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The European minimum wage on the doorstep

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Key points

- On 14 January 2020, the European Commission published a consultation document with a view to take legislative action to establish fair minimum wages in Europe;
 - In this policy brief we argue for a pragmatic approach of taking the 'in-work-poverty-wage' threshold of 60 per cent of the national full-time gross median wage as the reference to assess the adequacy of minimum wages;
 - In countries in which a high proportion of workers earn very low wages, the whole wage structure, and therefore the median wage, is very low; therefore, a minimum wage of 60 per cent of the national median wage may still not be enough to ensure a decent living standard;
 - The Commission initiative should, therefore, include an obligation to subject the 60 per cent target to a real-life test by examining, for instance on the basis of a country-specific basket of goods and services defined with the full involvement of trade unions and employers' organisations, whether a minimum wage of 60 per cent of the national median wage really amounts to a wage that ensures a decent living standard;
- In addition, the Commission should develop further proposals for measures to support sectoral collective bargaining as the primary tool to stabilize and raise the overall wage structure in order to ensure that 60 per cent of the national median wage really is a fair minimum wage which provides for more than mere subsistence by enabling participation in society and some scope for workers to insure against unforeseen shocks.

Introduction

On 14 January 2020, the European Commission published a document kicking off the first phase social partner consultation 'on possible action addressing the challenges related to fair minimum wages' (European Commission 2020). In the long history of the debate about a European minimum wage policy, this initiative represents a watershed because for the first time the Commission considers taking legislative action to ensure fair minimum wages in Europe. The initiative is furthermore noteworthy because minimum wages are no longer exclusively viewed as an impediment to downward flexibility of wages and competitiveness. In the context of the crisis management, cuts and freezes of minimum wages were a central part of the measures imposed by the 'Troika' consisting of the European Central Bank, the European Commission and the International Monetary Fund (Schulten and Müller 2015). By the same token, the country-specific recommendations for countries with comparatively high relative levels of minimum wages, such as France and Portugal, have until most recently repeatedly contained provisions designed to ensure that minimum wage developments do not harm competitiveness.

The Commission's legislative initiative, by contrast, explicitly refers to the more fundamental social function of minimum wages in promoting social cohesion and preventing in-work poverty. It is therefore in line with Principle 6 of the European Pillar of Social Rights (EPSR), which emphasizes the right of workers 'to fair wages that provide for a decent living standard' and to 'adequate minimum wages ... that provide for the satisfaction of the needs of the worker and his/her family' (European Parliament *et al.* 2017: 26). The Commission's legislative initiative can, therefore, be seen as a first step to implement the commitments made in the EPSR.

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Whereas the Commission document is clear on the objective of ensuring fair minimum wages, it is much less clear on the ways to achieve this objective. This is not necessarily surprising: since one objective of the first-stage social partner consultation is to find out whether the trade unions and employers intend to initiate a dialogue under Article 155 TFEU, the Commission opted to outline the possible direction of EU action only in very broad terms. According to Tricart (2019), this is a lesson learned from the past, when very detailed Commission proposals seemed to have deterred rather than encouraged negotiations. Tricart suggests two reasons for this: first, a detailed proposal would leave little negotiation room and second, in the case of a detailed Commission proposal, 'either of the two parties could feel that it had more to gain ... from the proposal envisaged by the Commission than from the inevitably uncertain outcome of negotiations' (Tricart 2019: 24). Following various informal consultations, the purpose of the Commission's consultation document is therefore to seek out the formal position of trade unions and employers, both on the need to address the issue of minimum wages at European level and on the desired course of action. Given the employers' strong opposition to any kind of European-level initiative on minimum wages (BusinessEurope 2020), negotiations under Article 155 TFEU seem highly unlikely, but the Commission seeks to keep all options open.

Although there is a rational explanation for the vagueness of the document, the Commission fails to address two crucial questions: first, what constitutes a fair minimum wage? And second, what concrete measures can be taken to ensure fair minimum wages in the EU Member States? The purpose of this policy brief is to offer some pragmatic answers to these two questions.

What constitutes a fair minimum wage?

The closest the Commission document comes to a definition of fair or adequate minimum wages is that they should provide for a decent standard of living and that they should be fair vis-à-vis the wage distribution (European Commission 2020: 4). Although this definition remains vague, it contains some important pointers as regards the more detailed determination of what constitutes a fair or adequate minimum wage.

