

EU Minimum Wage Will Harm Subsidiarity and Low-Income Earners

Henrik Mogensen Nielsen, EPICENTER

The briefing reviews the newly passed directive on adequate minimum wages in the EU and investigates its potential negative impacts on traditional collective bargaining agreements and low-income groups.

The directive establishes procedures for implementing statutory minimum wages within EU member states and aims to enhance effective access to minimum wage protection for low-income workers. With its adaptation, another branch of the EU's Social Rights dimension will be implemented, setting the stage for further EU centralisation of national policy issues.

Introduction

Despite good intentions, bad policy suggestions – such as limiting tech innovation by requiring all charging solutions conform to a single format or implementing price caps during a cost-of-living crisis – often become reality (European Parliament, 2022; Herby, 2022b).

In October 2022, another such 'well-intended' bad policy was passed as the Council of the European Union gave the green light to a directive to implement adequate minimum wages within the EU (European Council, 2022). Above all, the new directive perfectly illustrates how the road to hell and other misfortunes is paved with good intentions.

The directive aims to ensure that all workers in the EU receive an acceptable minimum wage, which is to be set either through collective agreement or by law, as outlined by the sixth principle of the European Pillar of Social Rights, endorsed by all EU leaders in 2019: "Workers have the right to fair wages that provide for a decent standard of living. Adequate minimum wages shall be ensured... In-work poverty shall be prevented. Wages shall be set in a transparent and predictable way... according to national practices and respecting the autonomy of the social partners." (European Commission, 2019). The agreement is in many ways a materialisation of the sixth principle and proposes rules for protecting and updating the statutory minimum wage as well as for negotiated wage-setting.

In addition, the directive contains several measures to improve workers' minimum wage protections. ensure an improvement in workers' actual access to the protection of the minimum wage. It includes, among other things, supervisory controls, mandates to publish information on minimum wage protections, and guidelines to develop enforcement mechanisms.

The directive does not directly prescribe a specific minimum wage level that EU member states must reach. It does, however, indirectly meddle with the degree of labour market organisation within member states, since member states with a collective bargaining coverage below 80% are mandated to establish a so-called action plan to promote collective bargaining (European Council, 2022). Only nine EU countries have been able to meet the 80% requirement, of which only four do not have a set minimum wage (Müller, 2021).

EU member states now have two years to transpose the directive into national law. From the get-go, two major implications of a centralised EU statutory minimum wage can be spotted: 1) the dismantling of already well-functioning collective bargaining systems, and 2) a reduction in employment that will ultimately not benefit the lowest paid.

Minimum wage structure in the EU

In general, minimum wages in EU member states are implemented either by collective bargaining, different kinds of extension mechanisms, or a statutory minimum wage. In most EU countries, the minimum wage is determined by legislation, i.e., a statute or regulation. However, there are great differences in how this process works across EU countries. In most EU member states, social partners are consulted, but their level of involvement varies a great deal.

In some countries, the minimum wage is set on the basis of bargaining between social partners (Belgium, Estonia, and Greece). In other countries, the level is set through tripartite arrangements (Bulgaria, Poland, and Slovakia), where governments set the minimum wage if the social partners fail to reach an agreement. In member states such as France and Spain, the minimum wage is automatically adjusted and indexed according to price and wage levels.

The Nordics (Denmark, Sweden, and Finland), Austria, Cyprus, and Italy do not have a statutory minimum wage. Looking at the wage structure and wage levels, research clearly shows a rather compressed wage structure, i.e., lower inequality in terms of wages in Nordic countries. Blue-collar workers with low levels of education in Nordic countries have rather high wage levels compared to other EU member states. Consequently, the share of employees with low wages, i.e., those who earn less than two-thirds of the national median wage, is rather low.

Dismantling the 'Danish Model'

The new law aims to improve working and living conditions for employees in Europe by guaranteeing them certain rights, i.e., 'fair wages' that can support a decent standard of living. At the same time, one of the goals of the directive is to increase the

number of workers covered by collective bargaining on wage-setting. By now, one would expect that in a heavily unionised social democratic country like Denmark, the union bosses and representatives of the left would be nothing but supportive of the legislation – but this is not the case.

Surprisingly, both the Danish political left and right have found rare common ground in the case of EU statutory minimum wages. If implemented fully, the directive could have major – if not fatal – consequences for the existing and highly well-functioning informal organisation of collective bargaining and agreements in the Danish labour market, the so-called ‘Danish Model’ (Ministry of Employment, n.d.).

Historically, the Danish Model traces its roots to the ‘September Compromise’ of 1899, which acted as the first basic agreement regulating Danish industrial relations. After a series of unionised workers’ strikes and employers’ lockouts during the late 1890s, the Danish Employers’ Organisation and the Danish Confederation of Trade Unions settled on a consensus compromise, where both employers and workers recognised each other as the main negotiators in labour market disputes. As a consequence of the compromise, collective bargaining between market actors was institutionalised, and a national system of dispute resolution was introduced – all without state interference. As of now, over 100 years later, the main principles of the agreement are still valid and act as the basis for negotiating labour market disputes well into the twenty-first century (Christensen, 2020).

