

Promoting Wage Adequacy and Labor Market Participation in Europe

Giulia Giupponi, Bocconi University and CEPR

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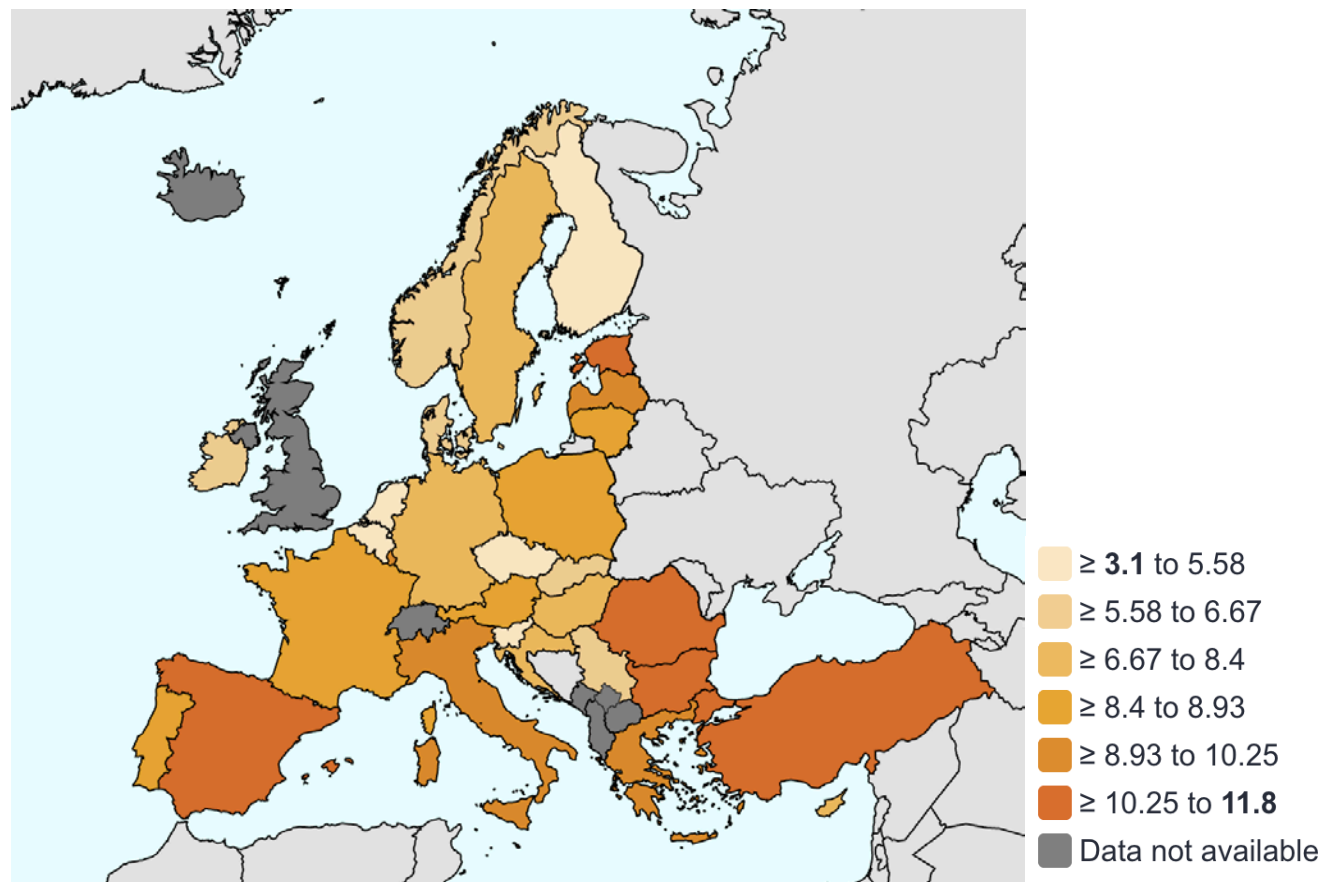
Quality jobs for all: two challenges

- The **EU's Anti-Poverty Strategy**: for those able to work, a **quality job** is the best protection against poverty
- Right ambition, but two distinct demands:
 - **Quality** — the job has to pay enough and offer good employment conditions
 - 8.3% of EU workers are at risk of poverty
 - **For all** — the job has to be within reach of those who do not have one
 - 1 in 5 people aged 20–64 are outside the labor force
- Which **policies** actually deliver on each?

