

**Gerhard Bosch**

# **Reducing inequalities by minimum wages**

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# Contrasting views on minimum wages (MW) and collective bargaining CCB) (I)

*Main stream economists, IMF, World bank:*

- Labor market institutions barrier to downward wage flexibility
- Negative impacts on employment
- Trade-off between equality and employment
- Abolition/weakening of MW/CB has no negative side effects on demand, innovation, skills, welfare state, trust and democracy.....

## Contrasting views on MW and CB (II)

### *Alternative view:*

- Important instruments to reduce inequality of market incomes
- Important built-in-stabilizers in economic crisis
- Levelled playing field for companies

### And some „can be's“ of good social partnership

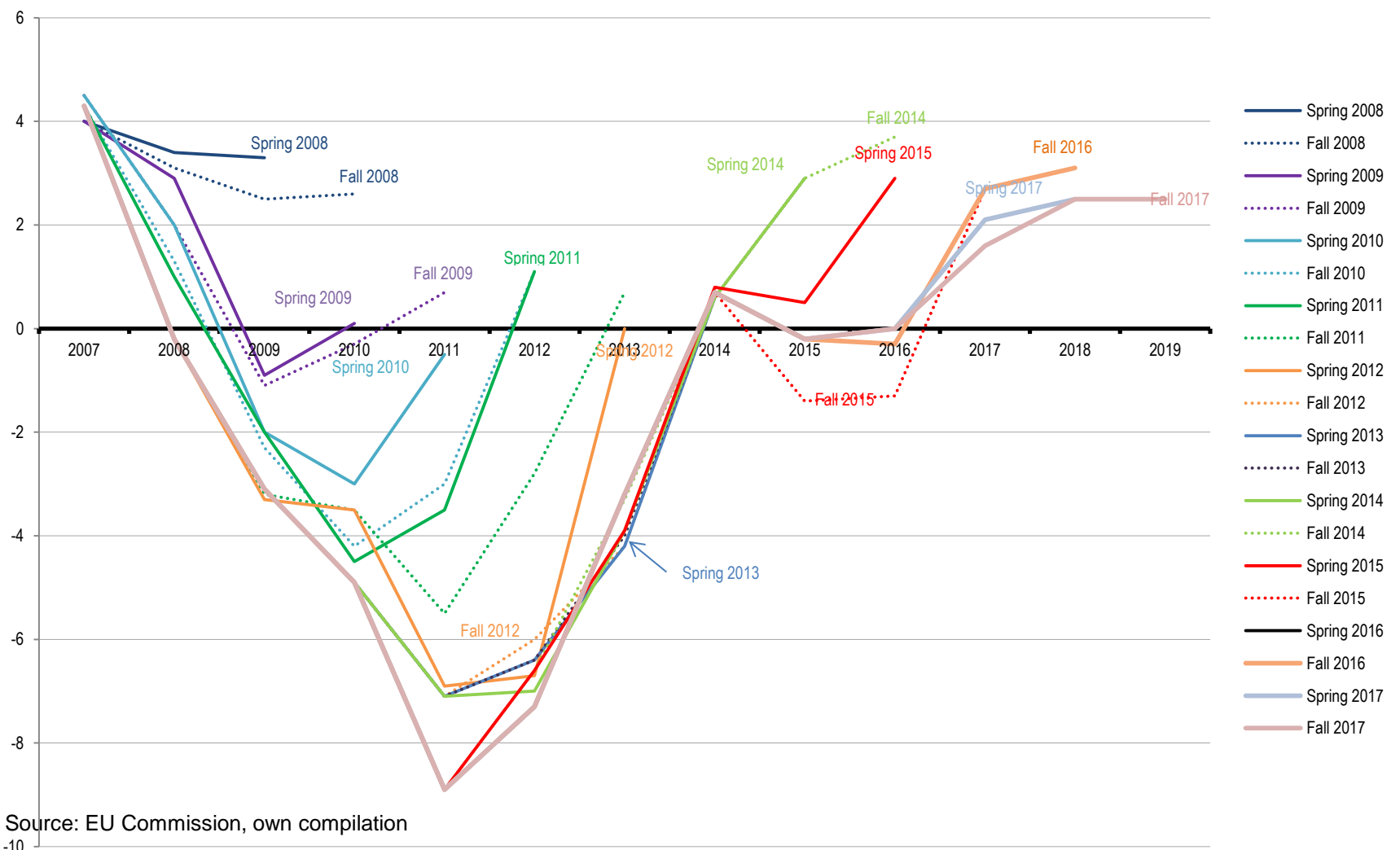
- Source of internal flexibility – beneficial substitute for unhealthy high levels of hiring and firing
- Reduction of bureaucracy and transaction costs – self-regulation instead of state intervention
- Fair competition increases incentives to invest in skills
- Positive wider societal effects: Trust and democracy

