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WSI-minimum wage report 2021: Is Europe en route to adequate minimum wages?

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REPORT

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WSI-MINIMUM WAGE REPORT 2021

Is Europe en route to adequate minimum wages?

Malte Lübker, Thorsten Schulten

SUMMARY

In late 2020, the European Commission took an important step towards securing adequate minimum wages for all workers in Europe with the publication of a draft Directive aimed at reversing the growing polarisation of incomes and the growth of in-work poverty. Securing an income sufficient for a decent standard of living will require substantial increases in minimum wages in virtually all Member States – a medium-term objective that, according to the Commission's calculations, would deliver clear social benefits. More than 25 million workers in Europe would benefit directly were statutory minimum wages to rise to either 60% of the median wage or 50% of the average wage. In Germany alone, where 60% of the median wage would equate to a minimum wage of €12.00, some 6.8 million workers would see increases in their pay.

Minimum wage per hour in ...

Luxembourg	12,73 €	
Netherlands	10,34 €	
France	10,25 €	
Ireland	10,20 €	
Belgium	9,85 €	
Germany	9,50 €	

Source: WSI Minimum Wage Database 2021

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1 INTRODUCTION

Prior to her election as President of the European Commission, one of the key pledges made by Ursula von der Leyen (a member of the German Christian Democrat Party and former German Cabinet Minister) was that during her period of office ‘every employee in our Union should receive a fair minimum wage’ (von der Leyen 2019: 11). The Commission has now published a draft Directive intended to bring this about. This step also marks the beginning of a new phase in the development of a European-level approach to minimum wages, an issue that has been debated for some three decades since its origins in the early-1990s (Schulten 2008).¹ The priority now is to move from discussion to implementation. For this reason, this year’s WSI Minimum Wage Report will focus on an analysis of the key elements of the proposed Directive (in Section 2), locating it in the context of current levels of minimum wages in Europe and beyond, based on

data compiled by the WSI Minimum Wage Database² (in Sections 3 and 4).

One key element in this involves establishing the relationship between minimum wages and the general pay level in the economies under consideration (Section 5). Minimum wages would need to rise substantially in many countries in order to match the benchmarks proposed by the European Commission (60% of the gross median wage, 50% of the average wage): this aspect will be considered in Section 6, drawing on a range of current international practice. In conclusion, this year’s WSI Minimum Wage Report states that meeting the EU objectives will require considerable action at the national level, especially in Germany.

1 The European minimum-wage debate has frequently been explored in previous editions of the WSI Minimum Wage Report. For example, the first edition in 2009 included a section on ‘European minimum wage policy’ (Schulten 2009: 156). On the more recent discussion, see Schulten and Lübker (2019, 2020).

2 The WSI Minimum Wage Database can be accessed at <https://www.wsi.de/de/wsi-minimum-wage-database-international-15303.htm>. As well as an interactive map, it contains a wide range of tables and graphics, and is available in German and English. Data used in this report but not expressly referenced are taken from this Database.

2 THE PROPOSAL FOR A EUROPEAN DIRECTIVE ON MINIMUM WAGES

The proposal for a 'Directive on adequate minimum wages in the European Union', published in October 2020, marks the first occasion on which the European Commission has set out a specific proposal for coordinating national policies on minimum wages at European level. The core aim of the Directive is 'to ensure that the workers in the Union are protected by adequate minimum wages allowing for a decent living wherever they work' (European Commission 2020a: 2). It represents an explicit step towards implementing the 2017 European Pillar of Social Rights, according to which workers have a right to 'fair wages that provide for a decent standard of living' (European Commission 2017: Article 6). In concrete terms, this is held to require the provision of 'adequate minimum wages [...] in a way that provide for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions' (ibid.). In this respect, minimum wages should also be 'Living Wages': that is, a level of pay that not only provides for a decent standard of living but also allows workers to participate fully in society (Schulten and Müller 2017, 2019).

For the Commission, the need for an initiative at the European level is warranted by the fact that statutory minimum wages in most EU Member States are simply 'too low vis-à-vis other wages or to provide a decent living' (European Commission 2020a: 2). As evidence, the Commission cites a range of 'adequacy indicators commonly used at international level' and, in particular, the Kaitz index (see also Section 5 below and European Commission, 2020b, pp. 192ff). The Commission notes: 'National statutory minimum wages are lower than 60% of the gross median wage and/or 50% of the gross average wage in almost all Member States' (European Commission 2020a: 2).

The Commission's reference to the Kaitz index is also a demonstration of its clear intent not to propose a single monetary rate for a pan-European minimum wage. Rather, the main thrust is to set out transparent criteria for what constitutes 'adequacy' that will then need to be specified for each national economic and social context. In line with this, the proposed Directive includes a provision under which all EU Member States will be required to define clear criteria for setting and updating national minimum wages which will 'promote adequacy with the aim to achieve decent working and living conditions, social cohesion and upward convergence' (ibid.: 27).

This will require, at a minimum, that the following four elements be taken into consideration:

- 1 the purchasing power of statutory minimum wages, taking into account the cost of living and the contribution of taxes and social benefits;
- 2 the general level of gross wages and their distribution;
- 3 the growth rate of gross wages;
- 4 labour productivity developments' (Article 5 (2) of the draft Directive, ibid.: 27).

In contrast to the position of the European Trade Union Confederation (ETUC), the proposed Directive does not make any express stipulation, in terms of a specific percentage of either the national median or average gross wage, that countries should adopt in setting a minimum wage. Nonetheless, the proposal does require that Member States 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 2020a, Article 5 (3)). And although the main operative part of the Directive does not state what this might mean in practice, the Recitals to the Directive, which can play a role in its interpretation, offer the following – explicit – reference to 'indicators commonly used at international level, such as 60% of the gross median wage and 50% of the gross average wage, [which] can help guide the assessment of minimum wage adequacy in relation to the gross level of wages' (Recital 21, ibid.: 20). Although these criteria are not mandatory, the Recital provides a normative frame of reference at European level against which national minimum wage policies will need to measure themselves.

The Commission's proposal also includes a further significant element: strengthening national institutions for setting minimum wages, while not impinging on the autonomy of national wage-setting arrangements. Contrary to concerns expressed in Denmark and Sweden (Auymayr-Pintar and Rasche 2020: 5ff.), the proposed Directive makes it clear that Member States that currently do not have a statutory minimum wage will not be obliged to introduce one (European Commission 2020a, Article 1: 23). This is intended to acknowledge the fact that although 21 out of 27 Member States have a national-level statutory minimum wage, minimum wages in the remaining six are set only for individual branches and occupational groups, typically by collective agreement (Schulten and Müller 2020).

Most countries in this group have a notably high level of collective bargaining coverage (Figure 1) and for this reason, and in particular in Austria and the three Nordic countries (Denmark, Finland and Sweden), the introduction of a national statutory minimum wage has not only been rejected by the employers but also the trade unions. In contrast, such a step has been under consideration and a topic of political debate in recent years in Italy and Cyprus (Ausmayr-Pintar and Rasche 2020: 33f.).