Wage adequacy: the role of minimum wages

In-work poverty is a pressing phenomenon

- Despite declining trend, 8.3% of workers at risk of poverty in Europe in 2025



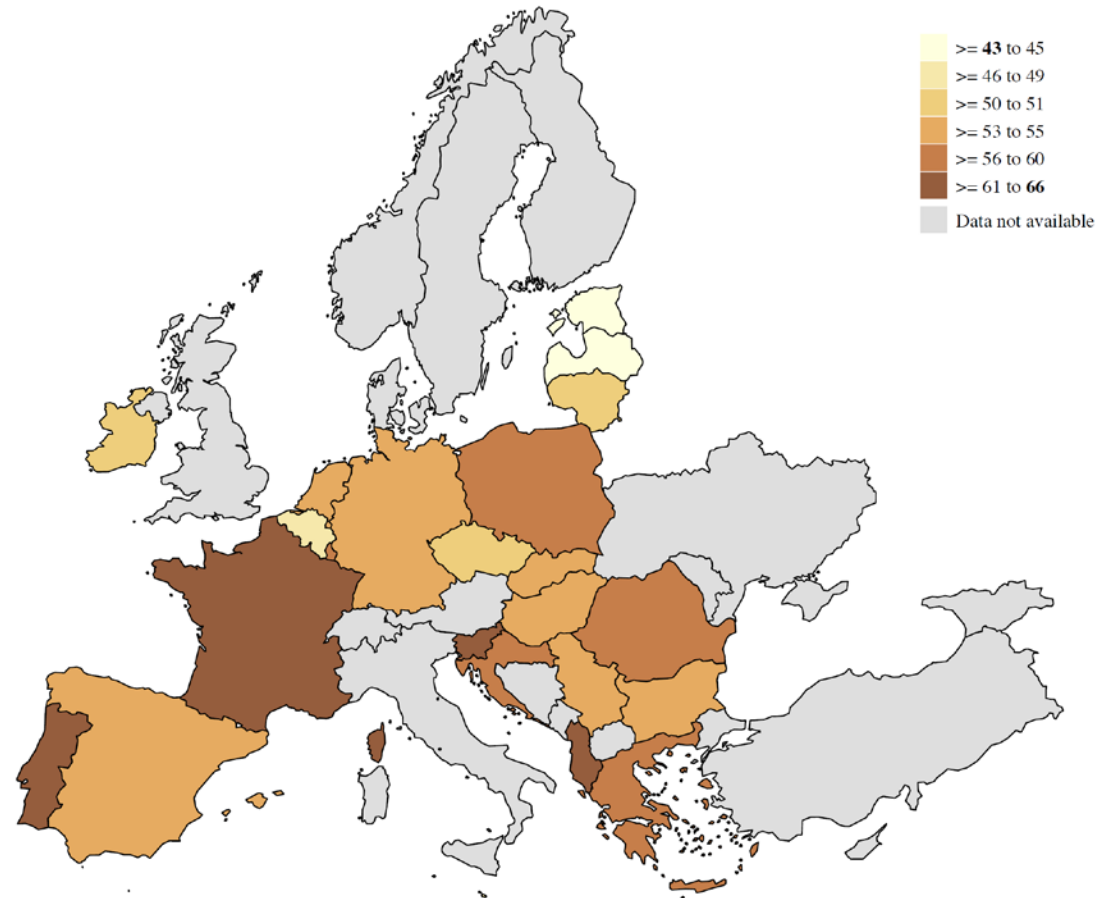
Source: Eurostat

Minimum wage policy

- Europe's main concern today is **wage adequacy**
- Internationally, minimum wages and collectively bargained floors are the two key labor market institutions to boost market wages
 - Minimum wages have gained unprecedented popularity, with many countries having introduced or ambitiously increased minima recently

Minimum wages in Europe

- Minimum wage as a proportion of median gross earnings (2022)