# **Economics should be an empirical science not a religion - Impact of MW and CB an empirical question**

## **What did recent research found?**

- **Meta-Studies on MW-Research : No effects on employment** (example: Wolfson/Belman 2013)
- **Countries with co-ordinated CB have higher employment and lower unemployment** (OECD 2018)
- **“... the erosion of labour market institutions in the advanced economies is associated with an increase of income inequality”** (Jaumotte/ Buitron 2015: 27, International Monetary Fund).
- **And underestimation of the multiplier-effects of wage cuts (case of Greece)**

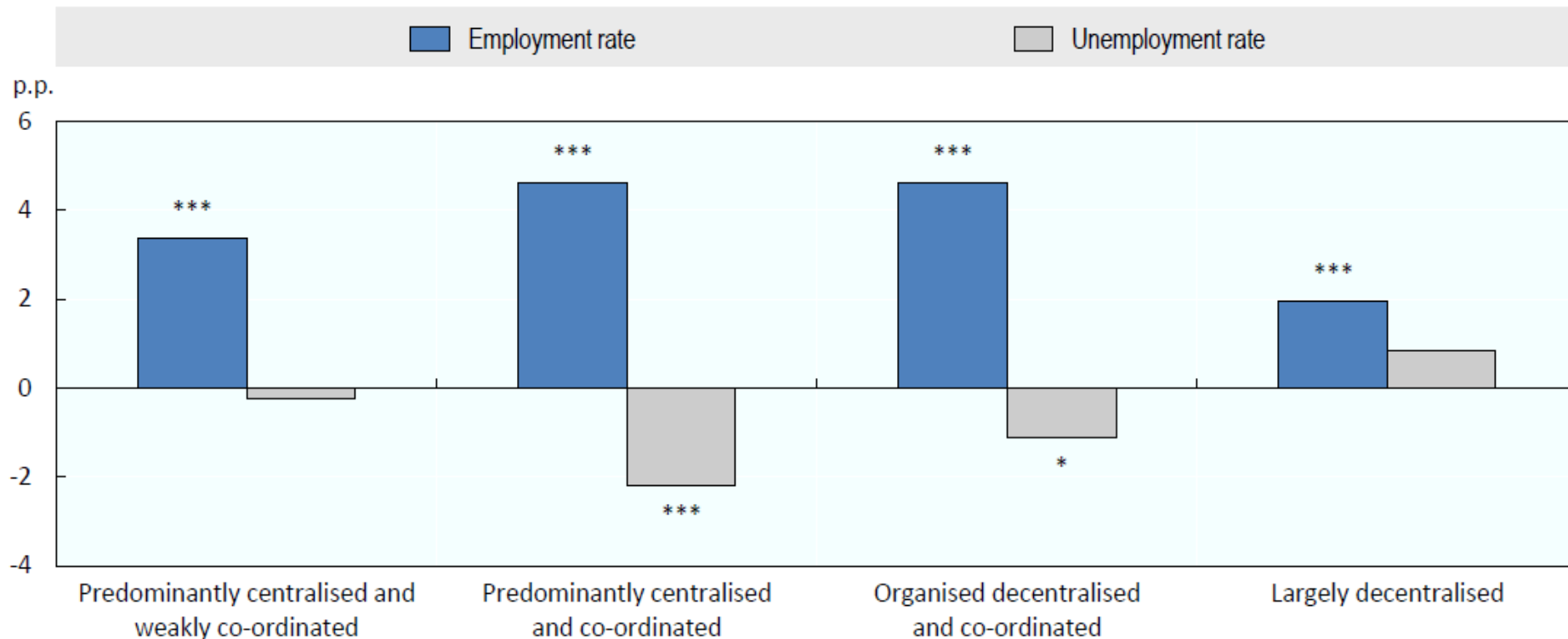
# Underestimation of multiplier effects: Forecast Errors on Greek GDP by EU Commission



