



The effect of universal basic income on economy and labour market policies

Training Session - 17th November 2020

Dr. Fabio Ravelli
University of Brescia - Law Department

People at risk of poverty or social exclusion

People at risk of poverty or social exclusion

(in million persons, EU-28, 2018)

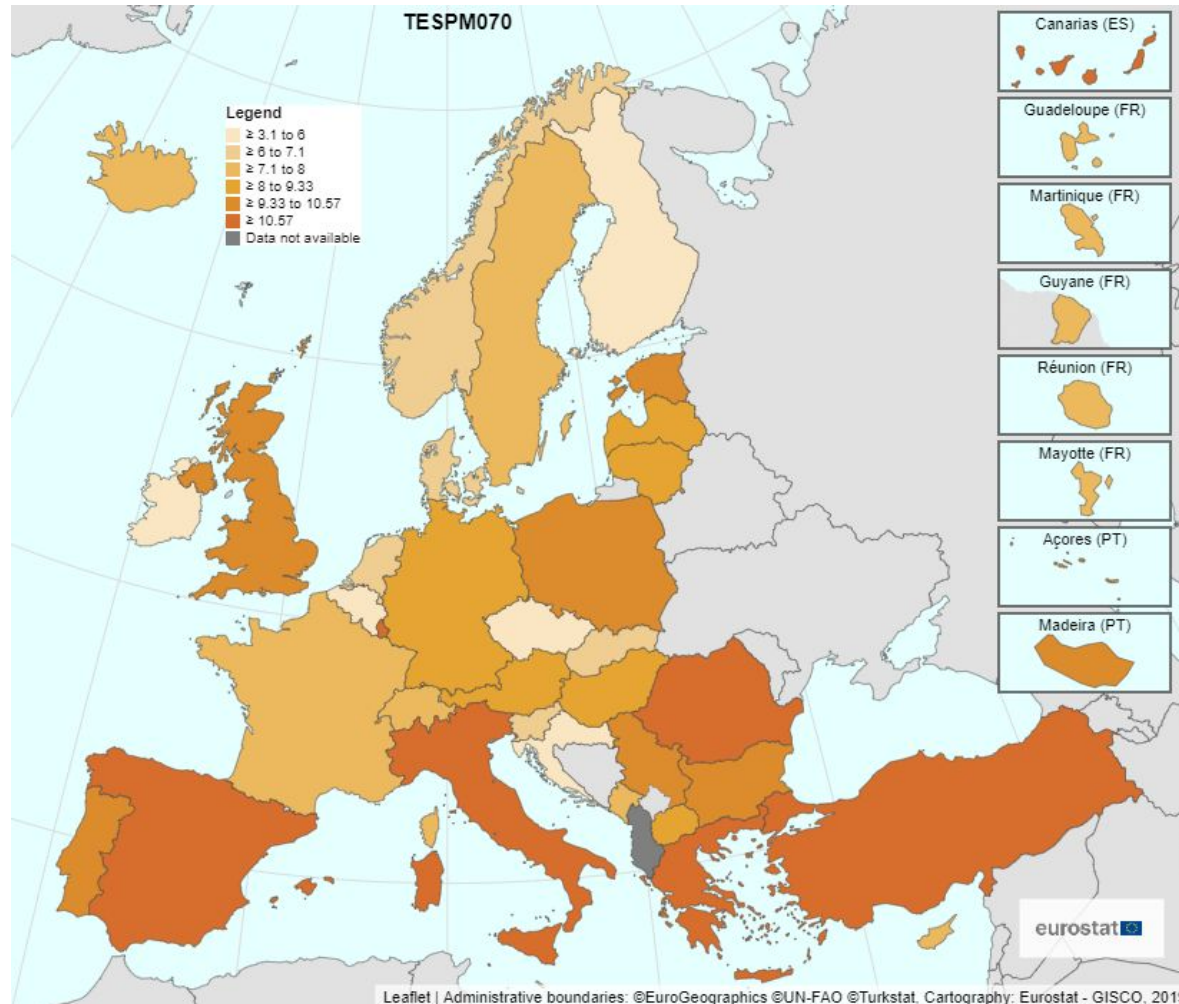


Note: 2018 estimated data.