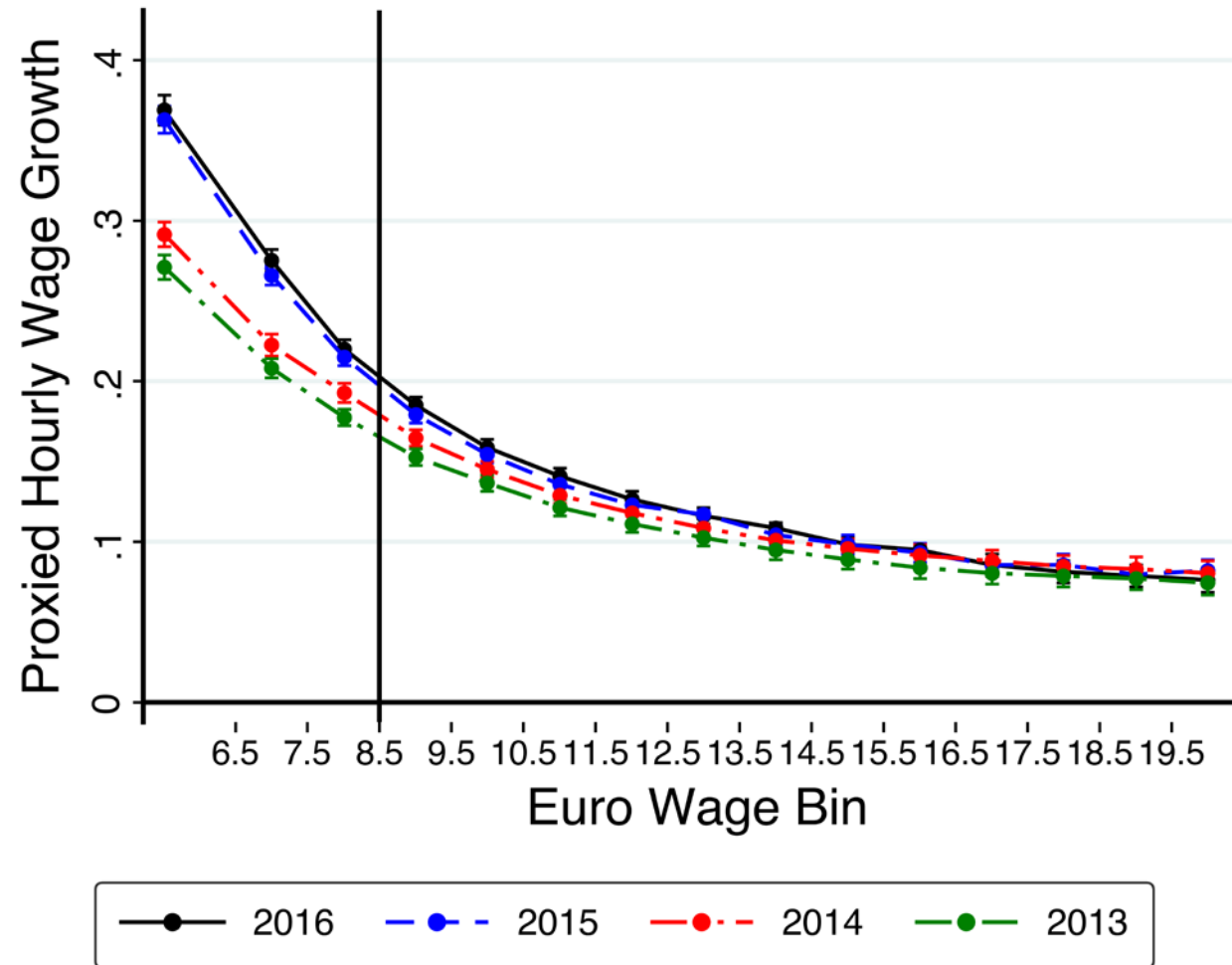


Source: Eurostat

Minimum wages and wages

- Research shows that minimum wages are **effective at raising pay** of low-income workers
- ... with only **very modest or no effects on employment**

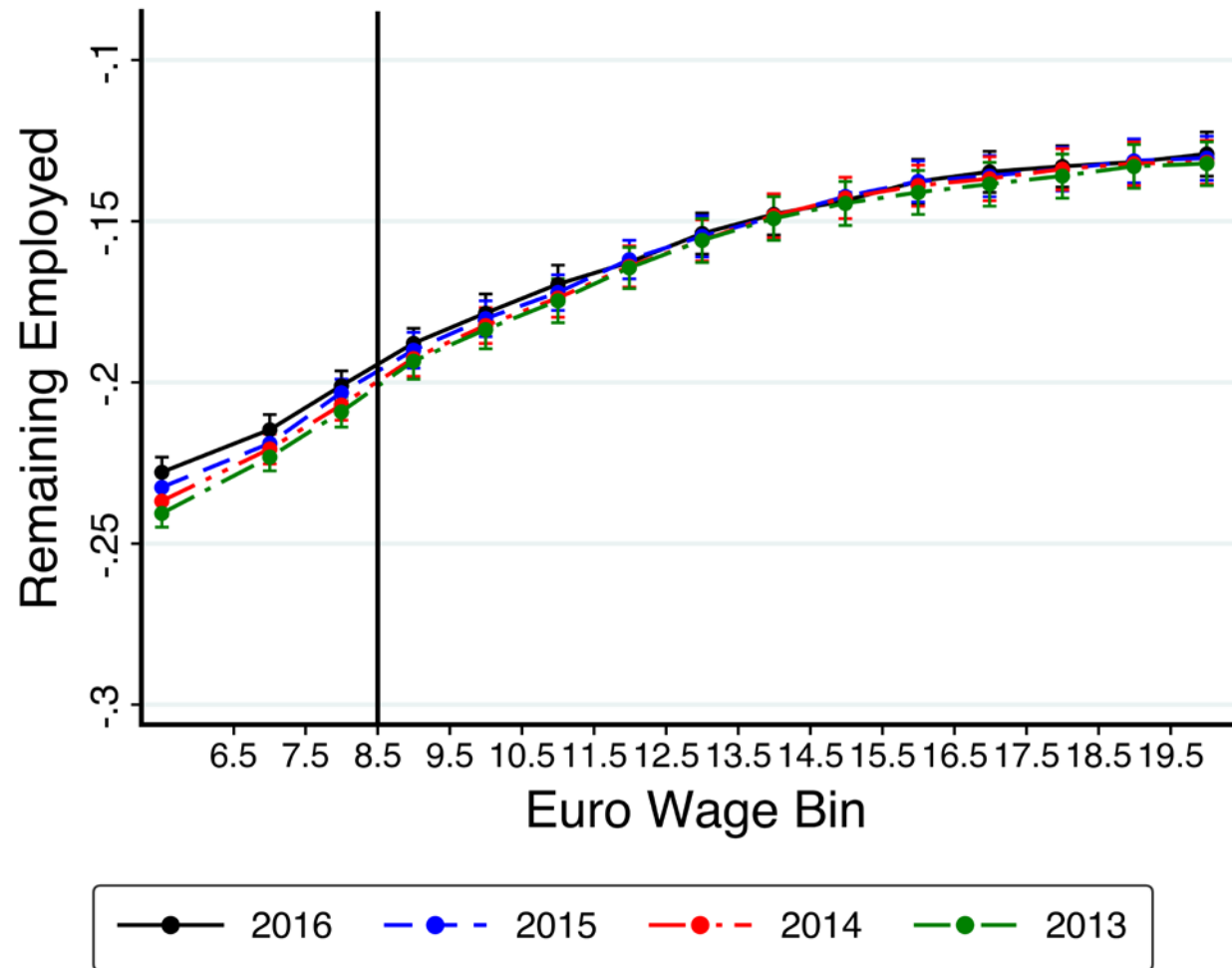
Effect of German minimum wage on wages



(A) Two-Year Hourly Wage Growth by Initial Wage Bin

Source: Dustmann et al. (2022)

Effect of German minimum wage on employment



(A) Employment Probability in Year t by Initial Wage Bin

Source: Dustmann et al. (2022)