Source: EU Commission, own compilation

# OECD Employment Outlook 2018 on CB

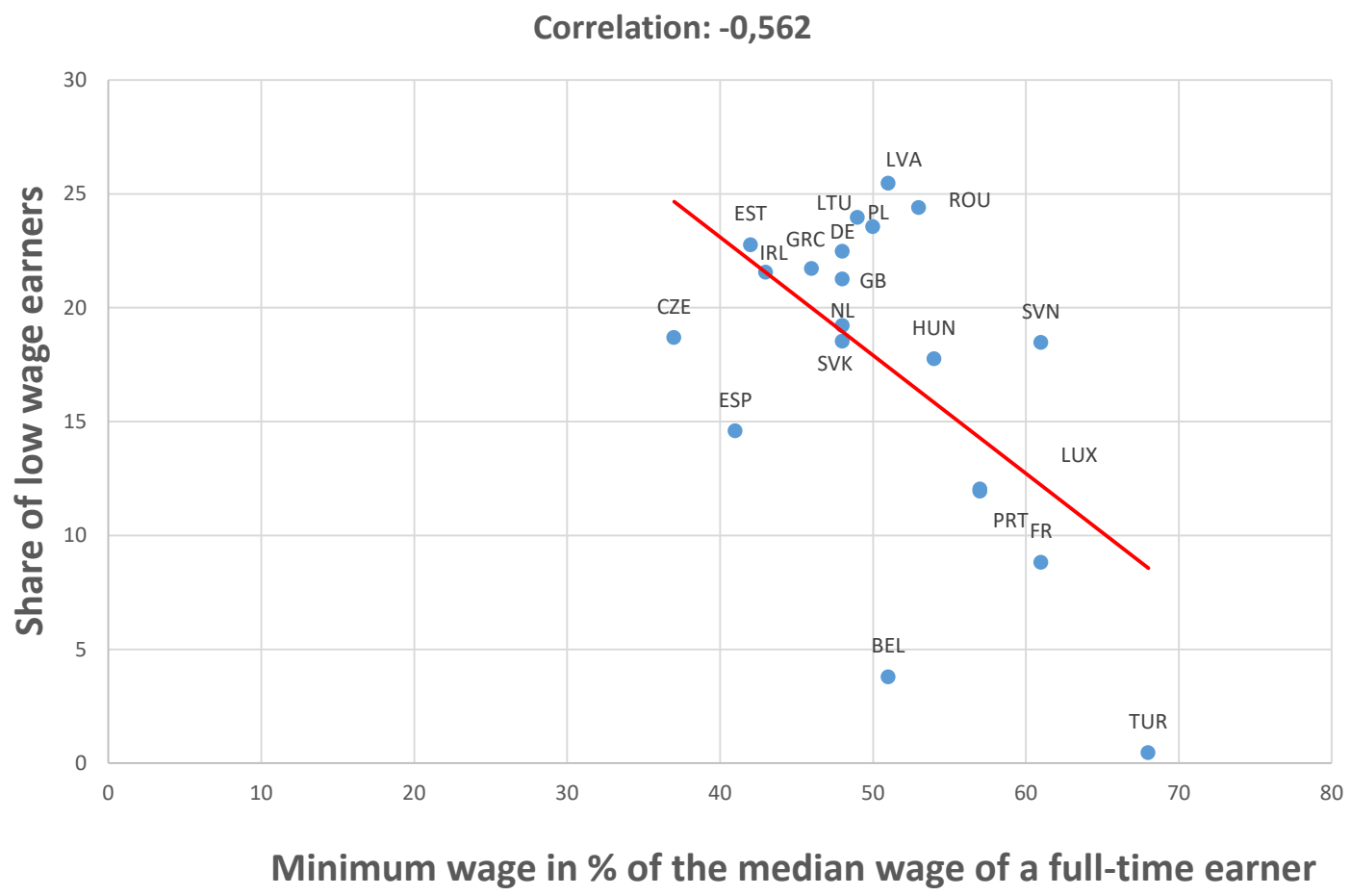
Difference in percentage points with respect to fully decentralised systems



Note: \*\*\*, \*\*, \*: statistically significant at the 1, 5 and 10% levels, respectively. Results are based on OLS regressions including country and year dummies, collective bargaining coverage, log of average years of education, female employment share and institutional variables: (tax wedge, product market regulation, employment protection legislation (both temporary and permanent), ratio of minimum wage to median wage and gross unemployment benefit replacement rate). p.p.: percentage points.