Source: Eurostat (online data code: ilc_pees01 and ilc_peps01)

ec.europa.eu/eurostat

In-work at-risk-of-poverty rate in EU (2018)



EU-27

- 2018: 9.3%
- 2019: 9.0%

Italy:

- 2018: 12.3%
- 2019: not available

Slovenia:

- 2018: 6,0%
- 2019: 4.5%

Spain:

- 2018: 13.0 %
- 2019: 12.8%

Strategies against income poverty

EU Social Pillar

Principle # 6. Wages

Workers have the right to fair wages that provide for a decent standard of living.

Adequate minimum wages shall be ensured, 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, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.

All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners.

Principle # 14. Minimum income

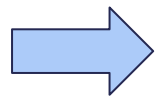
Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to [re]integrate into the labour market.

1) The “adequate minimum wage” issue

In her State of the Union address of September 2020, President von der Leyen stated that: “The truth is that for too many people, work no longer pays. Dumping wages destroys the dignity of work, penalises the entrepreneur who pays decent wages and distorts fair competition in the Single Market. This is why the Commission will put forward a legal proposal to support Member States to set up a framework for minimum wages. Everyone must have access to minimum wages either through collective agreements or through statutory minimum wages”

EU Commission’s concerns:

- ❖ increasing share of low-paid and low-skilled occupations
- ❖ more in-work poverty and wage inequality [especially after the Covid-19 emergency]
- ❖ distortion of fair competition in the Single Market



Proposal for a *Directive on adequate minimum wages in the European Union*, Brussels, 28.10.2020, COM(2020) 682 final

Some questions

- 1) why a hard law measure?
- 2) to what extent can the EU intervene in the area of pay?
- 3) how prescriptive is the directive vis-à-vis member states? What room for maneuver are left to Member States?
- 4) what is the impact expected?

Why a directive?

In the field of social policy OMC has been widely used, but it has not been able to avoid the increase in inequality and poverty

→ need for more effective measures

EU hard law should be “rediscovered” (T. Treu)

Does the EU have the competence to regulate the matter of the minimum wage?

Art. 153(5): “The provisions of [article 153] shall not apply to pay, the right of association, etc...”

However...

Article 153(1) (b): “the Union shall support and complement the activities of the Member States in the following fields:

[...]

(b) working conditions”

... the competence issue

Up to a certain degree, wage is referable to the category of “working conditions”: “the large differences in standards for accessing an adequate minimum wage are part of working conditions” [EU Commission]

Moreover, since the proposal does not contain measures directly affecting the level of pay, it fully respects the limits imposed to Union action by Article 153(5) TFEU

Fulfilled the principle of **subsidiarity**

→ “Action at EU level will be more effective in strengthening minimum wage setting systems than action at national level [...] This cannot be sufficiently achieved by uncoordinated action by the Member States”

Fulfilled the principle of **proportionality**

→ “the degree of intervention will be kept to the minimum necessary in order to reach the objectives of the proposal” ... but **how?**

Does the EU interfere with national wage policies?

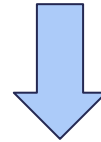
The proposal specifies what the directive does not aim to do [cf. recital 16]:

- ❖ it does not aim to harmonise the level of minimum wages across the Union
- ❖ it does not aim to establish an uniform mechanism for setting minimum wages
- ❖ it does not impose a specific setting [statutory minimum wage vs. collective bargaining]
- ❖ it does not establish the level of pay

What does the directive aim to do?

Given that:

- a) minimum wages applying to many workers are not adequate
- b) some workers are not covered by minimum wages



AIM

establishing a framework for:

- [a] setting adequate levels of minimum wages;
- [b] access of workers to minimum wage protection
in order to improve working and living conditions

→ **coordination** of the existing national wage settings
without prejudice of the prerogatives of Member States and Social Partners

Differentiated and flexible approach

Member States [n. 6] where minimum wage is determined only by collective bargaining

provisions aimed at promoting collective bargaining on wage setting [especially degree of coverage]

Member States [n. 21] where minimum wage is determined both by:

- collective bargaining
- statutory minimum wage

INTERACTION

1) provisions aimed at promoting collective bargaining on wage setting [especially degree of coverage]

2) provisions aimed at promoting the adequacy of statutory minimum wage where existing

Member States where minimum wage is determined by collective bargaining #1

Wages established by the agreements signed by the most representative trade unions are usually in line with the “adequacy” criterion...