First of all, the reference to the standard of living in combination with the earlier reference to the EPSR implies that minimum wages should be living wages – in the sense that they provide for more than mere subsistence by enabling participation in society and some scope for workers and their families to insure against unforeseen shocks. The Commission's additional reference to the wage distribution 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, and the 'wage distribution approach' measured by the Kaitz Index, which compares minimum wage levels either to the median or the average wage of the respective region or country.

In a range of countries, different variants of the basic living cost approach have been successfully applied to determine an adequate

minimum wage level that represents a living wage (Hirsch and Valadez-Martinez 2017); however, there are some strong arguments against attempts to use an internationally standardized approach in pursuing the European Commission's minimum wage initiative (Schulten and Müller 2019).

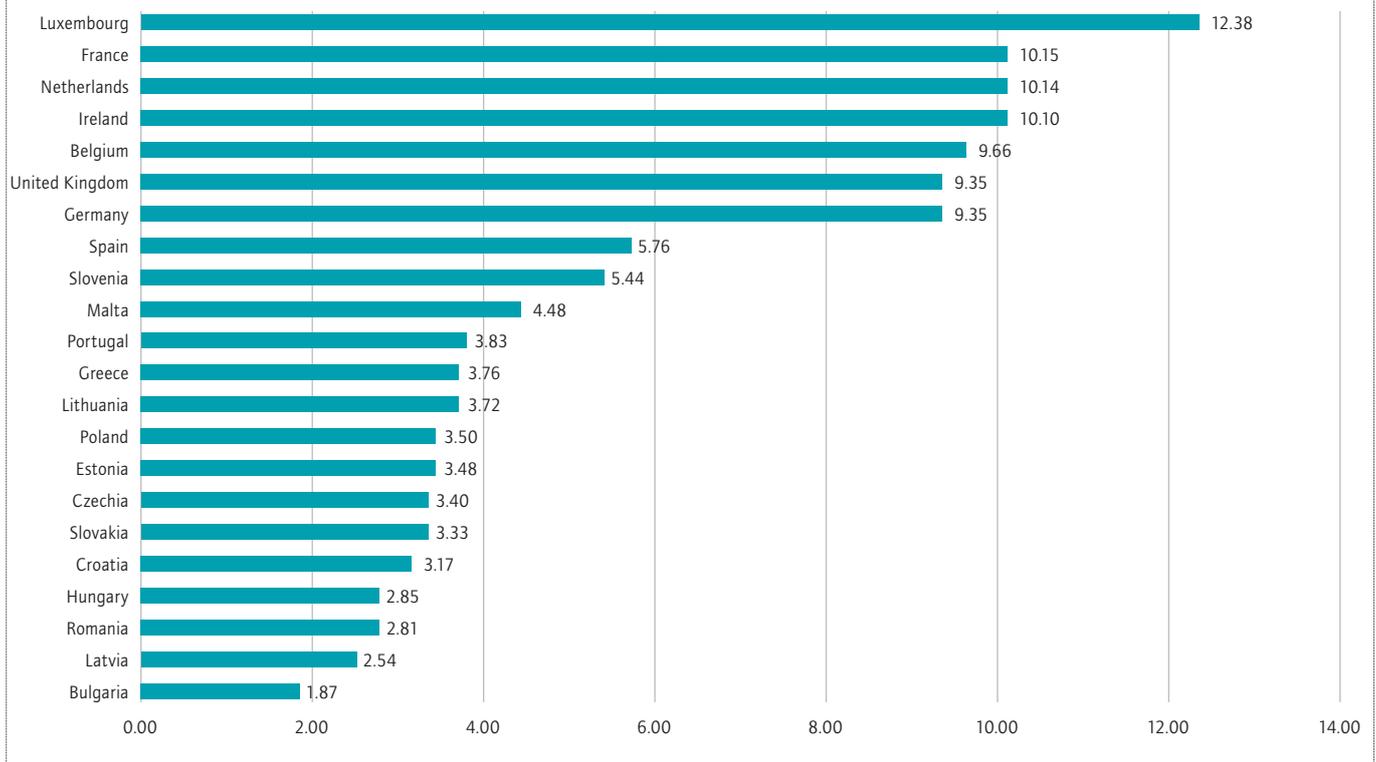
First, the definition of what constitutes a decent life and, therefore, the composition of the basket of goods and services, depends partly on cultural and geographical factors and thus differs from country to country. Second, the determination of a living wage also depends on the country-specific features of the welfare state and its public infrastructure. These features have a strong influence on the definition of the costs that need to be covered by the minimum wage. Third, any concrete definition of an adequate minimum wage level based on a basket of goods and services will always be the result of social discourses and political compromises between the different actors involved. From a purely practical point of view, it is difficult to imagine how such a political compromise can be achieved at European level among the soon 27 Member States. Thus, there are good reasons to accept the existence of different national calculation methods, which each have their own specific logic and justification in their respective national contexts. At European level, however, a more pragmatic approach of focusing on the wage distribution approach seems more promising as a method of determining what constitutes a fair minimum wage.