Those countries that have a statutory minimum wage also exhibit a wide range of interactions between systems of collective bargaining and statutory arrangements (Grimshaw et al. 2015; Dingeldey 2019). In Germany, for example, research suggests that the introduction of the statutory minimum wage in 2015 has strengthened collective bargaining in many low-wage sectors (Bispinck et al. 2020; Schulten 2020a). Conversely, an adequate wage level cannot be established by statutory means alone but also requires a system of collective bargaining that is both institutionally comprehensive and has a high level of workforce coverage (Lübker and Schulten 2018).

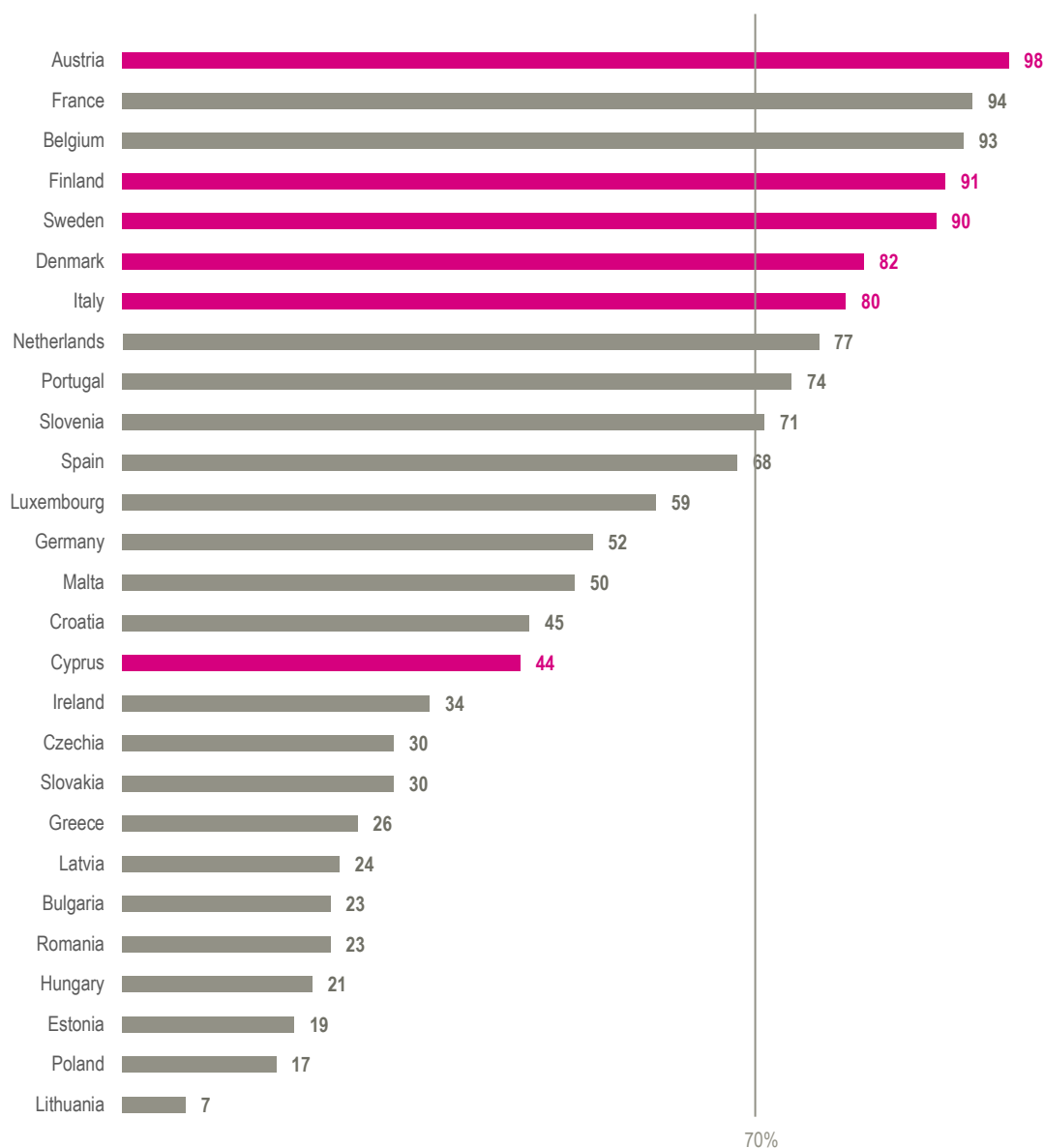
In this context, one further key element of the proposed Directive is a set of provisions intended to strengthen national systems of collective bargaining. Specifically, all Member States with a level of collective bargaining coverage of below 70% of the workforce will be obliged to begin a national dialogue, involving employer associations and trade unions, to promote sectoral and cross-industry collective bargaining, develop action plans to support collective bargaining, and notify outcomes to the Commission (European Commission 2020a, Article 4: 23). The Draft also expressly refers to the possibility of compliance with collective agreements as a requirement in public procurement (ibid., Article 9: 29).

As Figure 1 shows, collective bargaining coverage is below this 70% threshold in 17 of the EU's 27 Member States.³ This includes Germany, where collective agreements now cover only 52% of the workforce. The Commission's initiative therefore serves to highlight both the role of collective agreements as a means for securing improved employment standards and the need for political action to raise the level of collective bargaining in Germany (Lübker and Schulten 2020: 3ff.). Remedial action is also particularly required in Ireland (collective bargaining coverage, 34%) and Greece (26%), as well as in seven CEE Member States, where less than a quarter of the workforce is covered by a collective agreement in. And despite a record of strong pay growth in recent years, the general wage level in Eastern Europe remains well below that of other EU members (Lübker 2019, 2020).

³ On changes in and explanatory factors determining collective bargaining coverage in Europe, see Mesch (2020).

Collective bargaining coverage in the European Union

Share of all workers in workplaces covered by collective agreements, in percent



■ Countries without a national statutory minimum wage
■ Countries with a national statutory minimum wage

Note: In some countries, data are not current. The chart draws on the most recent data available during the period 2014-2019

Source: ICTWSS Database, Version 6.1; for Germany, data are from the IAB Establishment Panel 2019

3 MINIMUM WAGES IN EUROS, 1 JANUARY 2021

There was a very wide range of minimum wage levels within the European Union at the start of 2021. For illustration, in order to reach the €12.73 hourly minimum wage of an employee in Luxembourg, an employee in Bulgaria would have to work for 6 hours and 22 minutes at the local minimum wage of €2.00 per hour (Figure 2). In most other Western European EU Member States, minimum wages are currently comfortably above the €10.00 per hour mark: this includes the Netherlands (€10.34), France (€10.25) and Ireland (€10.20). And in Belgium, the hourly minimum wage of €9.85 lies just below this threshold. Germany's hourly minimum wage of €9.50 places it in sixth and last place among the Western European EU Member States. Much lower hourly minimum wages are found in Southern and Eastern Europe, with Slovenia (€5.92) and Spain (€5.76) occupying a mid-table position, and with hourly minimum rates in the remainder below €5.00.