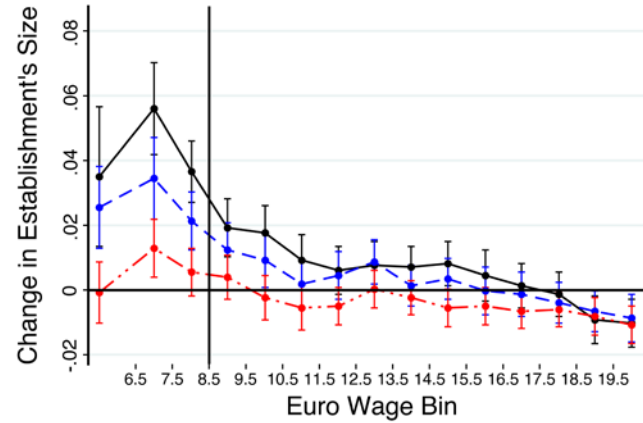
Minimum wages and collective bargaining

- Even in countries with strong collective bargaining traditions, statutory minimum wage can play a **complementary role**
 - Faster adjustment during inflationary periods
 - Provide floor in sectors with limited bargaining coverage

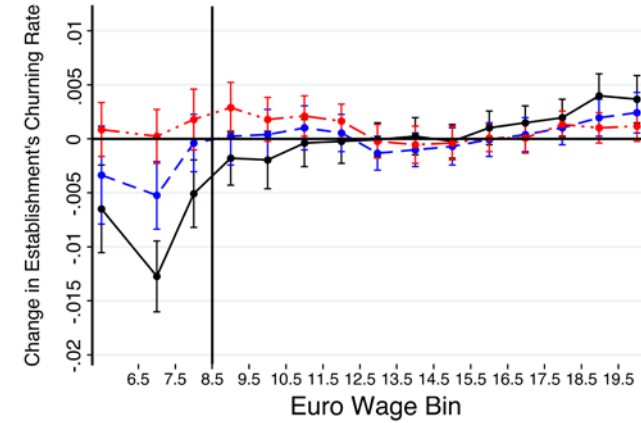
Firm adjustments and reallocation

- Firms have been shown to **adapt largely through other margins** rather than through job cuts
 - Slightly higher prices
 - Lower turnover
 - Higher productivity
- Importantly, minimum wage policies can foster **positive reallocation dynamics**
 - Encourage less efficient firms to restructure or exit, while more productive firms expand and offer better-quality jobs

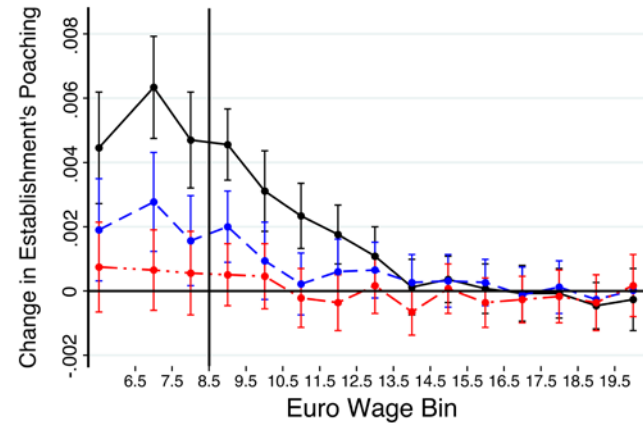
Effect of German minimum wage on firm quality