In a turn of events, the new EU law will potentially compromise the age-old Danish ‘September Compromise’. What seems even more bizarre is that the European Commission itself has highlighted the Danish Model as a good example, as it ensures employees the best wages and working conditions (Thomsen, 2022).

When the proposal for the minimum wage directive was put forward by the EU Commission in 2020, it met particularly strong opposition from the Danish government and MEPs (Keiding, 2021). Meanwhile, the president of the European Commission, Ursula von der Leyen, stated that the implementation of the directive “will be done in full respect of national traditions and competences as well as the autonomy of social partners” (European Commission, 2022).

Mindful of the 80% collective bargaining coverage requirement, and the risk of being affected by the EU action plan to promote collective bargaining, Danish leftwing MEPs have been especially vocal about their distrust of a European minimum wage. This is because Denmark only barely meets the new requirement, as coverage stood at 82% in the 2020 census, and has most likely dropped since (Villumsen, 2022; Dansk Arbejdsgiverforening, 2020).

Essentially, implementing the EU action plan – if the Danish union coverage falls below the 80% requirement – will effectively dismantle the Danish collective bargaining tradition, which is based on subsidiarity and accountability, and instead replace it with an EU one-size-fits-all model.

Despite von der Leyen’s reassurances, neither she nor the European commissioner for jobs and social rights, Nicolas Smidt, have provided any real-world guarantees for a continuation of the Danish labour market model. In a position paper expressing concern regarding the proposed EU minimum wage directive, the Danish minister for employment, Peter Hummelgaard, together with a total of nine countries, stated “This [directive] erodes everything we ever argued for and also convinced our members to support” (Allenbach-Ammann, 2022).

A single Danish MEP, Marianne Vind (S&D), has proposed that the Danish government should file a lawsuit against the EU if the directive ends up infringing on the autonomy of the Danish labour market, an option that Hummelgaard and the Danish government have not yet ruled out yet (Ritzau, 2022a; 2022b).

The EU minimum wage won’t benefit the lowest paid

How and to what extent the new rules will affect EU member states is still unclear. On the other hand, it is clear that a statutory EU minimum wage – contrary to von der Leyen and Smidt’s good intentions – will actually end up harming the lowest paid (Herby, 2022a).

The debate among economists regarding the employment effects of minimum wages has been highly politicised, especially in the United States. Some economists believe that minimum wages reduce employment, while others believe that minimum wages have no effect – and perhaps that is why different calculations in economic research literature have come to different conclusions.

In a recent study of the research literature, David Neumark and Peter Shirley of the University of California attempt to clarify the debate and summarise the body of evidence on the employment effects of minimum wages. Based on their review, Neumark and Shirley conclude that there is a clear preponderance of studies that find that higher minimum wages reduce employment and that minimum wages have especially negative effects on employment for traditional low-income groups, e.g., teens and young adults as well as the less educated (Neumark & Shirley, 2022).

In a 2019 study on the impacts of minimum wages, Arindrajit Dube from the University of Massachusetts finds that statutory minimum wages for low-wage workers can have some unintended consequences. While Dube’s findings suggest that raising the minimum wage has historically only had a small impact on jobs, he also states that part-time workers in sectors that account

for the highest share of youth workers, ethnic minorities, and women – that is, wholesale, retail, trade, accommodation, and food services – will be affected the most (Dube, 2019).

Essentially, Neumark and Shirley document what all economists agree on in almost all markets: higher prices for a good lead to lower demand for the good. This also applies to the labour market. The two researchers exclusively focus on employment, and, therefore, do not include other consequences, e.g., worse working conditions, given that salary is only one of the parameters an employer can adjust to attract labour. If the employer is forced to increase salaries, he may be forced to compensate elsewhere by cutting other employment benefits.

Effectively, the costs of a statutory EU minimum wage will be borne by those who already have the lowest incomes. The findings of Neumark and Shirley show that the Danish government, with the support of an almost-united Danish parliament and social partners, has been in the right in fighting the EU's statutory minimum wages.

Summary

The directive on establishing adequate minimum wages in the EU should not be overlooked as just a challenge for the Nordic countries and their traditional collective bargaining arrangements that date back to the eighteenth century. The directive can also be interpreted as a major deviation from the subsidiarity principle, which requires political decisions in the EU to be made at the lowest possible political and administrative level. The EU's centralisation of policy development on minimum wages is a huge and all-encompassing step away from promoting EU member states' influence and decision-making on one, if not the most central, question in the organisation of labour.

In addition to this, the legislation, despite its good intentions, may very well end up harming the low-income groups that the directive seeks to protect. The potential downside is that a higher minimum wage may discourage firms from employing traditional low-income groups. If minimum wages reduce employment for low-skill workers, then minimum wages are not a 'free lunch' with which to help poor and low-income families, but instead pose a trade-off of benefits for some versus costs for others. As pointed out by Neumark in a study from 2018, "evidence suggests that minimum wages reduce the jobs available to low-skill workers" (Neumark, 2018).