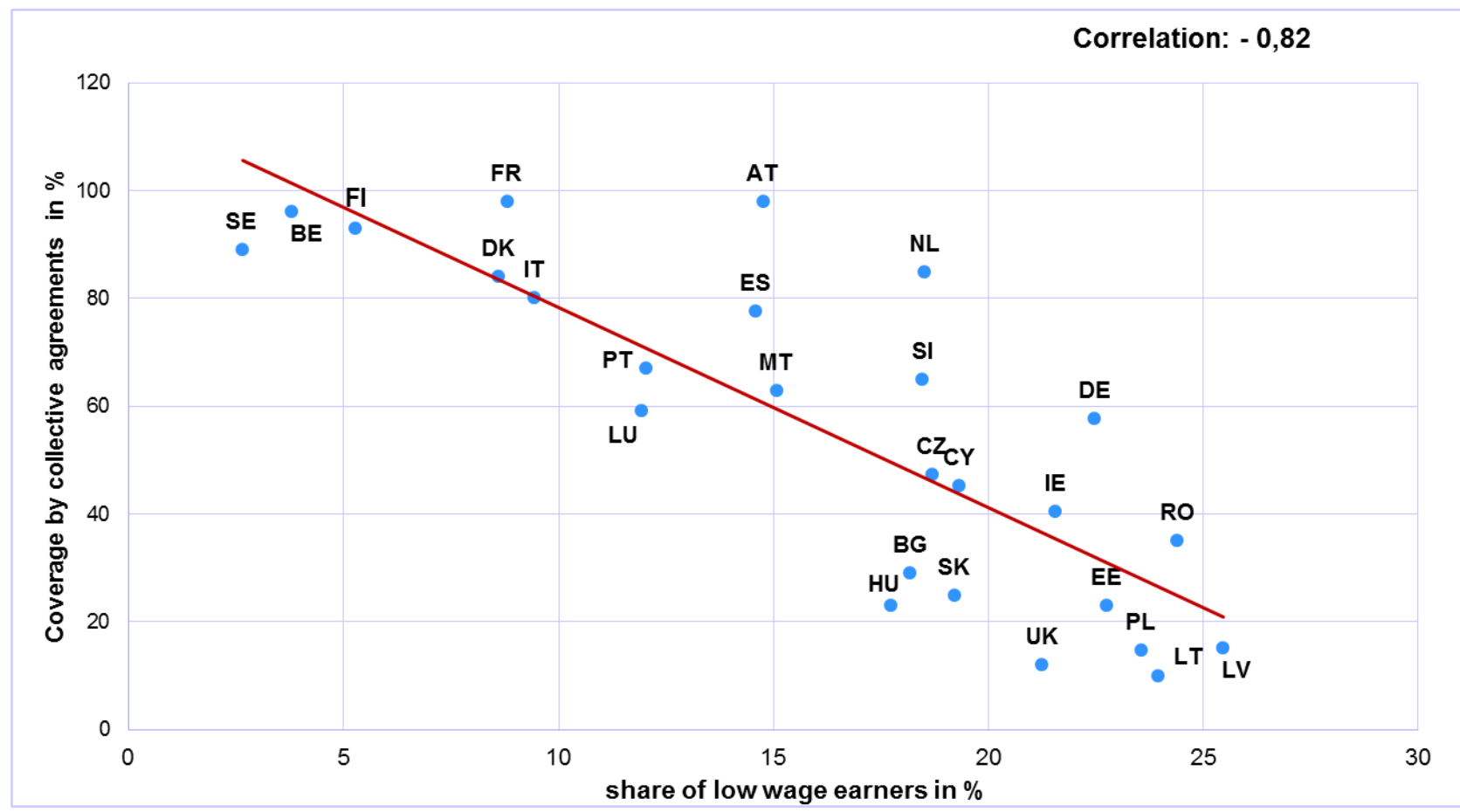
Source: OECD estimates. Details on sources and definitions can be found in Chapter 3 of the Employment Outlook 2018.