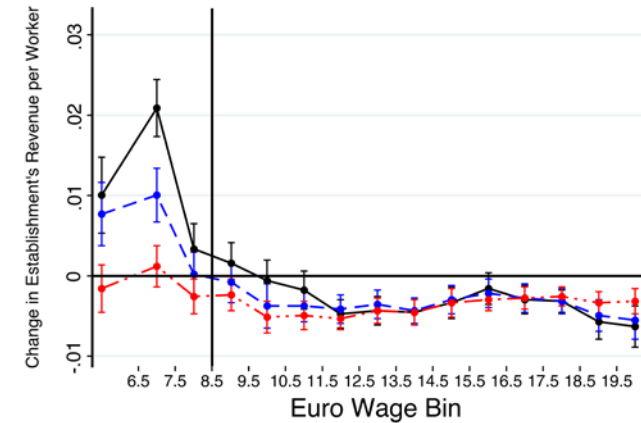
(C) Establishment Size



(D) Establishment's Churning Rate



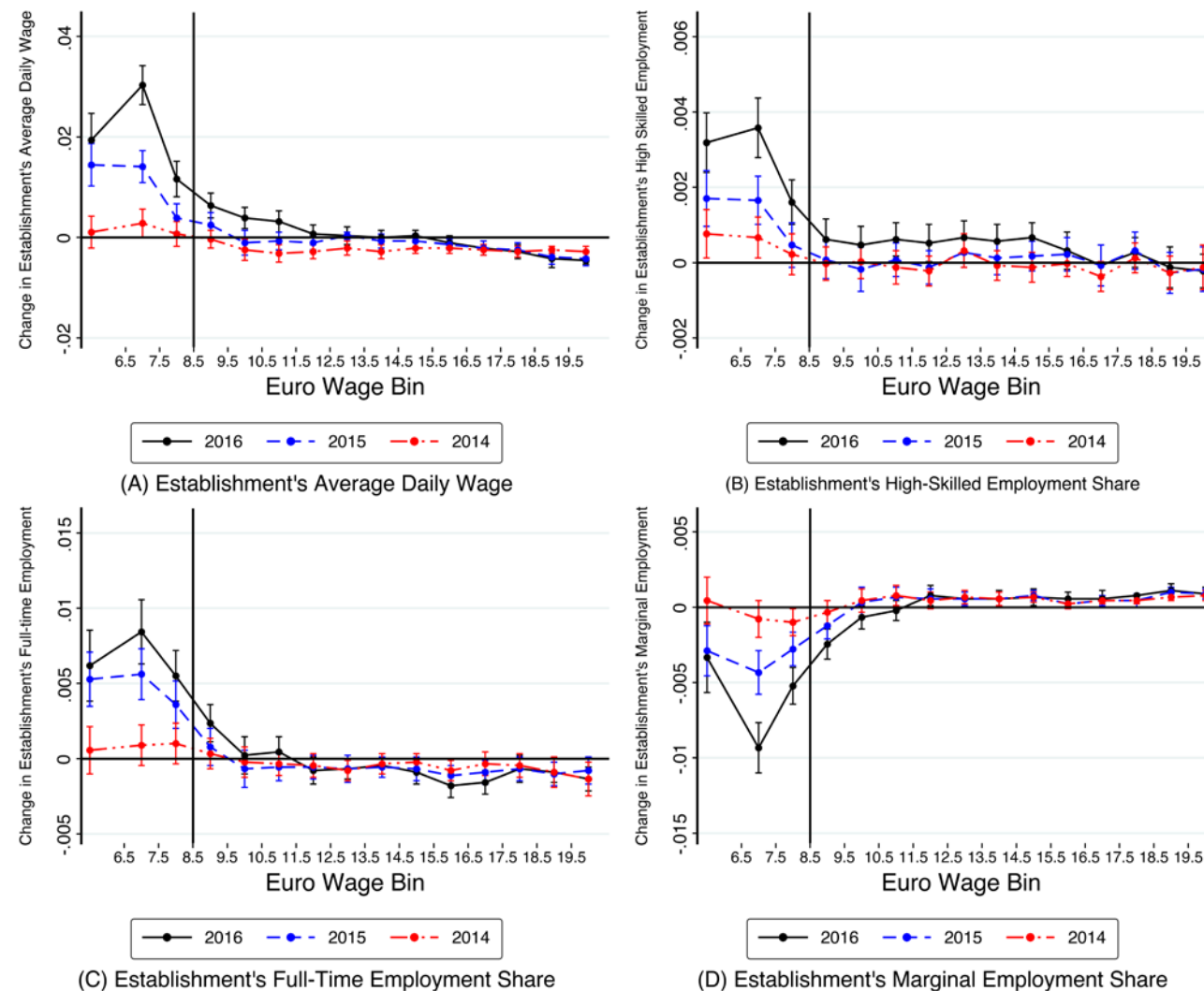
(E) Establishment's Poaching Index



(F) Establishment's Revenue per Worker

Source: Dustmann et al. (2022)

Effect of German minimum wage on job quality



Source: Dustmann et al. (2022)

Wage adequacy: promoting competition in the labor market

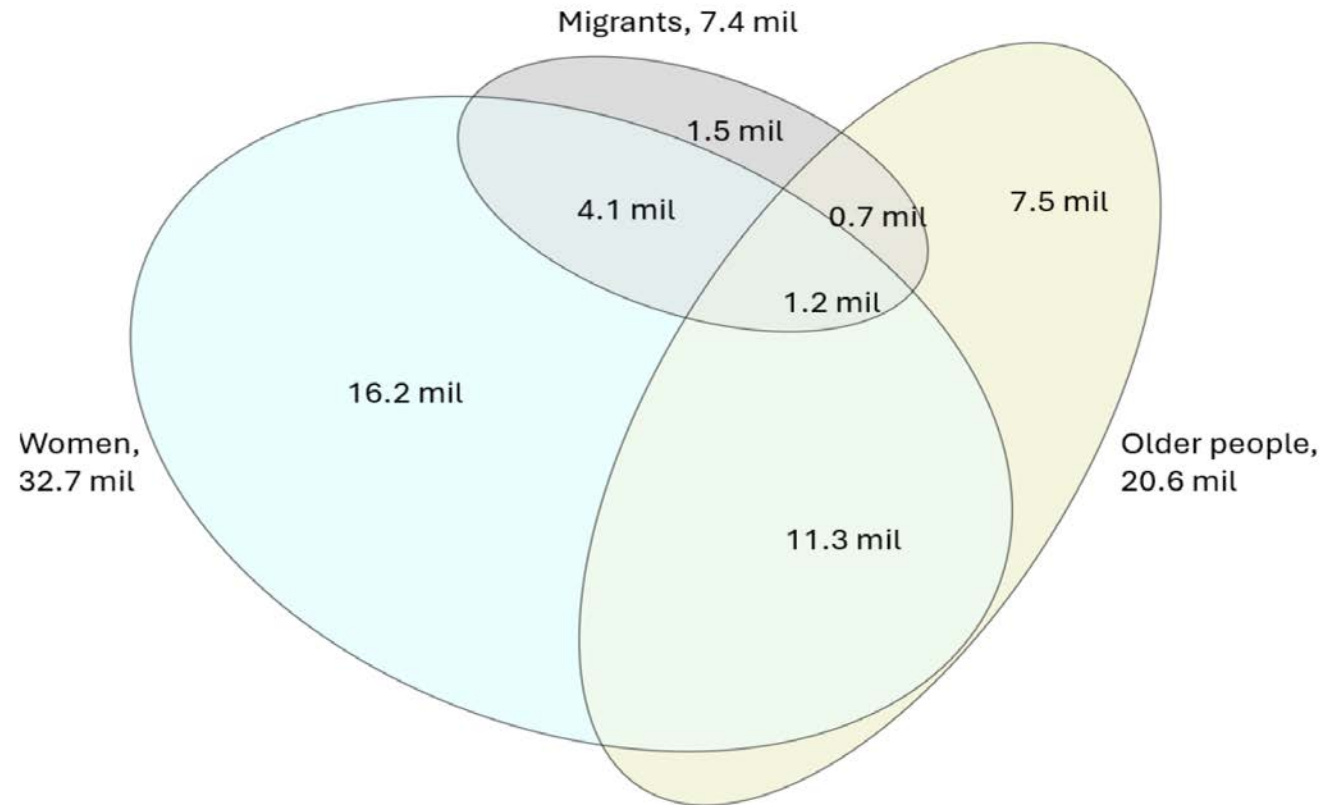
Monopsonistic power and job quality

- Growing body of work shows that **labor market power by firms** is associated with lower wages and reduced job security
- Compared with US, European institutions are more protective of workers
- Yet, lack of labor market competition still negatively affects workers
- What works?
 - Extending **antitrust policy** to labor market
 - Providing **information** about job opportunities (misperceptions)
 - Promoting and supporting **worker mobility**

Encouraging labor market participation

Who is outside of the labor force?