Consequently, the implementation of the directive endangers an already fine-tuned and well-adjusted collective bargaining mechanism in Denmark. While the good intentions of a statutory minimum wage might benefit some low-wage workers, it could very well result in other unintended consequences for traditional low-wage working groups. Employers may cut back on hiring – leading to possibly fewer jobs or work hours for low-wage workers, or the employer might be forced to cut back on other employment benefits, salary being only one of the parameters an employer can adjust to attract labour, as pointed out by Herby (2022a).

References

- Allenbach-Ammann, J. (2022, October 5). *EU minimum wage directive gets final stamp of approval*. Euractiv. <https://www.euractiv.com/section/economy-jobs/news/eu-minimum-wage-directive-gets-final-stamp-of-approval/>
- Ministry of Employment. (n.d.). *The Danish labour market*. <https://bm.dk/the-ministry-of-employment/the-danish-labour-market/>
- Christensen, L.K. (2020, February 11). *Storlockout og Septemberforliget 1899*. Aarhus University. <https://danmarkshistorien.dk/vis/materiale/storlockout-og-septemberforlig-1899>
- Dansk Arbejdsgiverforening. (2020, December 16). *I Danmark er de fleste dækket af en overenskomst*. Dansk Arbejdsgiverforening. <https://www.da.dk/politik-og-analyser/overenskomst-og-arbejdsret/2018/hoej-overenskomstdaekning-i-danmark/>
- Dube, A. (2019, November). *Impacts of minimum wages: Review of the international evidence*. National Bureau of Economic Research & IZA Institute of Labor Economics, University of Massachusetts Amherst. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844350/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf
- European Commission. (2019). *The European Pillar of Social Rights in 20 principles*. European Commission. https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en
- European Commission. (2022, June 7). *Commission welcomes political agreement on adequate minimum wages for workers in the EU*. European Commission. <https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=10290&furtherNews=yes>
- European Council. (2022, October 6). *Adequate minimum wages in the EU*. <https://www.consilium.europa.eu/en/policies/adequate-minimum-wages/>

- European Parliament. (2022, June 7). *Deal on common charger: Reducing hassle for consumers and curbing e-waste*. <https://www.europarl.europa.eu/news/en/press-room/20220603IPR32196/deal-on-common-charger-reducing-hassle-for-consumers-and-curbing-e-waste>
- Herby, J. (2022a, July 26). *EU's mindsteløn gavner ikke de lavestlønnede*. Center for Political Studies. <https://cepos.dk/debat/eus-mindsteløn-gavner-ikke-de-lavestlønnede>
- Herby, J. (2022b, September 23). *Meddling with the price mechanism will become a costly lesson*. EPICENTER. <https://www.epicenternetwork.eu/blog/meddling-with-the-price-mechanism-will-become-a-costly-lesson/>
- Keiding, P. (2021, November 12). *Sort dag for den danske model: Stort flertal i EU-Parlamentet for mindsteløn*. Fagbladet 3F. <https://217.116.234.100/artikel/stort-flertal-i-eu-parlamentet-mindsteloen>
- Müller, T. (2021). *Les systèmes de négociation collective en Europe*. European Trade Union Institute for Research. <https://www.worker-participation.eu/National-Industrial-Relations/Across-Europe/Collective-Bargaining2>
- Neumark, D. (2018). *Employment effects of minimum wages; when minimum wages are introduced or raised, are there fewer jobs?* IZA World of Labor. <https://wol.iza.org/uploads/articles/464/pdfs/employment-effects-of-minimum-wages.pdf?v=1>
- Neumark, D. & Shirley, P. (2022, March). *Myth or measurement: What does the new minimum wage research say about minimum wages and job loss in the United States?* National Bureau of Economic Research <https://www.nber.org/papers/w28388>
- Ritzau. (2022a, June 7). *EU-aftale om mindsteløn er på plads*. Fagbladet 3F. <https://fagbladet3f.dk/artikel/eu-aftale-om-mindsteloen-er-paa-plads>
- Ritzau. (2022b, June 7). *Hummelgaard vil nærstudere EU-aftale om mindsteløn nøje*. Berlingske. <https://www.berlingske.dk/politik/hummelgaard-vil-naerstudere-eu-aftale-om-mindsteloen-noeje>
- Thomsen, P. (2022, June 7). *EU-aftale om mindsteløn er på plads*. Policy Watch. <https://policywatch.dk/nyheder/eu/article14108952.ece>
- Villumsen, N. (2022, June 24). *EU-mindsteløn: Hvorfor er den egentlig så slem?* Enhedslisten. <https://enhedslisten.eu/nyheder/opinion/eu-mindsteloen-hvorfor-er-den-egentlig-saa-slem/>