Figure 2 does not include Italy, Austria and the Nordic countries as these do not have statutory minimum wages and where comprehensive arrangements for collective bargaining provide an effective wage floor (see Section 2). With the exception of Italy, collectively-agreed minimum wages in these countries are above or at the level of statutory minimum wages in other Western European countries (Schulten and Müller, 2020). This also applies for those branches that typically rank as low-wage. In commercial cleaning, for example, monthly pay ranges from €1,790 in Finland to €2,370 in Denmark. And for chefs, the range is €1,797 in Austria to €2,237 in Sweden (Aumayr-Pintar and Rasche 2020: 25). Assuming working hours of 169 per month, this yields collectively-agreed hourly minimum rates of, in some cases, well above €10.00 per hour.

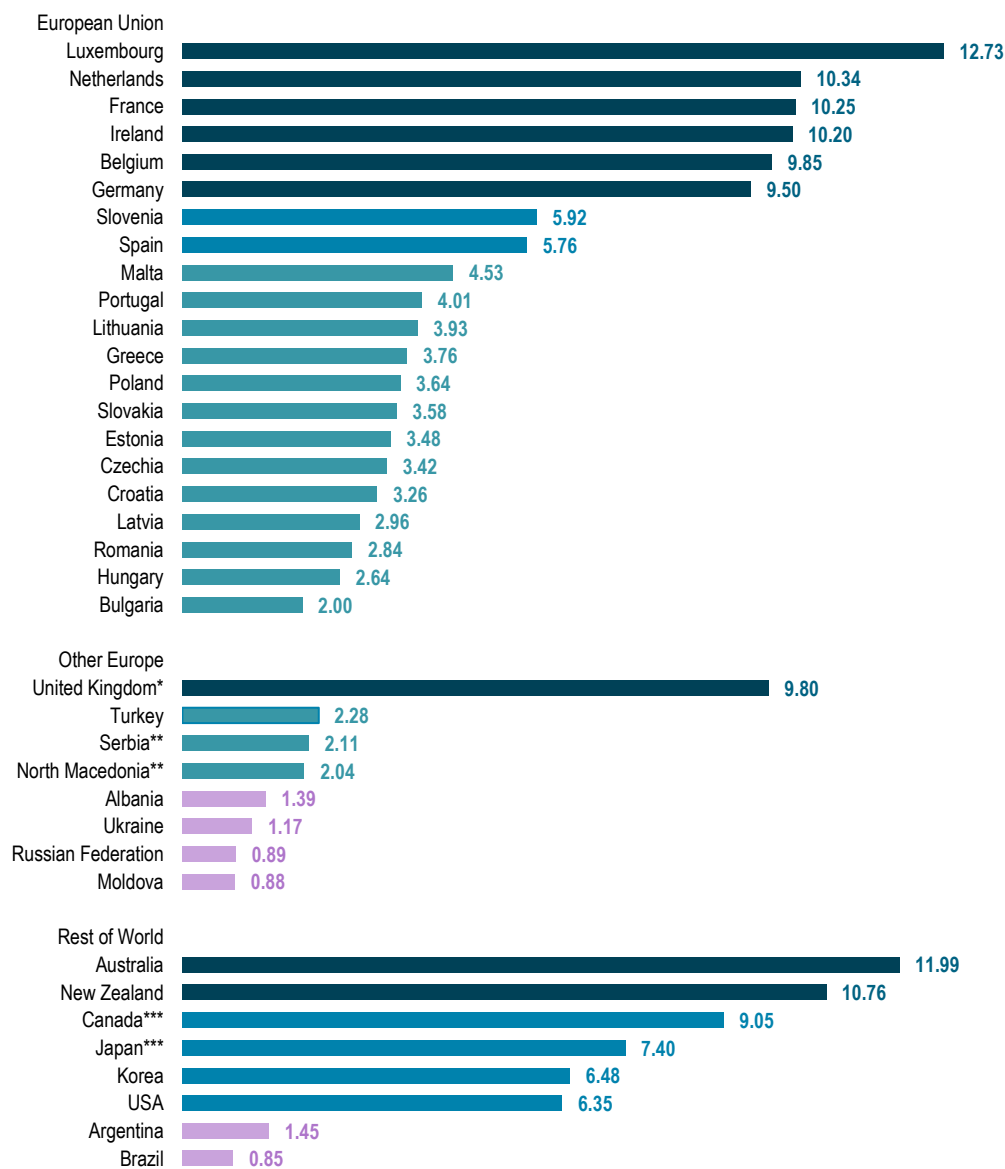
Of the non-EU countries in Europe on the list, the UK stands out with a 'National Living Wage' of £8.72 per hour for workers aged 25 and above. Despite the persistent weakness of the Pound Sterling on foreign exchange markets, this still equates to €9.80 in Euro terms. Hourly minimum wages are considerably lower in Turkey (€2.28) and the Balkan states of Serbia (€2.11), North Macedonia (€2.04) and Albania (€1.39),⁴ with even lower minima in Ukraine (€1.17), Russia (€0.89) and Moldova (€0.88). In Russia, however, municipalities and regions can set higher minimum wages, with the current minimum in Moscow, for example, converting to €1.44 (see WSI Minimum Wage Database 2021).

The same applies in the USA, where local and state minimum wages often comfortably exceed the low Federal minimum. While the latter has remained unchanged at \$7.25 (€6.35) since July 2009, regions such as Washington D.C., with \$15.00 (€13.13), California with \$14.00 (€12.26), and Massachusetts with \$13.50 (€11.82) have established much higher wage floors (ibid.). Both Australia (€11.99) and New Zealand (€10.76) have minimum wages above the West European level. By contrast, Canada (€9.05) and Japan (€7.40), where minima are set at regional level and for which the WSI Minimum Wage Database calculates a weighted national average, together with Korea (€6.48), have comparatively low minimum wages compared with other industrialised countries. Minimum wages in the emerging economies of Argentina (€1.45) and Brazil (€0.85) are lower still.

4 In order to minimise the influence of short-term exchange-rate fluctuations, wage rates are converted to Euros using average exchange rates for 2020. In countries with steeply depreciating exchange rates, such as Ukraine and Argentina, this can lead to overstating local minimum wages in Euro terms.

Statutory minimum wages, as at 1 January 2021

In Euros, per hour



■ €9.50 and above ■ €5.00-9.49
■ €2.00-4.99 ■ Below €2.00

Notes: Conversion to Euros using average exchange rates for 2020. The territory of the European Union is as at 1 January 2021.

* from 1.2.2021, Hungary € 2.74; from 1.4.2021, New Zealand € 11.39 and UK € 10.01 (£8.91).

