furthermore, this is an aggregated figure which masks, for example, occupational and sectoral variation. The figure is in fact even lower, since the denominator, which is based on the number of wage and salary earners, does not consider all workers relevant for unions, such as solo self-employed workers and workers in the 'shadow economy'. Also, in reality, average union density for all European countries considered will be lower, and the drop will be more pronounced since the fall in density is particularly notable in central

Figure 4.12a Trade union density per country, 2000-2009 and 2010-2018

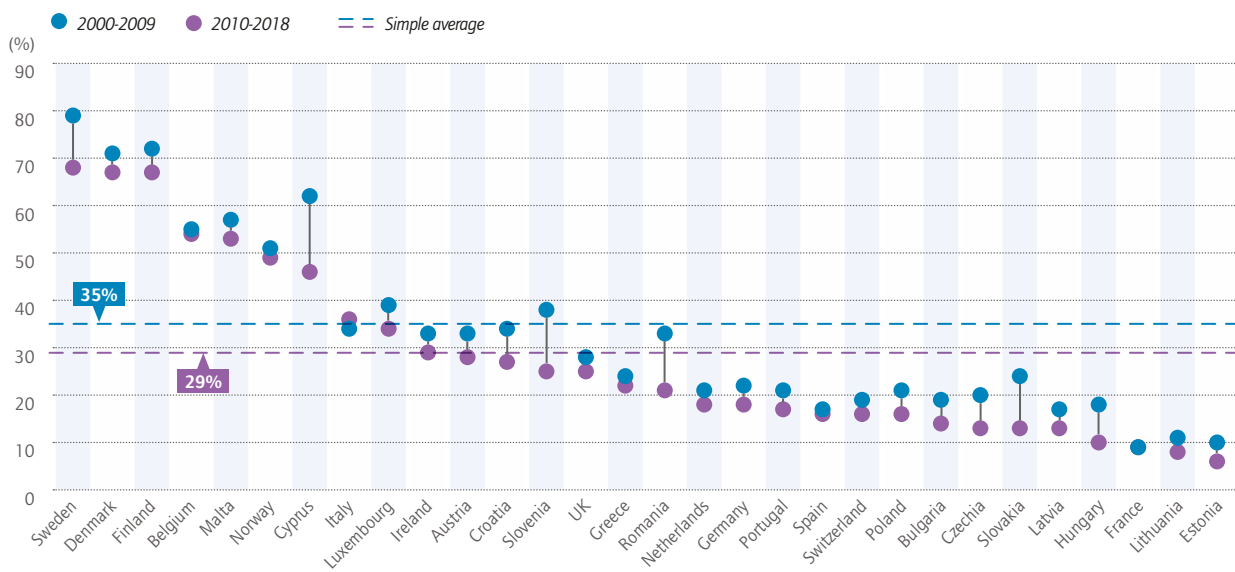
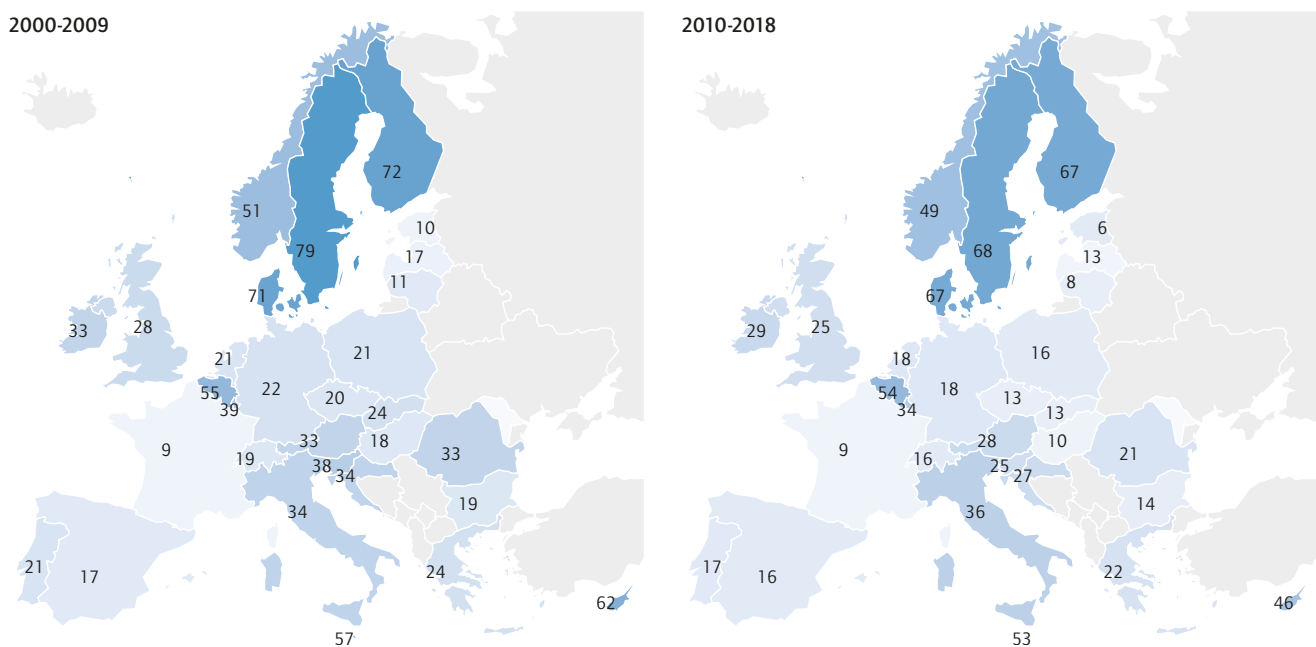