A pragmatic solution: 60% of the median gross wage

The advantage of using the Kaitz Index as reference for adequate minimum wages is that it is easy to calculate, easy to communicate, and it is already the established standard for the international comparison of minimum wages. It furthermore takes into account the wide variation of absolute minimum wage levels, which ranges from less than two Euros in Bulgaria to more than 12 Euros in Luxembourg (see Figure 1).

However, when it comes to determining the concrete level of an adequate minimum wage with the help of the Kaitz Index, different options are possible and indeed have been chosen in practice. The 1961 European Social Charter's provision of the workers' right to a fair remuneration that will ensure them and their families a decent standard of living, for instance, was translated into a benchmark of 68 per cent of the national average gross wage. This benchmark was abandoned in 1998 and replaced by a benchmark of 60 per cent of the national average net wage. More recently, governments in different European countries have also chosen the Kaitz Index as a reference for minimum wage adjustments (see Table 1). In 2016, when the Conservative government in the UK introduced the 'National Living Wage' – which is *de facto* a new national minimum wage for all workers aged 25 and above – it also announced its intention to raise this new National Living Wage to 60 per cent of the median wage by 2020 (Department for Business, Innovation and Skills 2015). The new Conservative government has declared its intention to raise the National Living Wage to two thirds of the national median wage. In Slovakia, the government amended the minimum wage law in October 2019 to stipulate that from 2021, the minimum wage must equal at least 60 per cent of the

Figure 1 Statutory minimum wages, 1 February 2020, in Euro, per hour



Note: The conversion of national currencies into Euro is based on the annual average exchange rate for 2019.
 Source: WSI Minimum Wage Database (2020).

national average gross wage if trade unions and employers fail to come to an agreement (The Slovak Spectator 2019). Similarly, the new left-wing government in Spain decided to increase the minimum wage to 60 per cent of the national gross average wage by the end of its official term in 2024.

These examples illustrate the variety of options in using the Kaitz Index as a reference for fair or adequate minimum wages. There are essentially three key questions: first, should the median or the average wage be chosen as the reference? Second, should it be gross or net wages? And third, what exact level should be chosen? The first question is probably the easiest to answer: international comparisons predominantly use the median wage as the reference because statistically, the median is less susceptible to distortions by extremely high or low outliers – and is therefore more robust than the average. Furthermore, unlike the average, the median is not a moving target because it is as a rule not affected by adjustments to the minimum wage. The median, therefore, is a largely exogenous benchmark to assess the relative value of the minimum wage (Schulten and Lübker 2020).

Concerning the second question of whether gross or net wages should be the reference, the Commission document emphasizes that when assessing the adequacy of minimum wages, taxes and social contributions should be taken into account – thus, essentially arguing in favour of net wages as a reference. We strongly disagree with this view. First, the question of gross or net wages is fundamentally linked to the question of who is responsible for ensuring that every worker earns a fair minimum wage. Taking net

wages as the reference would shift the responsibility of ensuring fair minimum wages entirely from companies to the state by reducing taxes and social security contributions. It would enable companies whose business model relies on paying unfair wages to continue with this practice by externalizing the costs of this business practice to the state and the society as a whole. More than a hundred years ago, Sidney Webb, one of the founding fathers of industrial relations research, therefore concluded that one of the crucial functions of a minimum wage is 'to secure the community against the evils of industrial parasitism' (Webb 1912: 993).

The second reason why net wages are not the appropriate reference for a European initiative to establish fair minimum wages is more technical; it complicates the task of establishing 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. This is the reason why for instance the UK Low Pay Unit in 2003 decided to abandon the Council of Europe benchmark of 60 per cent of the average net wage stating that 'the effectiveness of the decency threshold as a valid measure would too easily become lost in arguments over how the calculation was made, the reliability of the data and so on' (Low Pay Unit in Adams and Deakin 2017: 202).