# Less low wage earners with higher level of MW's



Source: Eurostat, Schulten (WSI), own calculations

# Rate of coverage by collective agreements and share of low-wage work (2014)



Source: Visser 2015, Eurostat, own calculations



## **Links between MW and CB important**

### **MW important but not the silver bullet**

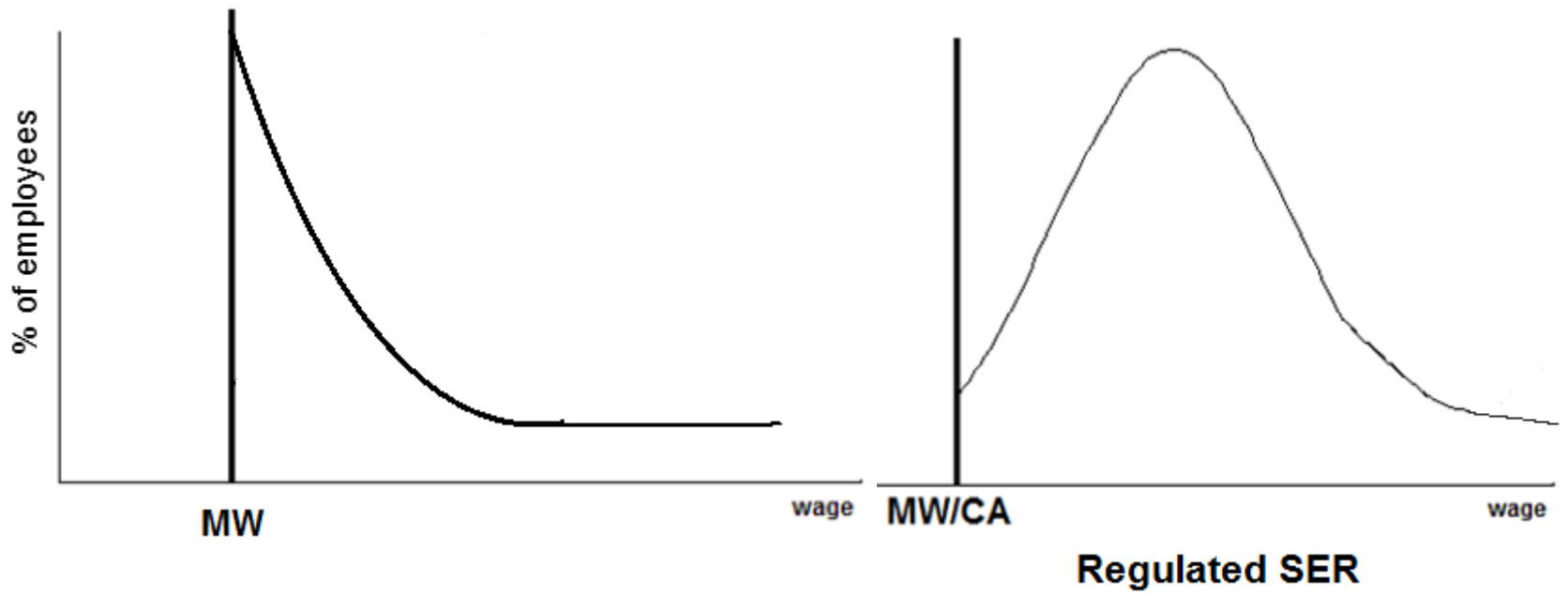
- an important baseline for wages
- but no guarantee for fair remuneration of skills, responsibility, hard working conditions .....

### **Only Collective Agreements with differentiated pay scales can**

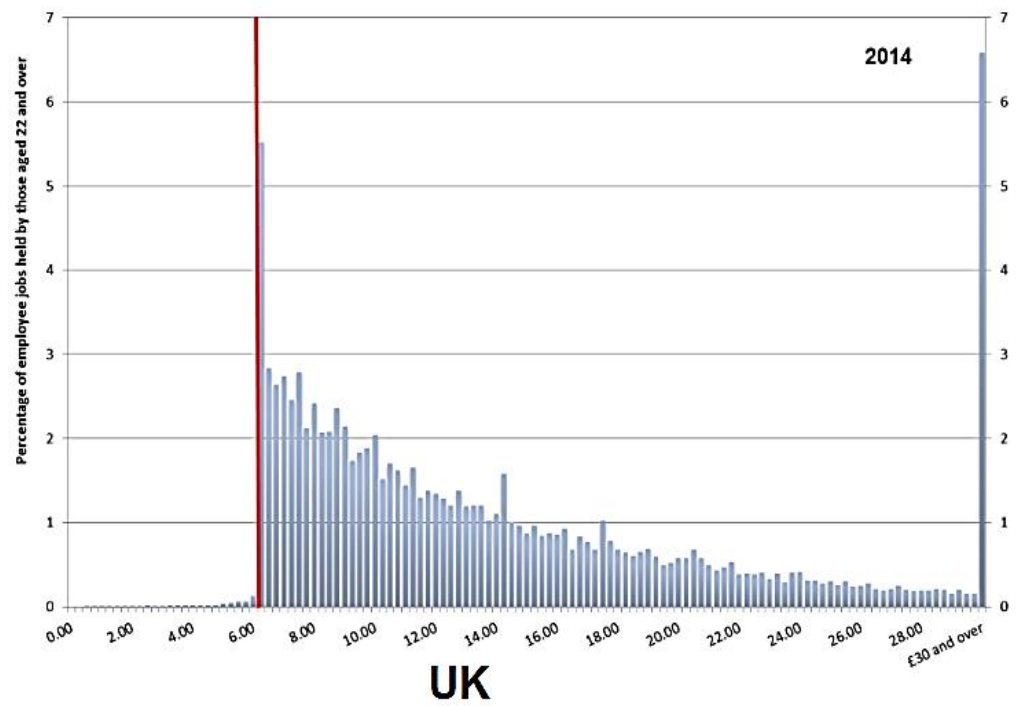
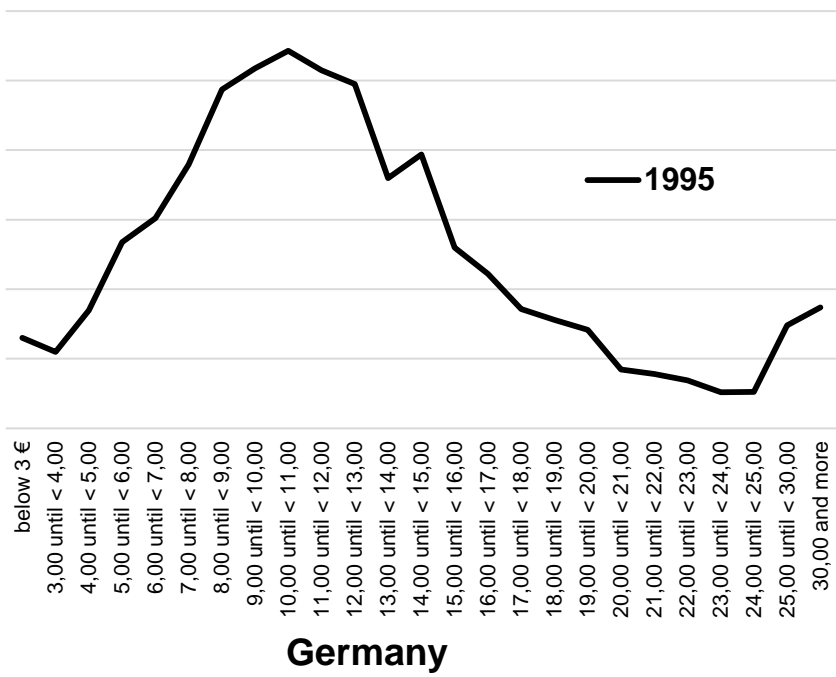
- guarantee fair remunerations
- create stable middle incomes classes

