

The European Union's Minimum Wage Policy

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ABSTRACT: *The European Commission released a consultation paper on January 14th, 2020, with the goal of enacting legislation to ensure that Europe's minimum wage is competitive. As shown in this policy brief, we advocate using the 'in-work poverty wage' criterion of 60% of the national full-time gross median pay as a starting point for determining whether minimum wages are adequate or not. Because the median pays in nations with a large percentage of low-paid employees is extremely low, a minimum wage of 60% of the national median income may not be sufficient to provide a reasonable standard of life. Consequently, an obligation to test the 60% target in real life should be included as part of the Commission initiative. This could be done by looking at, for example, a country-specific basket of goods and services defined with the participation of trade unions and employers' organizations to see if an hourly rate of 60% the national median hourly rate really is an hourly rate that ensures a decent standard of living. Additional proposals for measures to support sectoral collective bargaining should be developed by the Commission to ensure that 60% of the national median wage really is a fair minimum wage that provides more than mere subsistence by making it possible for workers to participate in society and allowing them to protect themselves against unforeseen shocks.*

KEYWORDS: *Employer, European Commission, Goods, Minimum Wage, Services, Unions.*

1. INTRODUCTION

It was announced that the European Commission will begin consulting with social partners on "potential measures to address the issues associated with fair minimum wages" on January 14th, 2020. This effort marks a turning point in the lengthy debate over European minimum wage policy, as it is the first time the Commission would contemplate legislating to guarantee that Europe's minimum wages are equitable. In addition, the effort is notable since minimum salaries are no longer only seen as a hindrance to pay flexibility and competitiveness on the downward slide. The 'Troika,' made up of the European Central Bank, the European Commission, and the International Monetary Fund, enforced minimum wage cuts and freezes as part of crisis management. Similar to France and Portugal, country-specific recommendations for nations with relatively high relative minimum salaries have frequently included measures to guarantee that minimum wage developments do not impair competitiveness until most recently[1].

For its part, Europe's legislative effort makes specific mention of minimum wages as a tool for fostering social cohesion and protecting workers from poverty. Accordingly, it adheres to EPSR Principle 6, which stresses employees' rights to "fair wages that provide for a reasonable living standard" as well as "appropriate minimum wages... that satisfy the requirements of the worker and his or her family." As a result, the Commission's legislative proposal may be seen as a first step towards putting EPSR promises into action.

When it comes to how to ensure equitable minimum wages, the Commission paper is quite specific about what has to be done. As expected, because one goal of the first-stage social partner consultation is to find out if trade unions and employers want to start a conversation under Article 155 TFEU, the Commission chose to describe the potential path of EU action only in very general terms. This is not a big surprise. In the past, highly comprehensive Commission proposals seemed to have discouraged rather than promoted discussions, according to academics[2].

A comprehensive proposal would provide negotiators with little space for maneuver, and in the event of a detailed Commission proposal both parties may believe that they have more to gain from the Commission's proposal than from talks' inherently unpredictable outcomes. There have been many non-formal discussions on minimum wage issues, and the Commission wants to find out what the official positions of employers and unions are on these issues, as well as what action they would want to see taken. Negotiations under Article 155 TFEU seem improbable given employers' strong resistance to any European-level effort on minimum wages, but the Commission wants to leave all options open.

Despite the rationale for the document's ambiguity, the Commission fails to answer two critical questions: first, what is a reasonable minimum wage? In the second place, what specific steps may be done to guarantee that the minimum wage in EU member states is equitable? This policy brief's goal is to provide some real-world solutions to these two dilemmas[3].

1.1 Reasonable Pay for A Minimum-Wage Worker:

A reasonable quality of life and fairness in pay distribution are the closest definitions provided by the Commission's paper for fair or sufficient minimum wages. Despite the fact that this definition is ambiguous, it does include some useful hints for determining whether or not a certain pay is considered fair or sufficient.

As a start, the reference to the standard of living, along with the EPSR reference earlier, implies that minimum wages should be living wages, in the sense that they provide for more than just subsistence by enabling participation in society and some room for workers and their families to prepare for unforeseen shocks.

Additional reference to wage distribution by the Commission suggests a preference for a combination of methods to determine the level of a fair minimum wage: the "basic living cost approach" measured by a basket of goods and services, as well as the "wage distribution approach" measured by the Kaitz Index, which compares minimum wage levels to either the median or average wage in the respective region or country[4].

A number of countries have successfully used various variations of the basic living cost approach to determine an adequate minimum wage level that represents a living wage; however, there are some strong arguments against attempts to use an internationally standardized approach to pursue the European Commission's wage initiative.