Once the decision about the application of the Kaitz Index has been taken, there still remains the question of the appropriate level. Research on poverty provides a useful indicator for determining the appropriate level of the Kaitz Index. In poverty research, 50 per cent of the national median income is a widely accepted threshold

for absolute poverty and 60 per cent of the national median income marks the 'at-risk-of-poverty' threshold (UNECE 2017). It is important to acknowledge that the minimum wage is an individual concept, whereas poverty refers to individuals sharing resources within households (Lohmann 2019: 8). Thus, not every worker who is paid a minimum wage below the decency threshold is automatically poor. Whether an insufficient minimum wage translates into in-work poverty depends on a range of factors, such as insufficient working hours, the number of household members to be supported, and the availability of household income from sources other than wages, such as social security payments (Horton and Wills 2019: 229). This is why fair minimum wages should not be viewed as the silver bullet to prevent in-work poverty. However, the fact that in the UK, for instance, poor pay increases the risk of in-work poverty by the factor ten (Lawton and Pennycook 2013: 36) illustrates the importance of fair minimum wages as a tool to fight in-work poverty.

Against this background, referring to an individual full-time worker irrespective of his / her living and household circumstances, 60 per cent of the national gross median wage can be seen as the 'at-risk-of-poverty' wage threshold defined with the goal of ensuring that workers are not dependent on the state (through tax credits or in-work benefits) for relief from poverty. By the same logic, wages below the threshold of 50 per cent of the full-time gross median wage can be regarded as 'poverty wages'.

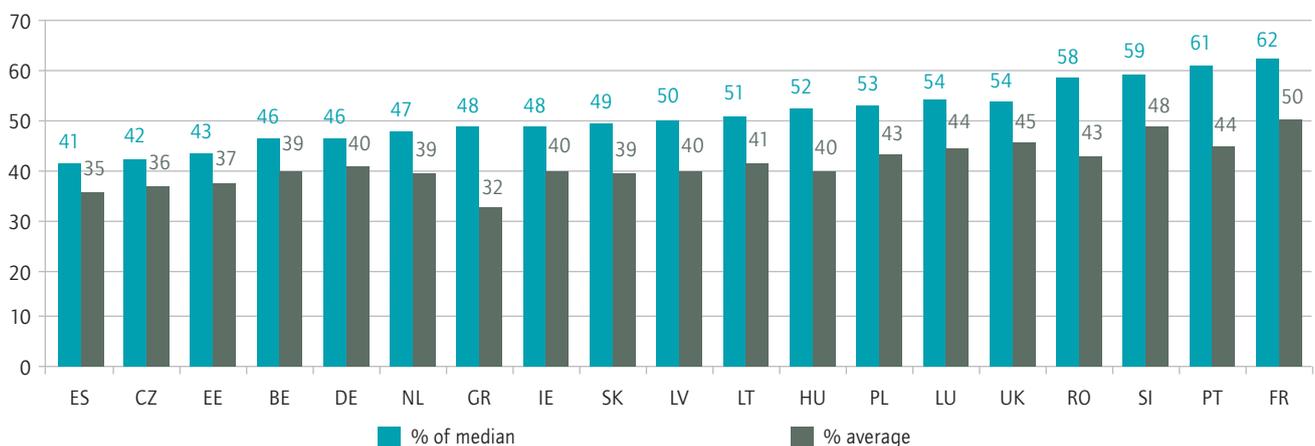
Insufficient minimum wage levels in Europe

Figure 2, which is based on OECD data putting statutory minimum wages in relation to the median and the average wage, illustrates that, when measured against these thresholds, the statutory minimum wage in 10 out of the 18 countries for which data is available is at or below 50 per cent of the full-time gross median wage and can, thus, be considered a poverty wage. A further six countries remain below the 'at-risk-of-poverty' wage threshold of 60 per cent of the national median wage. Of these 18 countries, only France and Portugal fulfil the 'at-risk-of-poverty' wage threshold.