Figure 4.12b Trade union density per country, 2000-2009 and 2010-2018 (map)



Source: OECD based upon administrative data and Visser (2016) for Bulgaria, Croatia, Cyprus, Malta and Romania.

and eastern European countries (Vandaele 2019), for which consistent and robust data are mostly lacking.

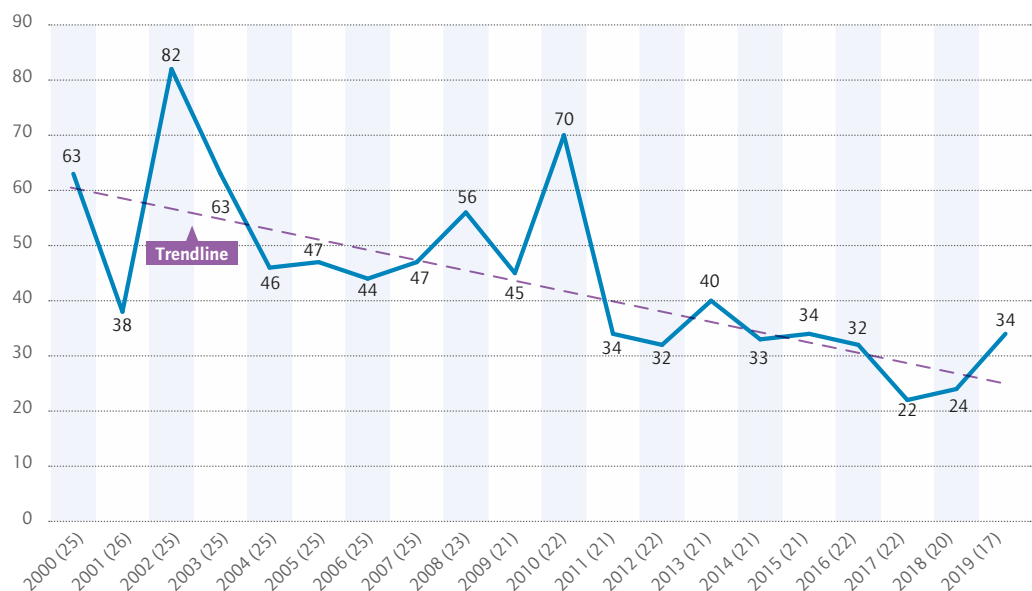
Strike activity

Figure 4.12 depicts a comparison between averages in trade union density in the 2000s and the period 2010-2018. These figures also demonstrate that union density in most countries has weakened in the two periods considered here, especially in the CEE countries. There are, however, a few exceptions. Italy has seen a slight increase in density, but this is largely due to a decrease in the number of wage and salary earners, while Spain and France have a rather stable union density. These two countries with low unionisation rates illustrate that union legitimacy can also be based on their mobilisation capacity (Sullivan 2010), as in France, or in union elections for workplace representatives and works council representatives in companies, as in Spain (Martínez Lucio 2017). All in all, considerable divergence in the level of unionisation remains, partly as a result of the variation in labour-friendly labour market institutions (Schnabel 2013), and partly due to how union membership is understood in society. The Nordic countries and Belgium are still at the top of the 'unionisation league' due to a relatively benevolent institutional setting. While the 'Ghent system', which guarantees unions' involvement in unemployment insurance schemes, is an important explanation for this in these countries (except for Norway) (Høgedahl and Kongshøj 2017), union access to the workplace is also key (Ebbinghaus et al. 2011; Ibsen et al. 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level, as management has relatively lower incentives to thwart unions at the workplace in such industrial relations systems (Rasmussen 2017). At the bottom of the league we find most CEE countries; Croatia, Slovenia and Romania have been exceptions in the past, but (rapid) decline has now set in in these countries too.