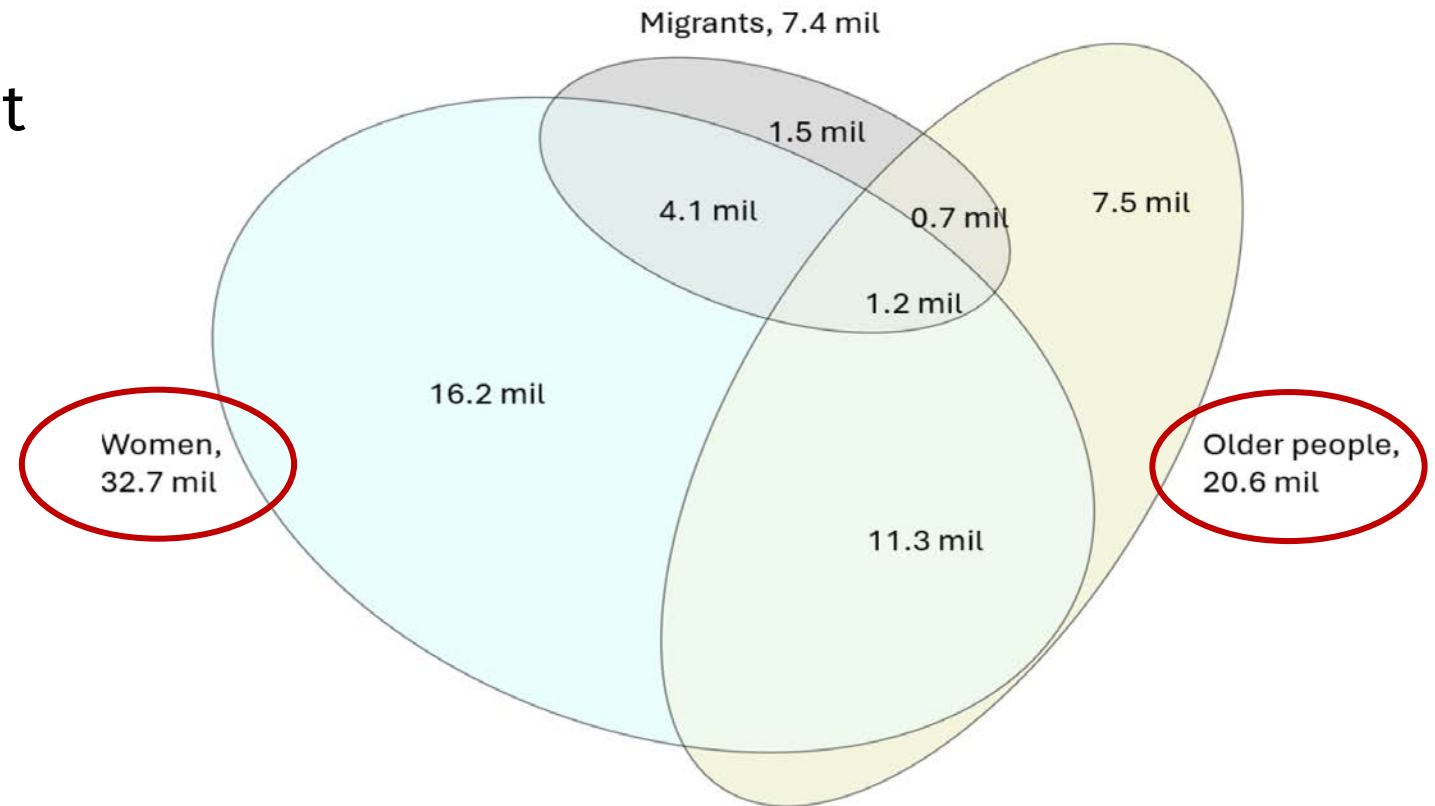
- In 2024, 51 million people aged 20-64 (20%) were out of labor force
 - 32 million are women, 19.7 million are older persons (aged 55-64)
 - Among those outside labor market, almost 40% have a disability



Source: Employment and Social Developments in Europe (2025)