** Estimated as the minimum wage is specified as a net wage.

*** Weighted average of regional minimum wages.

4 MINIMUM WAGES IN PURCHASING POWER TERMS, 1 JANUARY 2021

A direct international comparison of minimum wages will omit the effect of differences in national price levels on real purchasing power, however. On this, the European Commission's proposed Directive notes, for example, that 'the purchasing power of statutory minimum wages, taking into account the cost of living' should constitute one of the criteria for assessing their adequacy (European Commission 2020a: 25) (see also Section 2). Differences in living costs, which also occur within the Euro-area, can be dealt with to a reasonable degree by converting minimum wages into Purchasing Power Standards (PPS). The WSI Minimum Wage Database uses the PPS for private consumption for 2019 calculated by the World Bank.⁵ For countries with high inflation rates, however, purchasing power in national currencies will have fallen since then, meaning that purchasing power converted into PPS is, in reality, lower than the figure indicated here. This is especially the case in Argentina, Turkey and Ukraine, for which minimum wages in PPS terms tend to overstate current real purchasing power.

Within the European Union, PPS conversions offer a more valid comparison and highlight the effects of lower living costs in Eastern European Member States, leading to a marked narrowing of the range of minimum wages expressed in PPS rather than Euro terms (Figure 3). Nonetheless, even after allowing for the differences in living costs, a minimum wage recipient in Bulgaria (3.77 PPS) would have to work for 2 hours and 40 minutes to achieve the same purchasing power as an employee on the minimum wage in Luxembourg (10.05 PPS) would earn in one hour. Minimum wages in other Eastern European EU Member States also move towards the Western European level when converted into PPS terms, although the more favourable cost of living does not wholly make up for the generally lower level of wages. Despite this, some Eastern European countries do much better measured on a PPS-basis than when compared on the basis of market exchange rates, and notably Poland (6.17 PPS), Lithuania (5.76 PPS), Romania (5.40 PPS) and Bulgaria (3.77 PPS).

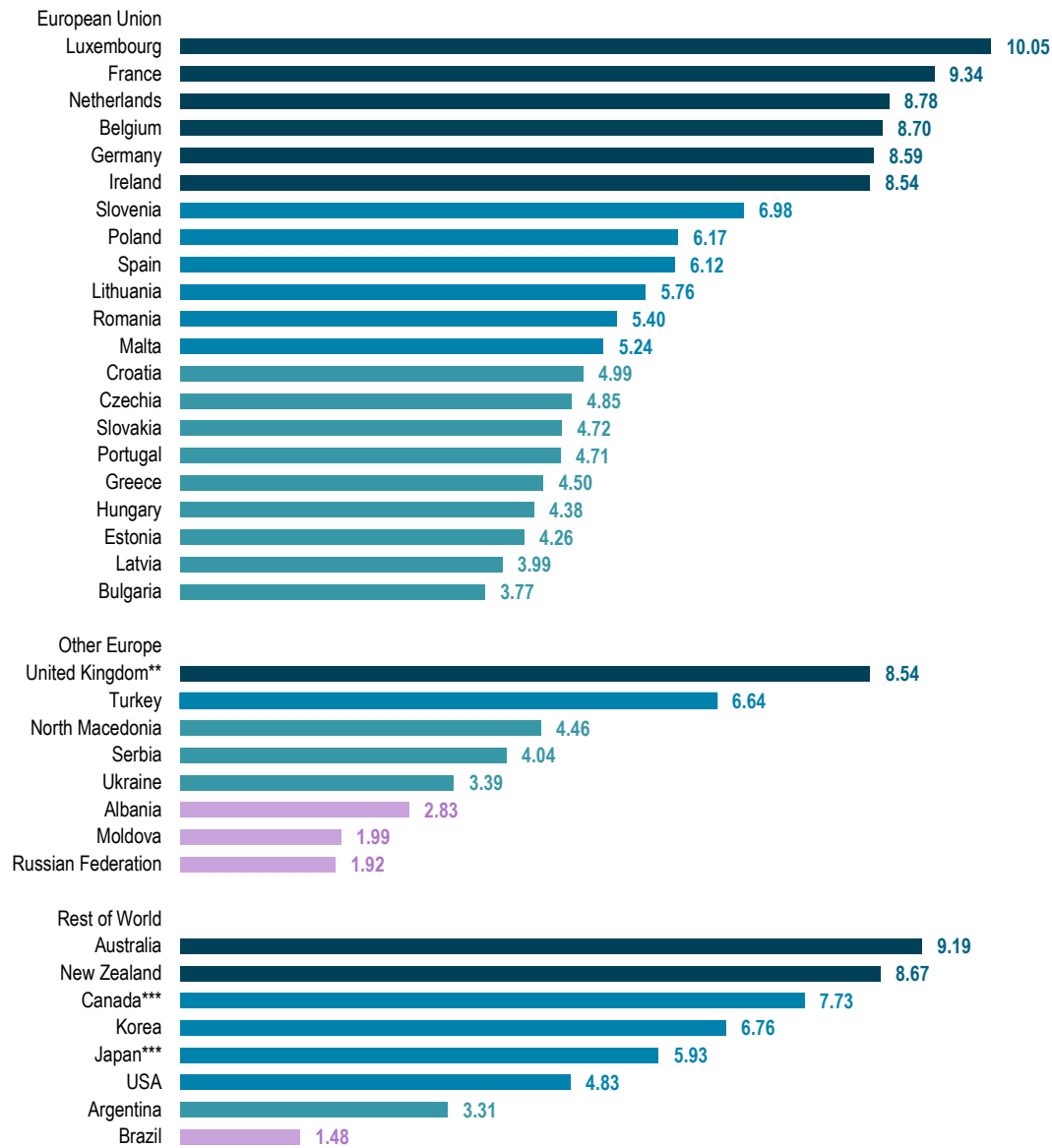
Since living costs in Southern Europe are considerably higher than in Eastern Europe, purchasing power is more impacted by the fact of having relatively low nominal minimum wages: minimum wage recipients in Malta (5.24 PPS), Portugal (4.71 PPS) and Greece (4.50 PPS) now have lower real purchasing power than those in some Eastern European EU Member States. Conversion to PPS terms has only a minor impact for Western European countries, with Ireland (8.54 PPS) dropping just behind Germany (8.59 PPS) due to its comparatively high cost of living.

Conversion into PPS terms also narrows the range of minimum wages for countries outside the European Union, with more developed economies generally having higher minimum wages. Minimum wages in Australia (9.19 PPS) and New Zealand (8.67 PPS) continue to be comparable with the typical Western European level, with the minimum wage in Korea (6.76 PPS) higher than that in Japan (5.93 PPS) after allowing for differences in living costs. The United States constitutes a somewhat curious anomaly in that, with a Federal minimum of just 4.83 PPS, it sits only barely above the Balkan countries of North Macedonia (4.46 PPS) and Serbia (4.04 PPS) in the rankings (see also Section 6)

⁵ Nominal minimum wages are first converted to PPS on a US \$ basis, that is expressed in terms of living costs in the USA, and then converted into PPS on a Euro basis using the Purchasing Power Parities for the US \$ vis-à-vis the Euro calculated by Eurostat.