An overall long-term decline in the strike volume...

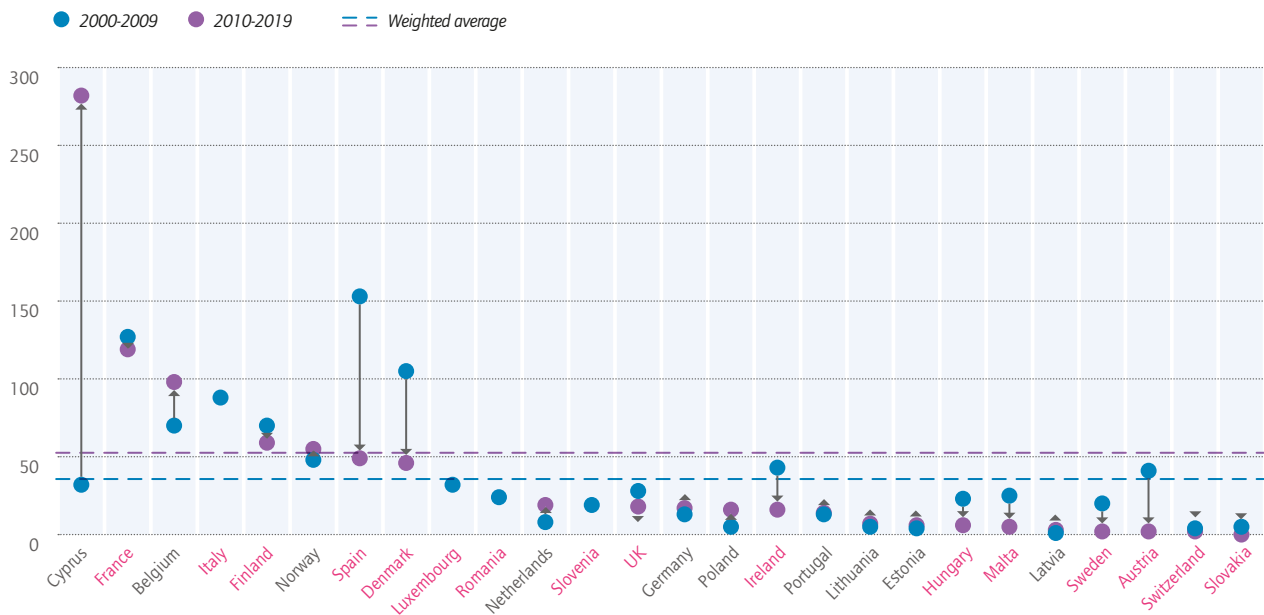
Strike activity informs us about the degree of collective discontent of workers either aimed at the employers at the company or industrial level or targeted at political authorities if regulations on strike action allow for this. Figure 4.13 depicts the weighted average of the days not worked due to industrial action (which includes lockouts) per 1,000 employees in most European countries, especially those in western Europe, from 2000 until 2018. It displays a declining trend, with relative peaks in the strike volume in 2002 and 2010 in the last two decades. The first peak has been attributed to the 'dot-com bubble' and the 9/11 recession (European Commission 2011: 46), whereas the second peak mainly results from 'national days of action' against pension reforms in France (Ancelevici 2011). Thereafter, the volume falls to a level equal to or below 40 days. Whereas data on industrial action are generally underestimated, this is certainly the case for post-2008 developments, as data for some strike-prone countries are lacking and the data ignore several general strikes linked to anti-austerity protests (Dribbusch and Vandaele 2016). In general, though, the long-term but uneven fall in the strike volume mirrors the shrinking weight of industrial trade unionism, and a shift from strike activity towards the private services sectors, especially within transport and logistics, where strikes tend to be shorter, and sometimes smaller, due to their more disruptive capacity (Bordogna and Cella 2002; Vandaele 2016). One can only speculate whether these trends will continue or be reversed during and especially after the Covid-19 pandemic. Although there have been press and media reports of strike actions in certain industries since the pandemic, often linked to health and safety issues, the actions have seemed to be of rather shorter duration, with issues quickly settled.

Figure 4.13 Days not worked due to industrial action in Europe per 1,000 employees (weighted average), 2000-2019



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016).
Employees in employment: Eurostat.

Figure 4.14 Days not worked due to industrial action per 1,000 employees (country comparison), 2000-2009 and 2010-2019



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.