An important consideration here is how countries define and measure what it means to live a decent life, which has a bearing on the mix of commodities and services they include in their basic needs baskets. Second, determining a livable wage is influenced by the welfare state and public infrastructure unique to a country's location. These characteristics have a significant impact on determining how much of a worker's expenses should be covered by the minimum wage.

To put it another way, any specific definition of an appropriate minimum wage level that takes into account a basket of goods and services would always be the product of social debate and political compromises among the many players involved. In terms of sheer practicality, it's difficult to see how such a political agreement can be reached at the European level among the soon-to-be-27 nations. Different national calculating techniques have their own unique logic and rationale in their individual country settings. This is why they should be accepted as valid. The pragmatic approach of concentrating on pay distribution as a means of defining what constitutes a fair minimum wage seems more viable at the European level[5].

1.2 Workable Option:

For an appropriate minimum wage, the Kaitz Index is a good starting point since it is simple to compute and explain while also serving as the accepted worldwide benchmark for minimum wage comparisons. The broad variety of absolute minimum wages, from as little as two Euros in Bulgaria to as much as 12 Euros in Luxembourg, is also taken into consideration.

However, various choices are available and have been selected in reality when it comes to establishing the actual amount of an acceptable minimum wage using the Kaitz Index. Working people's right to a fair pay that provides for them and their families was codified in the European Social Charter of 1961 as a benchmark of 68% of the national average gross income. In 1998, this standard was dropped in favor of one based on 60% of the national average net pay. European governments have also lately used the Kaitz Index as a guideline for adjusting the minimum wage.

When the Conservative government in the UK established the 'National Living Pay' in 2016, it also stated its goal to increase the new 'National Living Wage' to 60% of the median wage by 2020. This is de facto a new national minimum wage for all employees aged 25 and over. The incoming Conservative administration intends to increase the National Living Pay to two-thirds of the national median wage[6].

Government in Slovakia revised minimum wage legislation in October 2019 to specify that minimum pay shall equal at least 60% of national average gross salary from 2021 if trade unions and businesses fail to reach to agreement. On a similar note, by the conclusion of its official term in 2024, Spain's new left-wing government plans to raise minimum wages there to 60 percent of the country's gross average salary.

A range of methods for determining fair or sufficient minimum wages using the Kaitz Index may be shown in these instances. To begin, which should be used as a benchmark: the median pays or the average wage? To begin with, gross wages or net wages? In the third place, how specific should the levelling be? In international comparisons, median wages are often used as a starting point since they are statistically less prone to distortions

caused by extreme outliers – and thus more resilient. Because it's unaffected by changes to the minimum wage, the median is a more stable measure than the average. As a result, the median serves as a somewhat arbitrary yardstick for comparing the relative worth of the minimum wage.

Second, when determining whether gross or net wages should serve as a baseline for comparison, the Commission document stresses that taxes and social contributions should be taken into account when determining whether minimum wages are adequate. This, in essence, supports the use of net wages as a baseline[7].

This is a viewpoint with which we strongly disagree. There are a few things to consider before debating whether to focus on gross or net wages: who is ultimately accountable for ensuring that every worker receives a decent living wage? Net wages would transfer the burden of guaranteeing decent minimum wages from businesses to governments, since lower taxes and social security payments would be required.

By shifting the costs of unfair labor practices to the government and society at large, it would allow businesses with business models based on paying low salaries to continue doing so. According to Sidney Webb, who was a pioneer in industrial relations, the primary purpose of a minimum wage was to protect society against industrial parasitism more than a century ago.

This complicates determining whether the benchmark has been met because it involves the complex issue of taxes and social security contributions, and therefore the fundamental constitution of the welfare state more generally. The second reason is more technical: net wages are not an appropriate reference for a European initiative to establish fair minimum wages. When the UK Low Pay Unit opted to drop out of the Council of Europe's benchmarking system in 2003, they did so because they felt the 60 percent decency level was a flawed metric that would be lost in debates about how it was calculated, data reliability, and so on[8].

As soon as the Kaitz Index is decided to be used, the next step is to determine the right level for it to be used at. The Kaitz Index's suitable level may be derived from research on poverty. A generally recognized criterion for absolute poverty in poverty studies is 50% of the national median income, whereas the 'at-risk-of-poverty' level is 60%. While the minimum wage is a notion that applies to individuals, poverty is a state in which people share resources amongst themselves.