Purchasing power of statutory minimum wages, as at 1 January 2021

In PPS* (€ basis) per hour



■ 8.50 PPS and above
 ■ 5.00-8.49 PPS
■ 3.00-4.99 PPS
 ■ below 3.00 PPS

* Converted to PPS on a Euro basis using 2019 World Bank purchasing power parities for private consumption.

** Estimated as the minimum wage is specified as a net wage.

*** Weighted average of regional minimum wages.

5 THE RELATIVE VALUE OF THE MINIMUM WAGE AS BENCHMARK OF ADEQUACY

A third comparative perspective looks at minimum wages in relation to prevailing national wage levels. This was pioneered by the American labour economist Hyman Kaitz (1970: 43) who proposed expressing minimum wages as a percentage of the average wage. The median wage can also be used for this purpose, with the advantage that it is less influenced by extreme values and therefore represents a more robust indicator of the general wage level of a country. In contrast to the average wage, the median itself is also only rarely affected by adjustments to the minimum wage, enabling it to serve as an exogenous benchmark (see Lopresti and Mumford 2016). Nevertheless, Kaitz's original approach is warranted by the fact that where wage inequality is high and there is a large low-wage labour market segment, the median will lie below the average, with the consequence that a Kaitz index based on the median would, quite erroneously, make even very low minimum wages appear high in comparison.

The European minimum wage initiative has given the Kaitz index a renewed relevance for policy discussion on this issue. In its proposal for a Directive on adequate minimum wages in the EU, the Commission argued: 'Minimum wages are considered adequate if they are fair in relation to the wage distribution in the country and if they provide a decent standard of living' (European Commission 2020a: 20). In operationalising the concept of 'adequacy', the proposal refers to 'indicators commonly used at international level, such as 60% of the gross median wage and 50% of the gross average wage' (ibid.). The European Trade Union Confederation (ETUC) also supports using a double threshold, according to which minimum wages should not be below 60% of the median wage and 50% of the average wage, each in relation to the gross earnings of full-time workers (ETUC 2020).

In advancing the case for its initiative, the Commission notes that, at present, 'national statutory minimum wages are lower than 60% of the gross median wage and/or 50% of the gross average wage in almost all Member States' (European Commission 2020a: 2). In contrast to the WSI Minimum Wage Report, which uses OECD data to calculate the Kaitz index, this finding is based on data from the European Union's statistical office Eurostat (Schulten and Lübker 2019, 2020, see also OECD 2012). Despite minor differences between the two sources, principally as a result of differing approaches to how pay is measured, the data used here confirm the Commission's finding that only very few EU Member States have succeeded in reaching these two thresholds. Taking the median, in only three EU countries minimum wages meet the 60% mark – France (61.4%), Portugal (61.0%) and Bulgaria (60.0%) (Figure 4a). According to the OECD figures, no EU Member State has managed

to reach 50% of average pay, albeit with France (49.6%) and Slovenia (49.0%) only marginally falling short (Figure 4b). Germany, in particular, is some way off both targets: for 2019, the OECD calculates a Kaitz index of 48.2% of the median and 42.6% of the average wage (see also Weinkopf and Kalina 2020).

The Commission does not intend the Directive to set a legally binding stipulation based on these two benchmarks. Rather, Member States are requested 'to use indicative reference values to guide the assessment of the adequacy of statutory minimum wages, such as those commonly used at international level' (European Commission 2020a: 13). The detailed Impact Assessment also refers to these 'indicative reference values' (European Commission 2020b: 209ff) and in its scenario calculations uses both the 60%/50% values as well as some lower values (50%/55% of the median wage, and 40%/45% of the average) (ibid.). The Commission concludes that 'higher reference values' would be more effective in reaching the goals of the initiative and that raising minimum wages to 60% of the median and/or 50% of the average would have 'very significant positive social impact[s]' (ibid.: 210).

This finding is based on a detailed micro-simulation conducted for the Commission by the University of Essex using the Euromod model (see Kneeshaw et al. 2021). Raising minimum wages to 60% of the median wage would directly benefit some 22 million workers through higher pay, rising to 24 million at 50% of the average wage (European Commission, 2020b: 54). Drawing on the Commission's calculations, Figure 5 below sets out the effect of this in individual Member States, using both proposed reference values simultaneously.

This could lead to wage increases for 25.3 million workers, around half of whom currently work in three populous Member States with minimum wages well below the two benchmarks: that is, Germany (6.8 million workers), Spain (4.1 million) and Poland (4.0 million). The number of potential beneficiaries is much lower in countries closer to the benchmarks, such as France (2.2 million).⁶

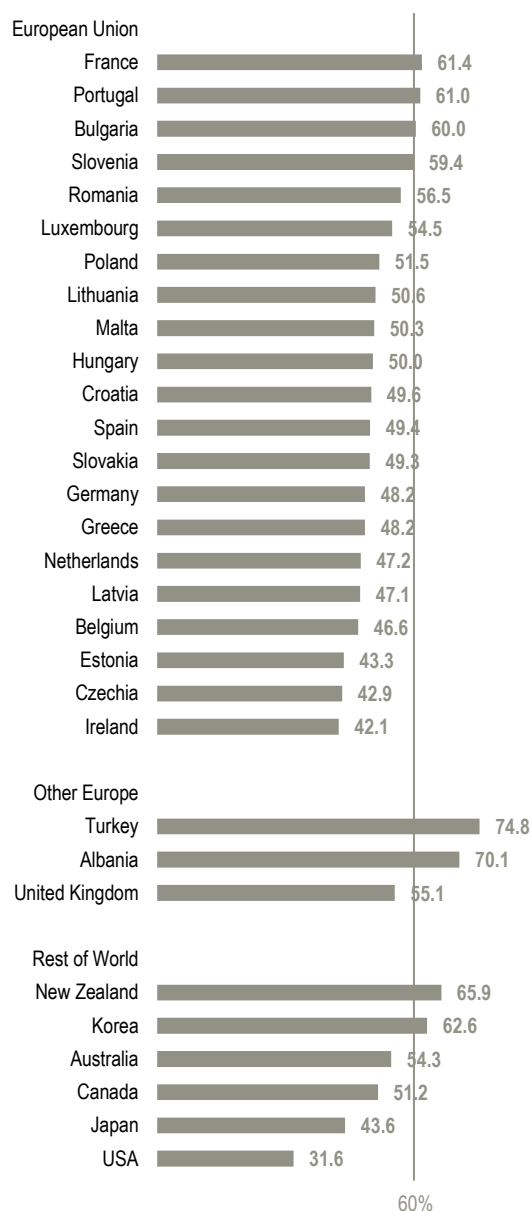
Overall, wages across the whole of the EU would increase by some 1% were they to be increased to the two threshold values (European Commission 2020b: 54), with modest overall effects on labour costs and the share of wages in national income. Since the wage effects would be concentrated in the lower end of the wage distribution, however, the micro-simulation conducted

⁶ The simulation evidently assumes that the wages of workers who are currently paid below the minimum wage would rise to this level. This would require effective enforcement of minimum wage legislation in order to detect breaches European Commission 2020b: 11ff.).