***Links between MW and CB very different across Europe***

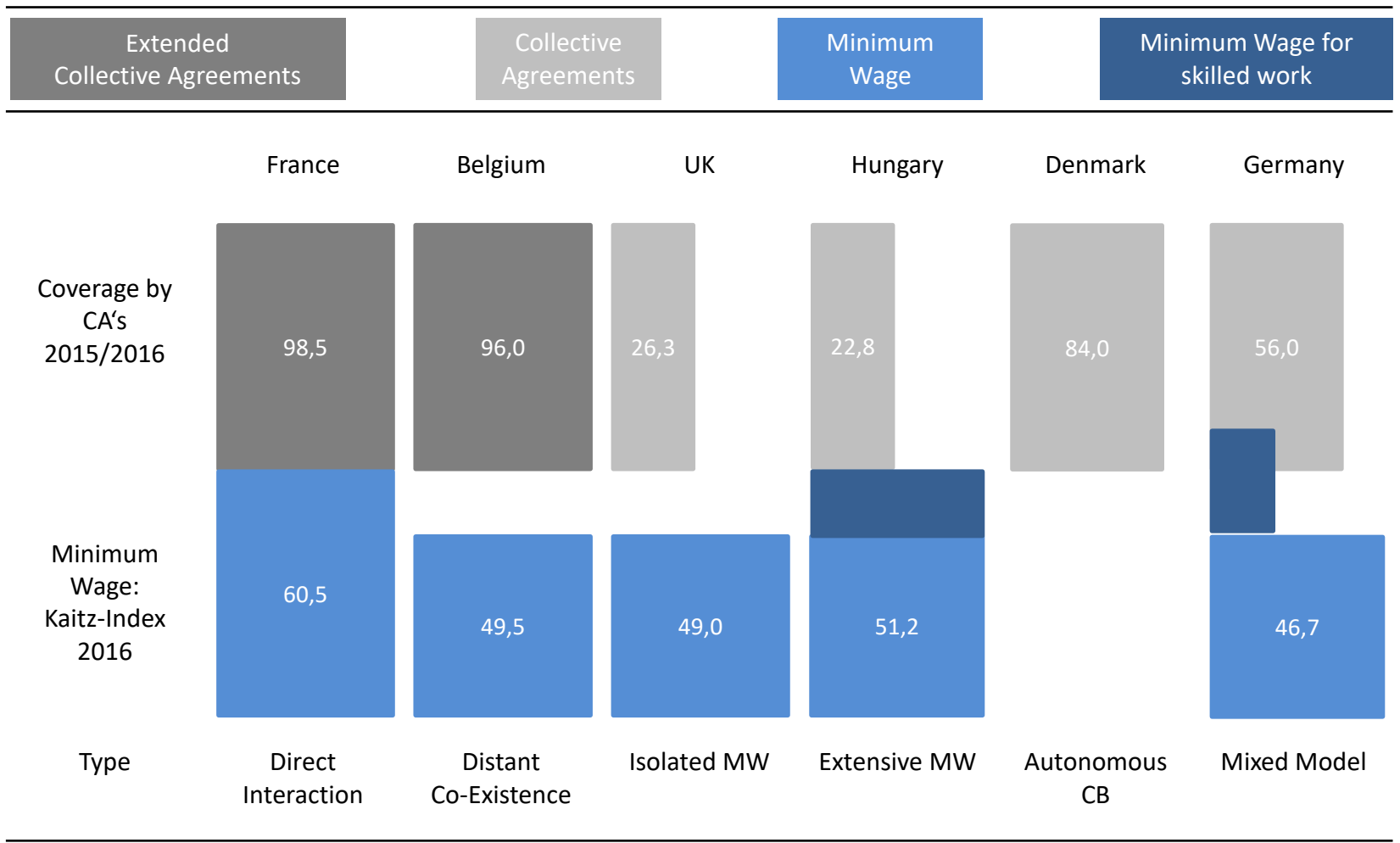
# Wage distribution in a liberal market economy with MW and in coordinated market economy with high coverage by collective agreements