Figure 4.14 makes a comparison between the average strike volume in the 2000s and the period 2010-2018 in each European country for which (sufficient) data are available. It largely confirms the secular trend in the strike volume, but it also provides a more nuanced picture at the country level. In several countries, on average, the volume declined in the most recent period. This is notably the case in Spain and Denmark – two countries previously marked by a certain proneness to industrial action in the past. In contrast, the open-ended conflict that erupted in the construction industry in 2013 explains the remarkable increase in Cyprus, which led the European ‘strike league’ in the 2010-2019 period. Remarkably, a low-strike country such as the Netherlands also saw a certain increase in the last period compared to the 2000s, in particular due to some large strikes in education and healthcare in 2019. In particular, political mass strikes, such as

large-scale strikes in the public sector and general strikes, help to explain differences in the country's volume. Quintessential examples of this are an exceptional general strike against pension reforms in Austria in 2003 and a 24-hour national public sector strike in protest at the government's pay cuts in Ireland in 2009. Public sector, national and general strikes also took place in Belgium in the period 2012-2018, which explains why industrial action increased in the most recent period. The increase in Poland, meanwhile, can largely be explained by a nationwide strike action for higher wages in education in 2019. Poland is a relative exception, as strike activity in most other CEE countries stands at a very low level (Greskovits 2015). Above all, Figure 4.14 demonstrates the persistency of cross-country differences in the strike volume over time, with those differences tending to increase during upswings in industrial action (Brandl and Traxler 2010).

Conclusions and outlook



A European minimum wage would bring millions of low-wage workers in the EU significant pay increases and significant improvement in their life situation.”

The outbreak of the Covid-19 pandemic changed the framework conditions for wages and collective bargaining. Decreasing nominal and real wages have led to a demand shock. Increasing unemployment makes it more difficult for trade unions to negotiate wage increases and, furthermore, changes the bargaining agenda by putting the safeguarding of employment centre stage of bargaining rounds. Whereas the 2008/2009 crisis hit the manufacturing sector particularly hard, the impact of the Covid-19 crisis is much broader and also severely affects the service sector. The hotel and restaurant sector as well as retail have been particularly affected by the lockdowns and the subsequent regulations put in place to contain the spread of the pandemic.

As regards the management of the crisis, it is important not to repeat the mistakes of 2008/2009, when austerity, internal devaluation and the freezing or even cutting of minimum wages unduly prolonged the crisis with sometimes dramatic social consequences. It seems that this time European and national policymakers are pursuing a different approach, which aims to mitigate the negative effects of the demand shock by supporting employees' wages through, for instance, short-time working schemes. In the long run, however, this will not be enough. Only fair minimum wages and strong collective bargaining structures can stabilise employees' income as part of a demand-led and socially acceptable recovery strategy. Against this background, the European Commission's proposal for a Directive on adequate minimum wages in Europe can play a key role – but only if it does not act as a straitjacket stifling the development of fair minimum wages, but instead functions as a ladder which supports the gradual increase of minimum wages in Europe to a level sufficient for employees to make ends meet from what they earn. In this sense, the proposed Directive can support the shift from a 'low road' economic model based on exploitatively low wages and social dumping towards a 'high road' model based on quality, innovation and fair wages. This is, however, only possible if the following amendments are included in the proposed Directive to ensure that it goes beyond mere political symbolism and really ensures short-term improvements for minimum wage workers.

'Double decency' threshold

Since wage-setting is a national competence, the EU does not have the power under its Treaties to set an absolute EU-wide minimum wage level; however, it can legally oblige Member States to ensure decent pay. To ensure fair minimum wages, the proposed Directive should, therefore, include in the legislative provisions a double decency threshold of 60% of the median wage and 50% of the national average wage. This double decency threshold would not set a specific wage but would instead define a minimum threshold under which no national minimum wage should be set. In order to ensure that the double

decency threshold is not undermined and eroded, the proposed Directive should also end the possibility to exclude certain categories of workers from minimum wage protection. It should furthermore prevent the practice of deductions for other costs, such as uniforms or breakages. And, finally, the calculation of minimum wages should not include bonuses and tips which should be paid on top. According to the Commission's own calculation, a European minimum wage target according to which all national minimum wages would increase to at least 60% of the national median wage and 50% of the national average wage would bring around 25 million low-wage workers in the EU substantial pay increases and a significant improvement in their life situation (European Commission 2020d: 54)).