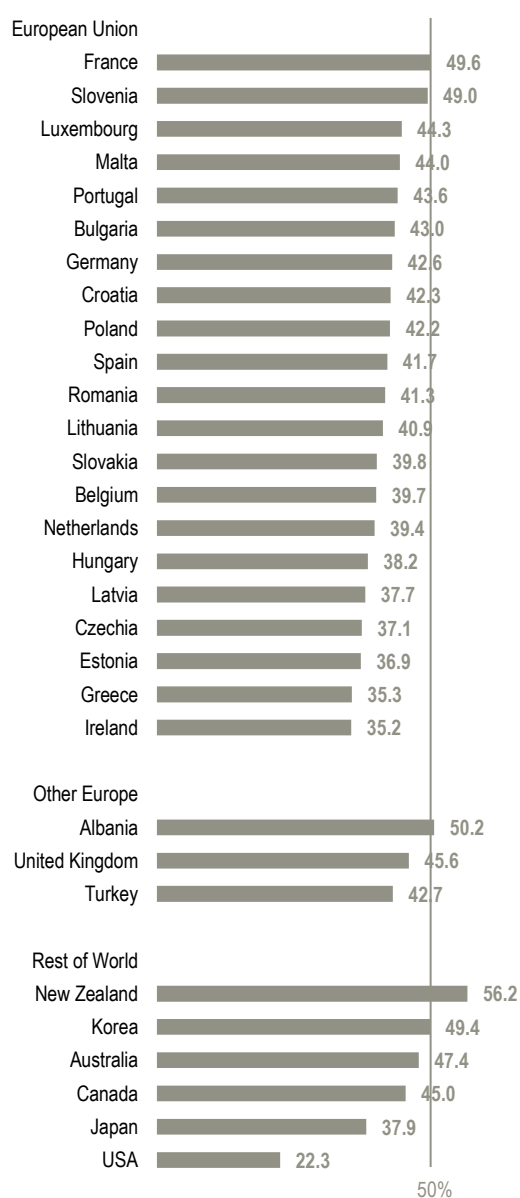
Relative value of the minimum wage (Kaitz Index), 2019

In per cent

a) Minimum wage as percentage of median wage of full-time workers



b) Median wage as percentage of the average wage of full-time workers



Note: No data are available.

Source: OECD Earnings Database, supplemented by Eurostat and European Commission (2020b, Table A12 1) for Bulgaria and Croatia

for the Commission identified substantial increases in incomes for those workers directly affected (on Germany, with similar conclusions, see Bossler and Schank 2020). The simulation assumed that wages between the current minimum wage and the prospective – higher – minimum would not rise as strongly as the minimum wage itself (see Section 6). Nonetheless, those workers benefitting from these increases would see rises of between 7% in Belgium and 29% in Estonia if the higher reference values were chosen. In Germany, workers directly affected would see their pay go up by 25% if the minimum wage was increased to 60% of the median (European Commission 2020b: 188). According to the Commission’s calculations, raising minimum wages would make a major contribution to reducing wage inequality, the number of workers at risk of poverty, and the gender pay gap (ibid.: 19ff).

Compared with the positive social effects of raising minimum wages, the Commission concluded that ‘the possible negative impact on employment is expected to be limited’ (European Commission, 2020a: 10). According to the outcome of the simulation, ‘it would remain below 0.5% of total employment in most cases’ (see also, European Commission 2020b: 196f.).

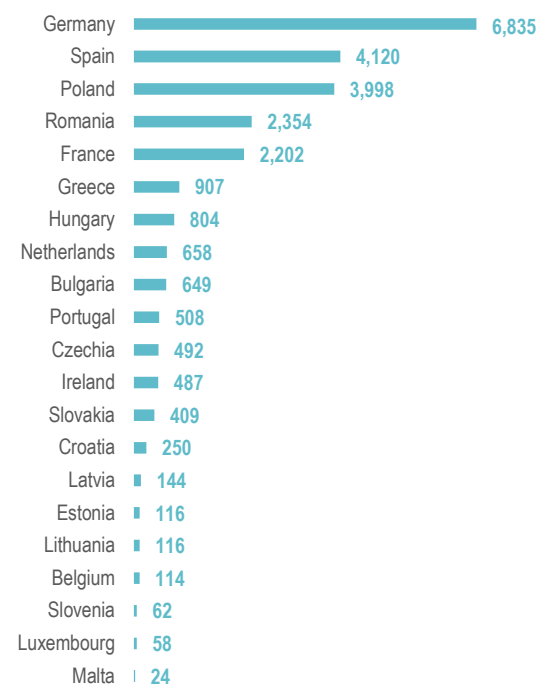
This finding also chimes with recent research, which has found that only minor employment effects are to be expected where minimum wages are set at up to 60% of the gross median wage (Dube 2019; Manning 2021). Experience in countries such as New Zealand (Kaitz index on a median wage basis 65.9%) or Korea (62.6%) (see Figure 4a) indicates that minimum wages at this level can be implemented without any appreciable harm to employment (Ministry of Business, Innovation & Employment 2020: 53ff.).

And because there will be considerable increase in wage incomes at the lower end of the distribution, higher minimum wages would generate strong positive consumption effects for the first quintile of the income distribution (European Commission 2020b: 199f; for Germany, see Herzog-Stein et al. 2020). The Commission concludes from this: ‘The benefits of an improved minimum wage protection for the concerned workers would greatly outweigh the possible negative employment impact on these workers’ (European Commission 2020a: 10).

Figure 5

Number of workers who benefit from raising the statutory minimum wage to 60% of the median and/or 50% of the average wage

Figures in 1,000s



Source: European Commission (2020b, Table A12.1); authors’ calculations based on figures for 2019



6 CURRENT AND PROSPECTIVE DEVELOPMENTS IN MINIMUM WAGES

Adjustments to minimum wages over the past year took place very much in the shadow of the COVID-19 pandemic. Two – contradictory – forces have been at work. On the one hand, the crisis has exposed the fact that the low pay of many workers performing key roles does not match the vital social importance of their work (Koebe et al. 2020; Lübker and Zucco 2020), giving fresh relevance to demands that minimum wages should meet the requirements of a proper living wage. And on the other, employers in many countries have argued that the regular uprating of minimum wages should be suspended in view of the economic impact of the pandemic. In the final analysis, 32 of the 37 countries for which WSI regularly collects data did raise their minimum wage compared with the same period in the previous year, but, as a rule, at a slower pace than in recent years (Table 1) (see also Aumayr-Pintar 2021).

Just five countries did not raise their minimum wage between 1 January 2020 and 1 January 2021, including four EU Member States: Estonia, Greece, Spain and Hungary. In September 2020, the trade unions and employer associations in Estonia agreed a crisis agreement that provided for a freeze in the minimum wage (ERR News 2020). In Hungary, trade unions, employer associations and the government were initially unable to come to an agreement on an adjustment, so that the increase originally scheduled for 1 January 2021 was delayed by a month until 1 February, with a further increase due in mid-2021 (Hungary Today, 26 January 2021).