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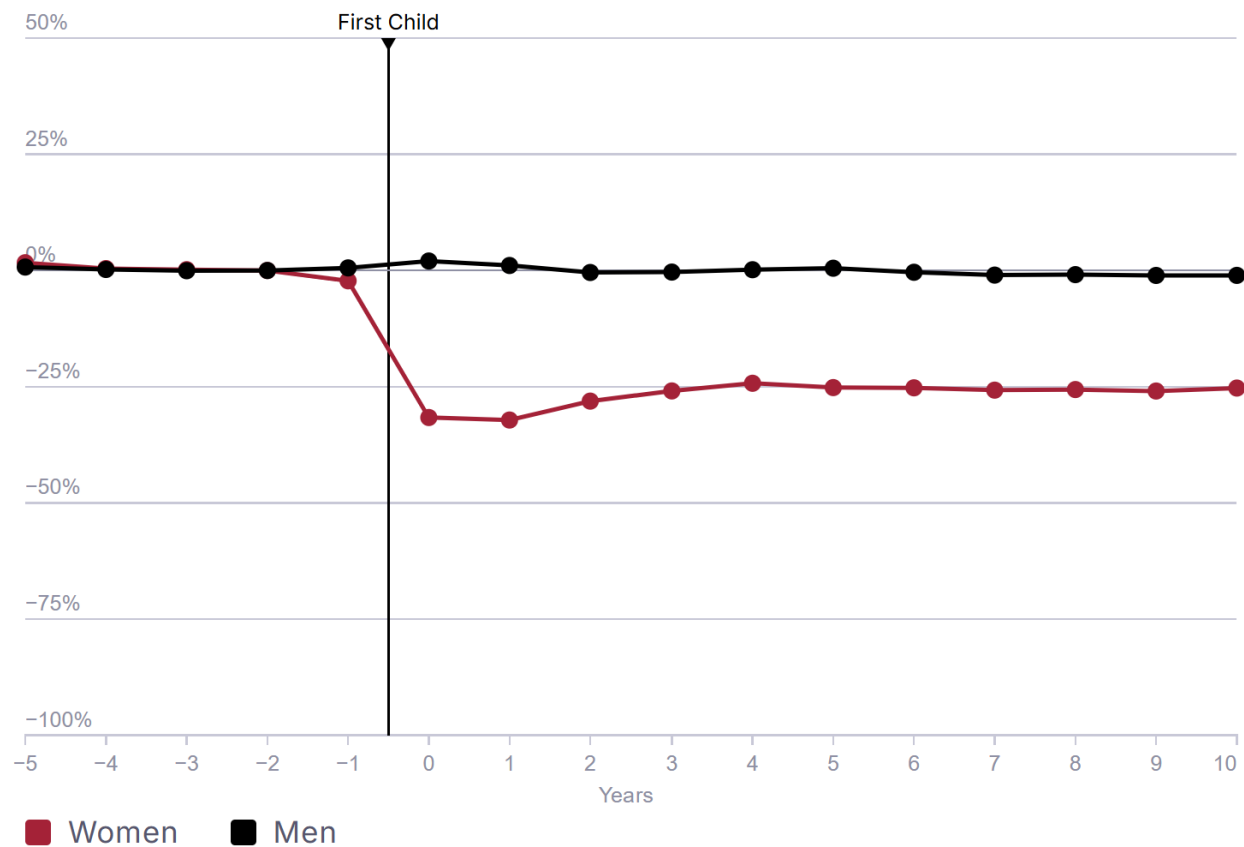
Source: Employment and Social Developments in Europe (2025)

Children and female employment

Europe

Child Penalty: **29%**

Confidence Interval: **(26%, 32%)**



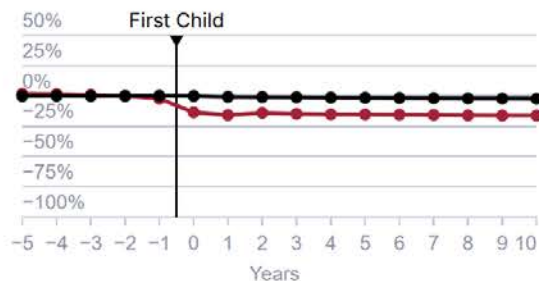
Source: Child Penalty Atlas

But not all countries are the same...