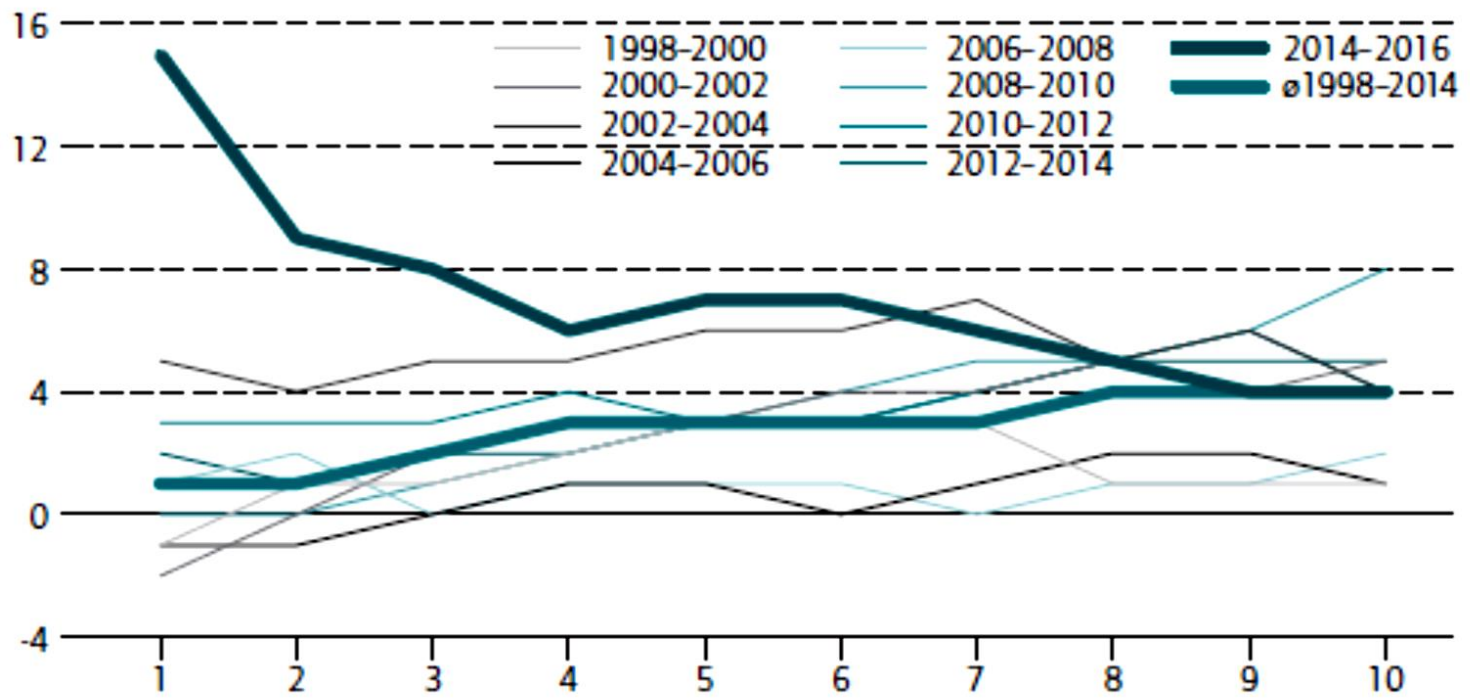
# Two real cases: UK 2014 and Germany 1995