In Spain, employer associations and the trade unions were also unable to come to an agreement on raising the minimum wage, and as the Spanish governing coalition is split on this issue, the usual uprating at the start of the year has been indefinitely postponed. In late-January 2021, an expert committee of trade unionists, employers and academics was established by the Spanish labour ministry to consider how the government might meet its stated goal of raising the minimum wage to 60% of the median within the current legislative period (Gomez 2021).

In the United States, the Federal minimum wage was not raised for the eleventh year in succession, a record of stagnation unmatched by any other country. In recent years, the Democratic Party has repeatedly proposed draft legislation to raise the minimum wage, all of which have foundered on the opposition of the Republican majority in the Senate.

The newly-elected Biden administration has now announced that it wishes to put an end to this anachronism. In late-January 2021, a number of congressional Democrats, led on this issue by Senator Bernie Sanders, proposed a bill to raise the national minimum wage from its current \$7.25 to \$15.00 (10 PPS) by 2025 (Rainey 2021). In addition to the Federal minimum wage, around half of all US States have regional minimum wages, in some cases well above the Federal level. At the start of 2021, these regional minimum wages were raised in 20 US States (Lathrop 2020).

Of the 21 EU Member States with a statutory minimum wage, the rate was increased in 16 with effect from the 1 January 2021. The exception was Belgium, where the rate was updated in March 2020 as a result of the system of automatic indexation that ties wages to price inflation. The highest rate of increase by far was in Latvia, where the minimum wage rose by 16.3% after a three-year freeze. There were relatively high nominal increases in the minimum wage of between 7% and 9% in four other Eastern European countries (Slovenia, Poland, Slovakia and Bulgaria). Rates of increase in the remaining Eastern European countries, together with Ireland and Portugal, were between 3% and 6%. In contrast, the lowest increases, with rises of below 3%, were mainly in Western Europe, with Malta and France taking last place with a minimum wage rise in each case of a mere 1%. The rise of just 1.6% in Germany also represents a comparatively meagre increase in European comparison. However, the decision by the German Minimum Wage Commission (Mindestlohnkommission 2020) provides for a further rise of 1.1% in mid-2021, followed by a substantial increase of almost 9% in 2022.

Overall, the pace of raising minimum wages slackened in the European Union during what was a crisis year. The median rate of nominal increase in the year 1 January 2021 was just 3.1% compared with the 6.1% recorded in the year to January 2020 and around 5% in the preceding three years (Schulten and Lübker 2020). In real terms, the median increase fell from 4.5% (2020) to 1.6% (2021) (WSI Minimum Wage Database 2021).

There was also a wide range in the rate of change outside the EU (Table 1), headed by Ukraine, which raised its minimum wage by 27% on 1 January 2021 vis-à-vis a year earlier. Turkey and Argentina also raised their minimum wages by above the 20% mark, principally due to the high inflation rates in these countries.

Nominal and real changes in statutory minimum wages, 2021

Change since 1 January 2020 and since 1 January 2015 (in per cent)

	Change since 1 January 2020		Change since 1 January 2015		Most recent adjustment
	Nominal	Real	Nominal	Real	
European Union					
Latvia	16.3	16.2	38.9	27.6	01.01.2021
Slovenia	8.9	9.2	29.8	24.7	01.01.2021
Poland	7.7	3.9	60.0	48.4	01.01.2021
Slovakia	7.4	5.3	64.2	51.9	01.01.2021
Bulgaria	7.1	5.8	88.5	79.3	01.01.2021
Lithuania	5.6	4.5	115.9	96.5	01.01.2021
Portugal	4.7	4.9	31.7	26.5	01.01.2021
Croatia	4.6	4.6	40.3	36.5	01.01.2021
Ireland	4.1	4.6	17.9	16.5	01.01.2021
Czechia	3.7	0.3	64.5	47.4	01.01.2021
Romania	3.1	0.8	135.9	114.0	01.01.2021
Luxembourg	2.8	2.8	14.5	8.0	01.01.2021
Belgium	2.0	1.6	8.3	-0.6	01.03.2020
Netherlands	1.9	0.8	12.2	4.7	01.01.2021
Germany	1.6	1.3	11.8	4.9	01.01.2021
France	1.0	0.5	6.7	1.0	01.01.2021
Malta	1.0	0.2	8.9	1.2	01.01.2021
Estonia	0.0	0.6	48.7	35.3	01.01.2020
Greece	0.0	1.3	10.9	10.8	01.02.2019
Spain	0.0	0.3	46.5	41.8	01.01.2020
Hungary	0.0	-3.3	53.3	35.4	01.01.2020
Other Europe					
Ukraine	27.0	23.1	392.6	105.8	01.01.2021
Turkey	21.6	8.3	180.9	44.9	01.01.2021
Albania	15.4	13.8	36.4	23.5	01.01.2021
Serbia**	6.6	4.8	50.4	33.9	01.01.2021
United Kingdom*	6.2	5.4	34.2	23.5	01.04.2020
Moldova	5.8	2.9	77.9	28.9	01.05.2020
Russian Federation	5.5	2.2	114.5	50.8	01.01.2021
North Macedonia**	5.1	3.8	73.2	62.1	01.04.2020
Rest of World					
Argentina	22.0	-10.4	336.6	-23.3	01.12.2020
New Zealand	6.8	5.0	32.6	22.9	01.04.2020
Brazil	5.9	3.1	39.2	2.8	01.01.2021
Canada***	2.9	2.3	30.8	19.7	01.01.2021
Australia	1.8	1.0	17.6	7.5	01.07.2020
Korea	1.5	1.0	56.3	47.3	01.01.2021
Japan***	0.1	0.2	15.6	12.8	01.01.2021
USA	0.0	-1.5	0.0	-8.8	24.07.2009

* National Living Wage for workers aged 25 and above.

** Estimated as the minimum wage I specified in net terms.

*** Weighted average of regional minimum wages: in some instances, more than one adjustment each year.

Note: real changes in minimum wages are nominal changes adjusted for national movements in consumer prices.

Source: WSI Minimum Wage Database 2021

There were also comparatively high rates of increase in Albania (15.4%) and a number of other non-EU Eastern European countries in the range of 5% to 7% (Serbia, Moldova, Russia and North Macedonia). There were also minimum wage increases at around this level in the United Kingdom, New Zealand and Brazil. In contrast, rates of increase were relatively low in Canada (2.9%), Australia (1.8%) and Korea (1.5%). The lowest increase was registered in Japan, with a fractional increase of just 0.1%. The COVID-19 crisis has also tended to have a suppressive effect on minimum wage developments outside the EU, interrupting, at least temporarily, what had been a dynamic period of change (ILO 2020).