This does not mean, however, that all is well in those countries which fulfil the 'at-risk-of-poverty' wage threshold. As an indicator for a fair minimum wage, the Kaitz Index also has its limits. This applies in particular to those countries in which a great majority of workers earn very low wages and as a consequence the median wage is very low. Romania and Portugal, with a Kaitz Index of just below or even above the 60 per cent median benchmark, are two cases in point. In these two countries, the high relative minimum wage level compared to the national median wage is not so much an expression of the high absolute minimum wage level, but rather of the low overall level of wages. Thus, the capacity of minimum wages that fulfil the 60 per cent standard to ensure a decent standard of living needs to be calibrated against the national criteria used to define a fair minimum wage. This can, for instance, be a country-specific basket of goods and services to be compiled with the full involvement of trade unions and employers' organisations, or it can simply be the wage that prevents workers from relying on additional wage top-ups from the state in order to make a living. If such a review yields that a minimum wage of 60 per cent of the national median wage is not sufficient to make a living, the Member States should take corrective measures by setting an even higher standard.

The examples of Portugal and Romania also illustrate that the discussion about fair minimum wages should not be decoupled from the discussion about measures to support sectoral collective bargaining as the primary tool to stabilise or raise the overall wage structure and therefore the national median wage. In both countries, the crisis management imposed by the IMF in Romania and the Troika in Portugal led to a dramatic decline in the regulatory capacity of collective agreements, which in turn led to a collapse of the whole wage structure (Schulten and Müller 2015; Müller *et al.* 2019). Thus, in order to ensure that 60 per cent of the national median wage really is a wage that enables workers to make a living, further initiatives are needed to develop concrete measures to strengthen sectoral collective bargaining such as: the provision of specific resources devoted to the promotion of sectoral collective bargaining through capacity building and training; the enforcement of trade unions' right to access workplaces to meet with the workforce along with the full protection of workers and trade unionists from union-busting

Figure 2 Kaitz index in EU Member States in per cent of median and average wages of full-time workers, 2018



Source: OECD Earnings Database (2018). No data was available for Bulgaria, Croatia and Malta.

actions. Moreover, there should be a general requirement that public procurement and the provision of EU funds is conditional on the full respect of the workers' right to collective bargaining and the full implementation of collective agreements.

Links with national minimum wage initiatives

In principle, the political and societal climate for a European minimum wage initiative is favourable at the moment. In the past, debates about a European minimum wage policy have often been symbolic and did not go beyond paying lip-service to the notion of a more social Europe rather than defining a concrete policy project. The problem was that the debates at European level have borne no relation to developments at national level (Schulzen and Müller 2019). This is different this time. The Commission initiative can build on a broad range of national initiatives aiming at substantial minimum wage increases. These include both trade union campaigns and government action (see Table 1). The most far-reaching demands are currently pursued by trade unions in Belgium and the Netherlands, which both strive for a minimum wage of €14. This would amount to an increase of 45 and 38 per cent respectively. In other countries, such as the Czech Republic, France, Germany, Great Britain, Ireland, Luxembourg, Portugal, Slovakia and Spain, the demands range from 10 to 30 per cent. The trade union campaign in Austria furthermore demonstrates that such initiatives are not restricted to countries with a system of statutory minimum wages, but also includes countries with a system of collectively agreed minimum wages. Despite all national particularities, all campaigns and initiatives listed in Table 1 share the explicitly stated objective of the European Commission to establish fair or adequate minimum wages which enable workers to make living from what they earn. This in turn offers the great opportunity for the Commission's European initiative and the various national initiatives to mutually reinforce each other.

Prospects of the Commission initiative

Whether we really are on the way to a European minimum wage is still unclear. Even if the Commission issues a more detailed and more ambitious proposal for the second-phase consultation which is designed to seriously ensure fair minimum wages, such a proposal – if based on Articles 153 (1)b, 153(2) and 154 TFEU – would still need a qualified majority in the Council of the European Union. As things currently stand, this is by no means certain. Strong criticism has in particular been voiced by governments and representatives of the two sides of industry in the Scandinavian countries Sweden and Denmark. The resistance in these two countries is essentially based on the widespread concern that a European legal instrument on minimum wages would interfere fundamentally with their voluntaristic tradition of industrial relations and undermine the autonomy of collective bargaining, hamper the normative effect of collective agreements, exert negative pressure on wage levels, and weaken the incentives for organisation among both workers and employers (Schulzen *et al.* 2015: 349; Boffey 2020; Thorwaldsson *et al.* 2020). In its consultation document, the Commission shows

that it is aware of these concerns by stating that 'any possible EU action in the field of minimum wages would ... respect national traditions, social partners' autonomy and the freedom of collective bargaining...[It] would not seek to establish a uniform mechanism to set minimum wage ...[and it] would not seek the introduction of a statutory minimum wage in countries with high collective bargaining coverage and where wage setting is exclusively organised through it' (European Commission 2020: 2).