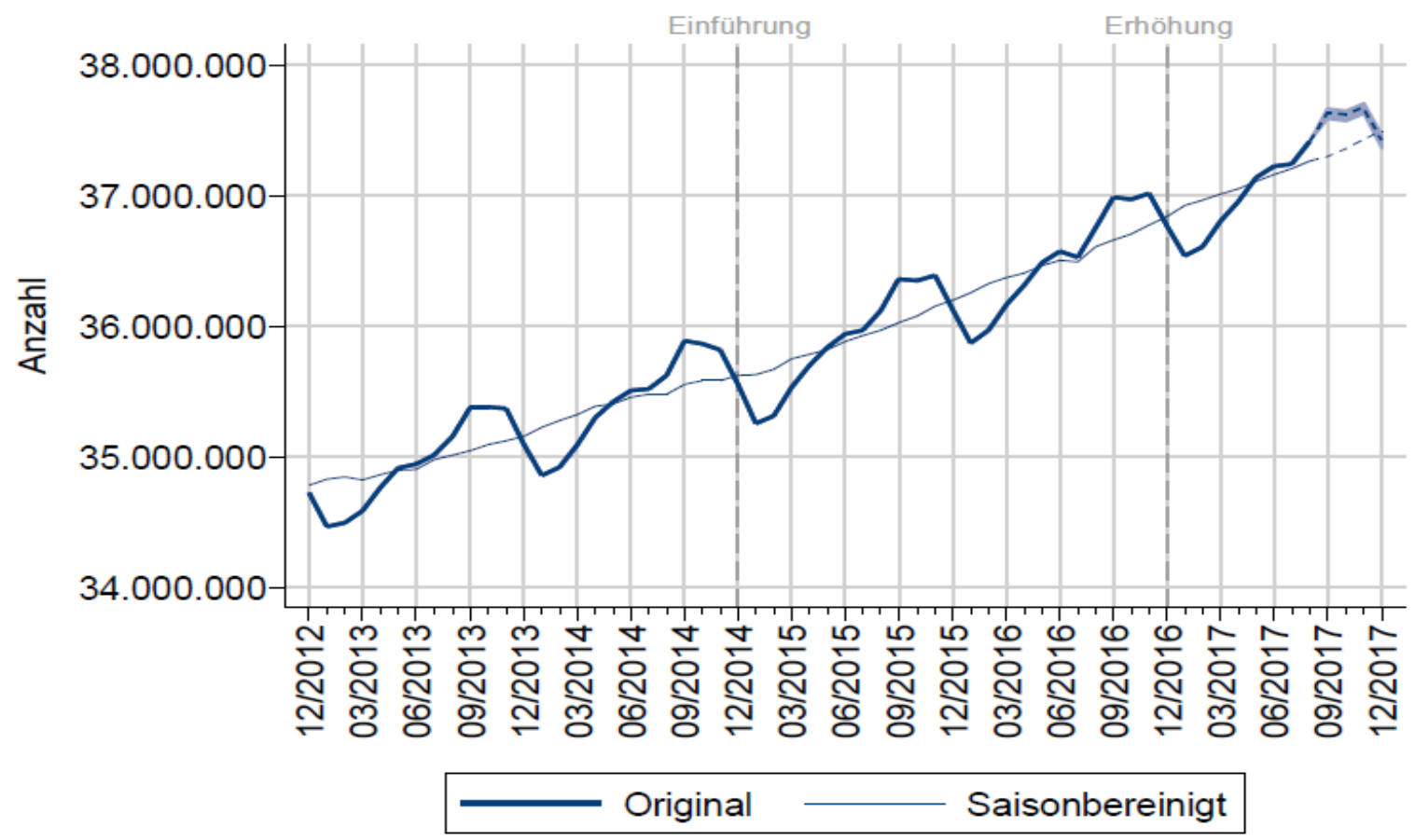
Source: : SOEP 2012, own calculations; Dickens (2015): The Low Pay Commission and the National Minimum Wage. Presentation to NEDLAC



# Positive ripple effect of new German MW up to the 5<sup>th</sup> decile (Nominal growth in contractual hourly pay over two years by deciles 1998 – 2016)



# Employment in Germany 2012 – 2017: no negative impact of the new MW



## **Conclusion**

**Clearly positive impacts of MW's and CB on income distribution and no negative effect on employment**

**MW important but not the silver bullet**

**Close links with CA's with their differentiated pay scales required – creates the middle income classes**