As a result, not all workers earning less than the decency minimum wage are inherently impoverished. For a minimum wage to cause in-work poverty, many conditions must be present, such as inadequate working hours, a large family with many dependents, and other sources of household income such as social security benefits. This is why ensuring that workers are paid a living wage is not the answer to ending poverty in the workplace. That low pay is ten times more likely to put people into poverty while they are employed shows the significance of fair minimum wages as a weapon to combat poverty while they are employed[9].

The "at-risk-of-poverty" threshold is defined to ensure that workers are not reliant on the government (through tax credits or in-work benefits) for relief from poverty in light of this. This 60 percent of the national gross median wage refers to an individual full-time worker, regardless of his or her living and household circumstances. Wages below 50% of the full-time gross median pay may also be considered 'poverty wages' according to this reasoning.

2. DISCUSSION

The current political and social environment favors a European minimum wage proposal in theory. Discussions on a European minimum wage policy in the past, however, have often been just symbolic, with nothing more than platitudes about a more social Europe to show for it. The issue was that European discussions had little bearing on national developments. This time is different. If successful, the Commission's plan will build on other states' efforts to raise the minimum wage significantly. Union campaigns and government initiatives both fall under this umbrella term. Trade unions in Belgium and the Netherlands are now pushing for a minimum wage of €14 per hour.

A 45 percent and 38% rise, respectively, would be the result. Others, including the Czech Republic, France, Germany, Great Britain, Ireland, Luxembourg, Portugal, Slovakia, and Spain, have 10% to 30% increases in their requirements. The Austrian trade union campaign also shows that such efforts are not limited to nations with a statutory minimum wage system, but even countries with a collectively decided minimum pay system are included in this group. Despite national differences, all campaigns and initiatives share the European Commission's declared goal of establishing sufficient minimum wages that allow employees to make a livelihood. As a result, the European initiative of the Commission, as well as different national initiatives, have the potential to strengthen one another.

It's still up in the air whether or not we'll ever have a European minimum wage. No matter how comprehensive and ambitious the Commission's proposal for the second phase consultation is, a qualified majority is still required in the Council of the European Union in order to guarantee that equitable minimum wages are implemented. This is far from certain, given the present state of affairs. Sweden and Denmark's governments, as well as business leaders on both sides, have been particularly critical. Many in these two nations fear that an EU law on minimum wages will fundamentally interfere with their tradition of voluntary industrial relations and undermine collective bargaining autonomy, hamper the normative effect on collective agreements and exert negative pressure on wage levels.

This will weaken incentives for workers and employers to band together to organize. The Commission acknowledges these concerns in its consultation paper, saying that "any potential EU intervention in the area of minimum salaries would respect national traditions, social partners' autonomy and freedom of collective bargaining." No standard minimum pay setting mechanism would be established, nor would a statutory minimum wage be introduced in countries with strong collective bargaining coverage and where wage setting is solely organized via it[10].

This shows the Commission's obvious aim to protect national wage-setting and bargaining systems from the proposal. Crises have a tendency to make people distrust government because of the way it has actively dismantled collective bargaining mechanisms. It will be crucially important for the Commission to secure political support for its minimum wage plan by adding robust safeguards to preserve well-functioning bargaining institutions in such a manner that the freedom of collective bargaining is not undercut by the proposed legislative instrument.

Additionally, they should be shielded from court rulings that favor economic freedom over social rights, as the European Court of Justice did in the 2007 Laval case, which sided with free movement and establishment rights while restricting the ability of Swedish trade unions to engage in industrial action.

3. CONCLUSION

It is possible that the European Commission's recent legislative effort to create equitable minimum wages in Europe would mark the beginning of a new chapter in the long-running debate over the establishment of a European minimum wage policy. As a result, we propose a realistic method in which a Kaitz Index of 60 percent of the national full-time gross median pay is used as the reference point for determining whether fair minimum wages are enough. Such a goal is simple to achieve, and, perhaps more importantly, it is simple to convey with others.

A European minimum wage goal, under which all national minimum salaries are raised to at least 60% of the national median salary, would result in substantial pay increases for millions of low-paid employees in the EU, as well as a major improvement in their living conditions. Furthermore, according to a thorough assessment of the worldwide data, even large minimum wage hikes to a level equal to 60 percent of the national median pay would not have a significant detrimental impact on the labour market. Increases in the minimum wage to 60 percent of the national median would also help to promote economic development in many nations by increasing domestic demand for goods and services.

The establishment of such a 60 per cent target for minimum wages in Europe should, however, be linked with measures designed to ensure that 60 per cent of the national median wage really is a wage that ensures a decent living standard. First of all, the 60 per cent target needs to be examined in line with national criteria used to define a fair minimum wage. Second, the Commission should develop further initiatives to support sectoral collective bargaining as the primary tool to raise the overall wage structure.

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