Denmark

Child Penalty: **14%**

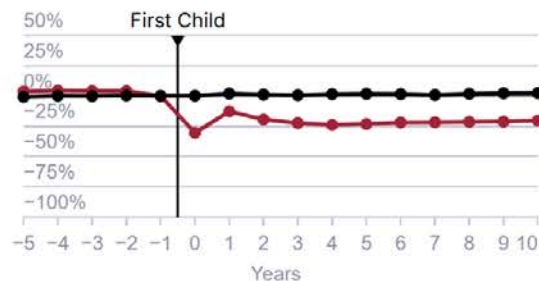
Confidence Interval: **(14%, 14%)**



France

Child Penalty: **25%**

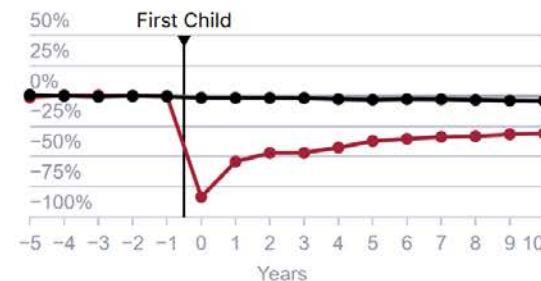
Confidence Interval: **(24%, 26%)**



Germany

Child Penalty: **41%**

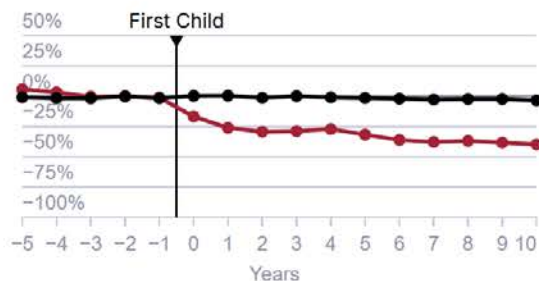
Confidence Interval: **(40%, 42%)**



Italy

Child Penalty: **33%**

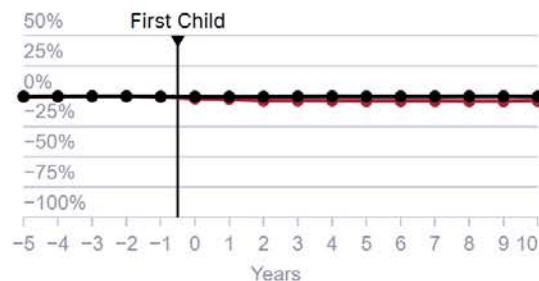
Confidence Interval: **(29%, 37%)**



Norway

Child Penalty: **3%**

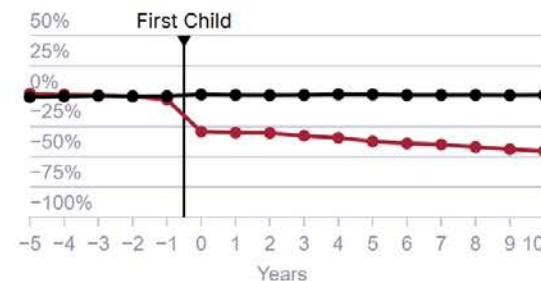
Confidence Interval: **(3%, 3%)**



Spain

Child Penalty: **38%**

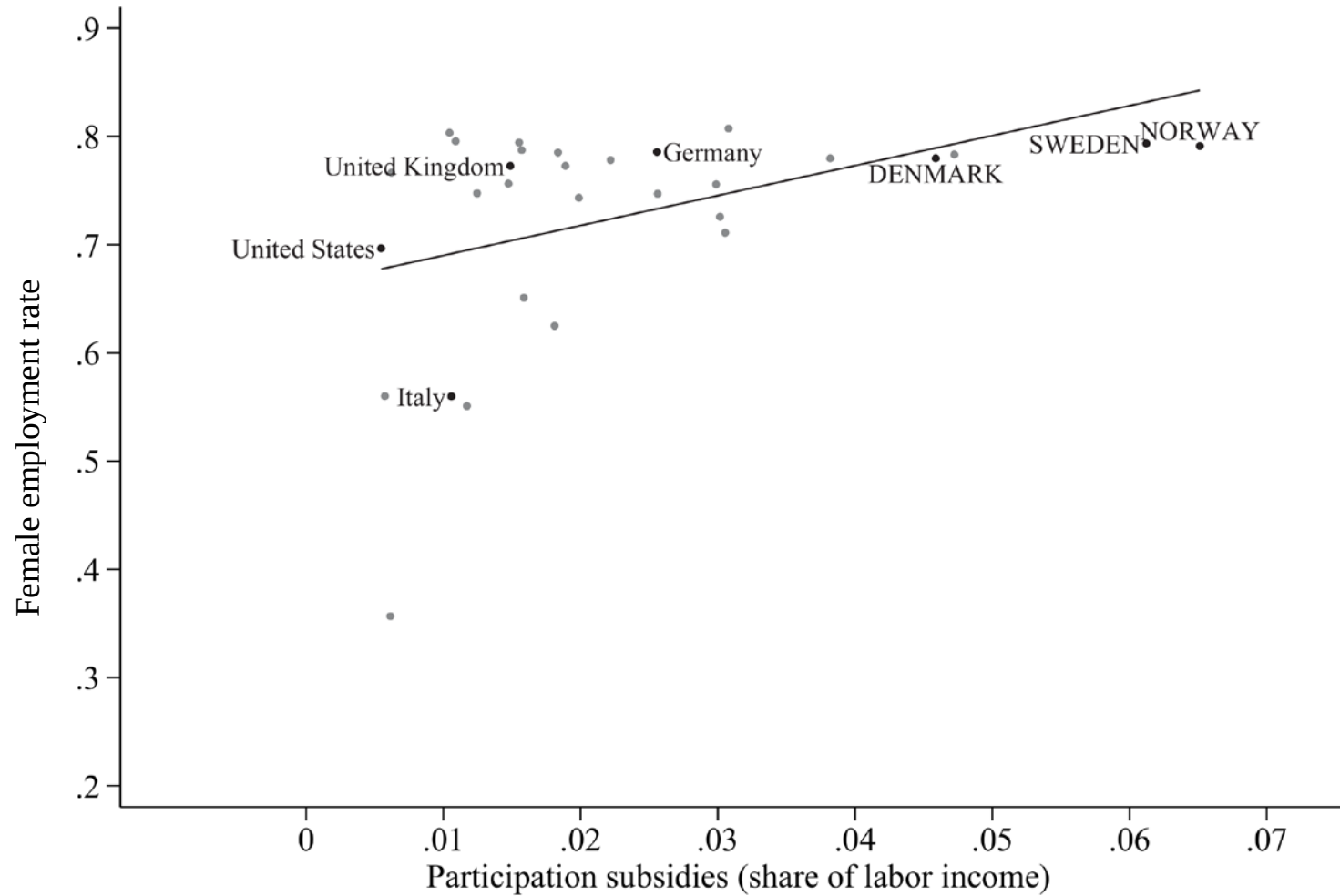
Confidence Interval: **(36%, 40%)**



■ Women ■ Men

Source: Child Penalty Atlas

The importance of subsidies to work complements



Source: Kleven (2014), updated to 2021 using OECD SOCX, OECD Labour Force Statistics and Penn World Table

Encouraging later retirement

- **Increasing ERA or NRA induces large retirement delays**
 - Behavioral mechanism: workers view these ages as reference points
- Strengthening marginal financial incentives for later retirement is much less effective
- Pension reforms have **spillover effects on other social insurance programs**
 - When retirement ages increase, some substitution from pensions to unemployment and disability insurance, but magnitude insufficient to offset direct effect of reforms
- **Norms** around older age

Quality jobs for all: two challenges, both within reach

- **Quality**

- Minimum wages
- Labor market competition

- **For all**

- Subsidies to work complements (childcare and elderly care)
- Statutory pension ages

- We know from sound research **how well each policy lever works**

- Neither challenge is beyond reach