... however:

- ❖ in some Member States collective bargaining coverage is low
- ❖ even if the average coverage is high [i.e. Italy: 80%], there are sectors where **a)** the coverage is low or **b)** race-to-the-bottom bargaining can be observed

Member States where minimum wage is determined by collective bargaining #2

Article 4 [1]: “1. With the aim to increase the collective bargaining coverage Member States shall take, in consultation with the social partners, at least the following measures:

- [a] promote the building and strengthening of the capacity of the social partners to engage in collective bargaining on wage setting at sector or cross-industry level;
- [b] encourage constructive, meaningful and informed negotiations on wages among social partners”

This provision seems to be very flexible and “soft” and may be implemented in various ways

Art. 4 [2]: When the collective bargaining coverage is less than 70%, Member States:

- ❖ shall in addition provide for a framework of enabling conditions for collective bargaining
- ❖ shall establish an action plan to promote collective bargaining

Member States where minimum wage is determined by collective bargaining #3

What could be done?

1) **extend the collective bargaining coverage:**

- ❖ directly, through law or administrative measures [problem: what if the Constitution prohibits the implementation of such extension mechanisms? i.e. Italy]
- ❖ indirectly [i.e. art 9: “[...] Member States shall take appropriate measures to ensure that in the performance of public procurement or concession contracts economic operators comply with the wages set out by collective agreements]

2) **promote the extension and the application of agreement signed by most representative trade unions**, in order to fight against race-to-the-bottom bargaining

Member States establishing statutory minimum wage

Member States providing for statutory minimum wage have to face two main problems (cf. recital 11):

- 1) in 2018, the statutory minimum wage did not provide sufficient income for a single minimum-wage earner to reach the at-risk-of-poverty threshold in nine Member States
- 2) the use of reduced minimum wage rates [variations] and deductions from statutory minimum wages negatively affect their adequacy

SOLUTIONS

Promote and strengthen collective bargaining [cf. above mentioned observations]

national criteria for statutory minimum wage setting and updating defined in a stable and clear way

establishment of consultative bodies involving social partners

establishment of a system providing control and sanctions

Criteria for minimum wage setting/updating

NATIONAL CRITERIA

Article 5 (2): “The national criteria [...] shall include at least the following elements:

- [a] the purchasing power of statutory minimum wages, taking into account the cost of living and the contribution of taxes and social benefits;
- [b] the general level of gross wages and their distribution;
- [c] the growth rate of gross wages;
- [d] labour productivity developments”.

- ❖ need for regular and timely updates of statutory minimum wages
- ❖ consultative bodies to be established
- ❖ involvement of social partners in statutory minimum wage setting and updating

What do we mean by “adequate”?

The Commission cannot establish a precise threshold of “adequacy” (cf. art. 153(5) TFEU) but suggests some criteria

