Higher statutory minimum wages and stronger collective bargaining are good for the economy

The recovery from the economic crisis must be wage-led. Higher minimum wages and stronger collective bargaining must be essential components for a strong, fair and sustainable recovery.

In October 2020, the European Commission published its proposal for a Directive on adequate minimum wages in the European Union. For the first time in the history of the EU, draft legislation is on the table which explicitly aims to not only significantly increase minimum wages in Europe, but also to strengthen collective bargaining.

This proposal is a paradigm shift. It is not so long ago that the Commission basically dismissed adequate minimum wages and strong collective bargaining as barriers to the functioning of free markets, arguing that they have a negative impact on growth and employment. Indeed, in the wake of the last major economic crisis in 2008/2009, the EU exerted considerable influence in many countries in urging them to freeze or even decrease minimum wages and weaken collective bargaining.

The proposed Directive on adequate minimum wages aims to achieve the exact opposite: adequate minimum wages and strong collective bargaining are to ensure that workers can make a decent living from what they earn. As expected, many still argue that a minimum wage increase would prolong the crisis, be too expensive for companies, and would cost thousands of jobs. In short, the old argument goes, a minimum wage increase is bad for the economy.

In fact, experience from around the world has shown the exact opposite to be the case: adequate minimum wages are essential to economic recovery. If the last crisis taught us one lesson, it is that austerity and wage freezes are no way out of the crisis. Adequate minimum wages as proposed by the Directive would improve the wages of more than 25 million workers in the EU who currently earn a minimum wage. Many of these 25 million workers are so-called “essential” workers who have ensured that our societies continue to function during the Covid-19 pandemic. Of course these workers deserve our applause – but more than that they deserve to be paid appropriately through adequate minimum wages and collective bargaining

There are various channels through which adequate minimum wages can strengthen the economy: More money in the pockets of low-wage workers to consume triggers larger investment and therefore boosts aggregate demand, economic growth, productivity and hence employment overall. Since minimum wages have an important signalling effect for the wage development more generally, the positive impact of increased minimum wages on aggregate demand would in turn be further reinforced through stronger wage growth overall. Public budgets would also benefit: an increase in minimum wages means that states have to spend less on supplementing inadequate wages through tax credits and in-work benefits. The boost in aggregate demand would furthermore help states to generate more revenue through taxes and social security contributions.

In view of the economic and social challenges posed by the Covid-19 pandemic and the steep road to recovery that lies ahead, it is therefore crucial that adequate minimum wages and strong collective bargaining be recognised and promoted as key elements of any recover strategy. The proposed Directive is a step in the right direction, but stronger measures are needed to guarantee the respect of the right to collective bargaining for unions to negotiate better pay and conditions for workers and raise statutory minimum wages to a level which ensures at least a decent standard of living. Adequate

minimum wages and strong collective bargaining are not only good for the people, they are clearly also good for the economy.

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