Support for (cross-)sectoral bargaining

In many countries, the relatively high minimum wage level is more an expression of low wages overall than of high absolute minimum wage levels. Thus, the proposed Directive's obligation on Member States to promote collective bargaining by establishing an action plan if bargaining coverage is below 70% can help to ensure that minimum wages that meet the double decency threshold really are fair minimum wages that ensure a decent living standard. To ensure that the action plans really fulfil their purpose of gradually increasing collective bargaining coverage to at least 70%, the proposed Directive should, however, specify supportive measures to be taken into account by Member States when establishing their action plans. These measures should at least include the following: guaranteeing that all categories of workers (including non-standard workers) in both the private and public sector enjoy the right to bargain collectively; providing for or strengthening extension mechanisms for (cross-)sectoral collective agreements; preventing acts of anti-union victimisation, such as employers' reprisal against workers who organise for fair wages or exercise their right to unionisation; and ensuring that public procurement procedures support the respect of the right to bargain collectively. In addition to ensuring that the content of the action plans serves to achieve the objective of 70% collective bargaining coverage, the proposed Directive should also provide the action plans with 'procedural teeth'. One could, for instance, imagine that in the case of repeated failure of an action plan to bring about progress towards 70% coverage, the Commission would open infringement procedures in accordance with the Treaty of the Functioning of the European Union.

Protection of national bargaining systems

The Commission has made an effort to protect national systems in which minimum wages are set

by collective agreements. This includes, in particular, the guarantee that no Member State can be forced to introduce a statutory minimum wage. However, in order to protect well-functioning bargaining systems such that the freedom of collective bargaining cannot be undermined by court rulings, the proposed Directive should include a 'social progress' clause. Such a clause would prevent court rulings that effectively prioritise economic freedoms over social rights. This was the stark logic of the 2007 Laval case, in which the European Court of Justice ruled in favour of the freedoms of movement and establishment to restrict the right of Swedish trade unions to take industrial action. Incorporating a social progress clause would guarantee trade union prerogatives and protect collective bargaining and the autonomy of the two sides of industry against damaging court rulings.

Fair minimum wages that are good for the economy

At the heart of the matter is the recognition that fair minimum wages and collective bargaining are good for the economy. At the outbreak of the pandemic, opponents of the Commission's minimum wage initiative often argued that the introduction of fair minimum wages at a level of 60% of the median and 50% of the average wage would be too expensive, lead to negative employment effects, and harm international competitiveness.

Research on the employment and economic effects of minimum wage increases has shown no significant adverse effects because companies coped with the increases in labour costs in many different ways. These include: first, increasing the price of the goods and services offered; second, compressing the wage structure, which means that the increase of wages for low-wage earners at the bottom of the wage structure was (partly) absorbed by suspending or postponing wage increases and the payment of bonuses to workers higher up the pay scale (Hirsch et al., 2011); third, reducing the profit margin (Draca et al. 2011); and fourth, increasing productivity, which was mainly done by a reduction in labour turnover and more investment in training to upgrade the skills level of the workforce. A reduction in staff turnover

helps companies to save costs for the recruitment, selection and induction of new workers, and it also helps to simplify management processes (Dube et al. 2007, 2010).

Nor would the implementation of fair minimum wages harm competitiveness and economic growth. The opposite is actually the case. Since including the double decency threshold in the main body of the legal provisions would ensure the compulsory implementation of fair minimum wages in a coordinated manner across the whole of the EU in relation to national wages at 60% of the median wage and 50% of the average wage, it would create a level playing field without adverse effects for the relative concept of international competitiveness. Furthermore, most of the employees affected by the introduction of fair minimum wages work in service sectors such as hairdressing, cleaning, retail, hospitality, and the health and care sector that are not exposed to international competition and whose services are performed within local markets.

Since the EU economy is demand- and wage-led, fair minimum wages would boost internal demand because of the low-wage workers' greater propensity to spend additional income. Minimum wages would boost internal demand, and thus economic growth, not only by directly increasing the wages of millions of low-wage workers: through so-called 'ripple effects' (Grimshaw and Rubery 2013), fair minimum wages would also influence general wage developments, reinforcing their positive impact on internal demand and economic growth.

Finally, the current crisis highlighted the importance of fair minimum wages for social and political stability in Europe. Due to the far-reaching social impact of the crisis, especially in the countries of southern Europe most affected by the crisis, the feeling of being let down by other EU Member States and the European institutions is increasing. Against this background, it is essential to improve the social situation of many people in Europe with an amended European Directive on adequate minimum wages. From a social, political and also economic point of view, the timely implementation of such a Directive would be an important component of a comprehensive Covid-19 recovery strategy.

Chapter 4

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