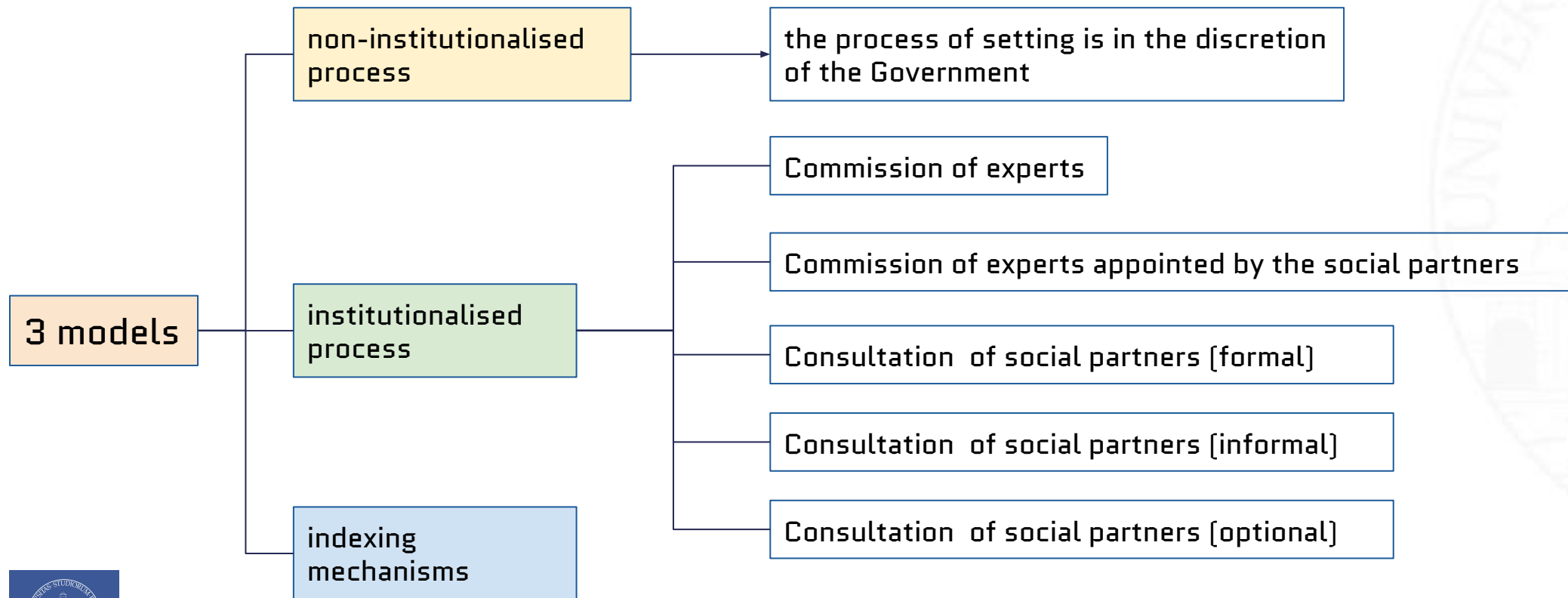
Cf. Recital 21

“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. The adequacy of statutory minimum wages is determined in view of the national socio-economic conditions, including employment growth, competitiveness as well as regional and sectoral developments. Their adequacy should be assessed at least in relation to their purchasing power, to the productivity developments and to their relation to the gross wage levels, distribution and growth. The use of indicators commonly used at international level, such as 60% of the gross median wage and 50% of the gross average wage, can help guide the assessment of minimum wage adequacy in relation to the gross level of wages”

Involvement of social partners

At the moment, social partners may be involved in the minimum wage setting/updating procedure in various ways [cf. M. Marocco]

→ article 7: involvement of social partners is now explicitly required



Expected impact

In the **Explanatory Memorandum**, the Commission reports on the possible impact:

- ❖ The expected economic impacts include increased labour costs for firms, increased prices and, to a lesser extent, lower profits
- ❖ However, the impact on firms would be mitigated by increases in the consumption of low-wage earners, which would support domestic demand
- ❖ The possible negative impact on employment is expected to be limited. It would remain below 0.5% of total employment in most cases, but would reach 1% in three Member States
- ❖ The benefits of an improved minimum wage protection for the concerned workers would greatly outweigh the possible negative employment impact on these workers

2) The “minimum income” according to the Social Pillar

Principle n. 14 of Social Pillar → establishes the main characteristics of the EU minimum income model:

- ❖ aim: “ensuring a life in dignity at all stages of life” [cf. art. 34 CFREU: “decent existence”]
- ❖ “Everyone lacking sufficient resources...” → means-test is required
- ❖ right to “adequate” minimum income [EP Resolution 20.10.2010: “ 60% of median income in the Member State concerned”]
- ❖ minimum income benefits should be combined with incentives to [re]integrate into the labour market → activation and implementation of the “conditionality principle”

Towards a universal basic income (UBI)?

Some scholars argue that the introduction of a universal basic income (UBI) should be taken into account, especially after the Covid-19 emergency has occurred

→ “A basic income is an income paid by a political community to all its members on an individual basis, without means test or work requirement” [cf. P. Van Parijs]

It would be a change of perspective:

- minimum income → measure aimed at combating poverty
- universal basic income → measure aimed at ensuring a decent existence, regardless of the individual's need [the fight against poverty is not the main objective, although the poor are those who would benefit most from the measure]

Should we support the “surfer of Malibu”?

Arguments in favour of an “unconditional” measure

- promoting “real freedom for all” [Van Parijs]
- eliminating the costs associated with assessing individuals' need
- eliminating social stigma
- individuals are not obliged to accept any job offer

Arguments in favour of a “conditional” measure

- promoting individuals' activation
- minimizing free-riding, supporting only people in real need
- less expensive [although the economic argument is controversial]
- consistent with the idea of society as a scheme of cooperation between individuals [based on reciprocity and responsibility]

A provisional conclusion

Is the universal basic income the answer?

- ❖ UBI cannot be a panacea or a all-purpose tool
- ❖ although its economic sustainability is controversial, at the moment it would be too expensive [especially in countries like Italy, due to the huge Government debt]
- ❖ it would be better to adjust existing occupational schemes by extending their scope to all categories of workers [employees, self-employed, etc.] thus overcoming the exceptional schemes introduced to face the Covid-19 emergency