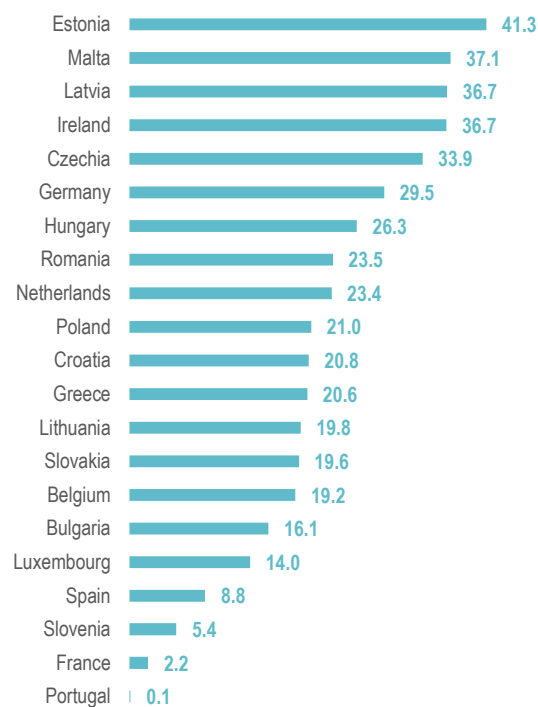
Despite the coronavirus pandemic, there are still calls in many countries for much more substantial increases in minimum wages aimed at achieving a level of adequacy sufficient to meet the criteria for a 'living wage'. As in Germany, these campaigns for more rapid rises are led by trade unions, political parties and other civil society organisations (Schulten and Lübker 2020; Schulten and Müller 2019, 2020). The proposal by the European Commission (2020a) for a Directive on adequate minimum wages is also intended to achieve a substantial rise in the level of minimum wages, as indicated in the scenarios envisaged by the Commission, already set out in Section 4 above, under which an 'adequate minimum wage' should be at least 60% of the median wage and 50% of the average wage (Figure 6).

According to the Commission's calculations, the highest rate of required increase would be in Estonia, which would need to raise its minimum wage by more than 40%. Increases of well above 30% would be required in Malta, Latvia, Ireland and Czechia. Only Slovenia, France and Portugal would require relatively minor adjustments. Based on the Commission's assessment, drawing on Eurostat data for 2019, the minimum wage in Germany would need to rise by 29.6% to reach the reference value of 60% of the median wage. This would equate to a minimum wage of €11.90, as calculated for 2019. In research for the German Federal Ministry of Employment and Social Affairs (BMAS), Weinkopf and Kalina (2020), using OECD data, came to a similar figure for 2020 of €12.07. Both these studies lend support for the call for an increase in the minimum wage to €12.00 (see, for example, DGB 2020).

Compared with the current pace of minimum wage adjustments, such increases might seem extremely high. This overlooks the fact, however, that the European minimum wage initiative is a medium-term project in which the required increases can be staged over several years, as successfully undertaken in New Zealand. Table 1 therefore sets out the cumulative increase in minimum wages since 1 January 2015. This shows very emphatically that double-digit growth is by no means unusual over the medium term: as well as notable increases in Eastern Europe, a number of other countries have implemented substantive and permanent increases in their minimum wage levels over the past six years, such as Korea (real increase 47.3%), Spain (41.8%), the United Kingdom (23.5%) and New Zealand (22.9%). Recent minimum wage research suggests that such increases do not have serious negative effects on employment while boosting employee incomes (for a synopsis, see Dube, 2019). This also applies in Germany, where many economists dramatically over-estimated the potential effects of the minimum wage on employment (see Bruttel et al. 2019; Dustmann et al. 2020).

Figure 6

Minimum wage increases required to reach 60% of the median wage and/or 50% of the average wage* in European Union Member States
In per cent



* Calculated using Eurostat data, 2019

Source: European Commission (2020b, Table A12.1), authors' calculations



7 PERSPECTIVES FOR ADEQUATE MINIMUM WAGES IN EUROPE

In proposing a Directive on adequate minimum wages, the European Commission is aiming to advance a process through which national minimum wages can be raised to a level sufficient to ensure a decent income for all workers. In addition, it proposes to coordinate national approaches to minimum wage setting, firstly through advancing more rigorous criteria for what constitutes an adequate minimum wage level; and, secondly, through strengthening the institutions that determine minimum wages, both statutory and agreed, and in particular in the case of the latter building the capacities and standing of collective bargaining systems that are seen as the real institutional guarantors for ensuring a sustained and adequate growth in incomes.

The outbreak of COVID-19, and its associated economic and social effects, does not detract from the importance of the Commission's plans. Although minimum wages have grown less strongly in many EU Member States than in previous years, the pandemic has also revealed the extent to which many groups of workers who are vital for the continued functioning of societies continue to be very poorly paid (Lübker and Zucco 2020). Any strategy aimed at raising the pay of these workers will require both statutory and collectively-agreed wages set an appropriate level of adequacy.

The proposed European minimum wage Directive represents a fundamental paradigm shift in the European Commission's stance on employment regulation. Until only very recently, the Commission still regarded adequate minimum wages and comprehensive systems of collective bargaining as, in essence, institutional barriers to the free operation of the market, with concomitant harm to growth and jobs. And following the last major economic crisis of 2008/2009, the EU pressed for cuts in minimum wages and the dismantling of collective bargaining systems in many countries (Schulten and Müller 2013; Van Gyes and Schulten 2015). This 'change of tone' from Brussels (Rieger 2020) now aims at the precise opposite: by raising minimum wages and widening the reach of collective bargaining, it will mainly be the negotiating position of the employee side that will be bolstered.

The European Commission's minimum wage initiative is not based solely on social norms but is also driven by political and economic considerations. Politically, it seeks to strengthen the idea and reality of a 'social Europe' by adopting concrete projects to push back against the chronic lack of legitimacy and status of the process of European integration (Schmid and Schroeder 2020). Economically, it is consistent with the notion of an inclusive growth strategy aimed at reducing social inequality as a prerequisite for sustainable economic development for which appropriate institutions are required. In this, it can draw on the experience of recent minimum wage research that has not found any noteworthy negative effects on employment as a result of moving to a sustained higher level of minimum wages, such as an increase to 60% of the median wage (Dube 2019).

Finally, the European Commission's proposal should not be viewed in isolation but is anchored in numerous national-level initiatives for higher minimum wages (Schulten and Müller 2020). This does also apply not least to Germany, where the level of the minimum wage is still not sufficient to provide for a decent independent living and, at just 48% of the median wage, seriously undershoots the criteria for an adequate minimum wage (Weinkopf and Kalina 2020). This has prompted calls from a broad political alliance not only for an increase in the hourly minimum wage to €12.00 but also for an extension of the scope of German minimum wage legislation to ensure that an adequate level can be maintained in the future (Schulten 2020b). This would suggest engaging with the European minimum wage initiative and including the Commission's benchmark of 60% of the median wage as the lower bound for an adequate minimum wage into the German minimum wage legislation.

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