This illustrates the clear intention of the Commission to ensure that the nature of national bargaining and wage-setting systems remain untouched by the initiative. However, the history of the crisis management and its active dismantling of collective bargaining systems looms large and still undermines the trust in such assurances. Thus, the key challenge for the Commission will be to ensure political support for its minimum wage initiative by including in the proposal strong provisions to protect well-functioning bargaining systems in a way that the freedom of collective bargaining will not be undermined by the proposed legal instrument itself. They should be also protected from potential court rulings which 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.

Conclusion

The European Commission's recent legislative initiative to establish fair minimum wages in Europe has the potential to open a new page in the long history of the debate about a European minimum wage policy. In order to do so, we suggest a pragmatic approach of taking a Kaitz Index of 60 per cent of the national full-time gross median wage as the reference for the assessment of the adequacy of fair minimum wages. Such a target is easy to implement and, probably as important, easy to communicate. A European minimum wage target according to which all national minimum wages increased to at least 60 per cent of the national median wage would bring millions of low-wage workers in the EU significant pay increases and a significant improvement of their life situation (Fernández-Maciás and Vacas-Soriano 2016). A comprehensive review of the international evidence, furthermore, illustrates that even substantial minimum wage increases to a level of 60 per cent of the national median wage would not lead to significant negative employment effects (Dube 2019). In many countries, an increase of the minimum wage to 60 per cent of the national median would furthermore contribute to economic growth by boosting internal demand.

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.

Table 1 Trade union demands/campaigns and government initiatives aimed at substantial minimum wage increases in Europe

Country	Current minimum wage	Trade union demands and government initiatives	Intended increase
Austria*	€1,500 per month	€1,700 per month Austrian Trade Union Federation (ÖGB)	13%
Belgium**	€9.66 per hour (38 hours per week) €1,593.81 per month	€14.00 per hour General Labour Federation of Belgium (ABVV / FGTB)	45%
Czechia	CZK87.30 per hour (= €3.40) CZK14,600 per month (= €568.76)	CZK108 per hour (= €4.71); CZK18,025 per month (= €702.18) = 50% of national average wage Czech Moravian Confederation of Trade Unions (ČMK OS)	24%
France	€10.15 per hour €1,539.42 per month	€1,800 per month (= €11.87 per hour) General Confederation of Labour, (CGT)	17%
Germany	€9.35 per hour	€12.00 per hour German Confederation of Trade Unions (DGB)	28%
Great Britain***	£8.72 per hour (= €9.93)	£10.00 per hour (= €11.39) Trades Union Congress (TUC) Government plans: 66% of national median wage by end of 2024	15%
Ireland	€10.10 per hour	€12.30 per hour (= calculated Living Wage) Irish Congress of Trade Unions (ITUC)	22%
Luxembourg	€12.38 per hour	€13.62 per hour (=structural increase by 10%) General Confederation of Labour of Luxembourg (OLGB)	10%
Netherlands**	€10.14 per hour (37,5 hours per week) €1,653.60 per month	€14.00 per hour Netherlands Trade Union Confederation (FNV)	38%
Portugal	€3.83 per hour €635 per month	€800 per month (= €4.82 per hour) General Workers' Union (UGT) €850 per month (= €5.12 per hour) General Confederation of Portuguese Workers (CGTP)	26% 34%
Slovakia	€3.33 per hour €580 per month	€640 per month; €3.68 per hour = 60% of national average wage Confederation of Trade Unions of the Slovak Republic (KOZ SR) Government: new law stipulating 60% of national average wage if unions and employers fail to come to an agreement	10%
Spain	€5.76 per hour €950 per month	€1,000 per month (= €6.06 per hour) longer term objective 60% of national average wage: €1,200 per month (= €7.27 per hour) Trade Union Confederation of Workers' Commissions (CC.OO) and General Workers' Union (UGT) Government plans: 60% of national average wage by end of term in 2024	5% 26%

Note: The conversion of CZK and £ into Euro is based on the annual average exchange rate for 2019.

* There is no statutory minimum wage in Austria. Instead there is a collectively agreed minimum wage norm for the lowest pay grade in collective agreements.

** In Belgium and the Netherlands the minimum wage is determined as a monthly wage and can therefore vary depending on the hours worked per month. The hourly minimum wage in the table is based on the collectively agreed average weekly working time.

*** from 1.4.2020.

Source: updated version of Schulten and Müller (2019).

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