

Offen im Denken

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Minimum Wages (MWs) in the European Union

Dokkyo University 17. 11. 2022

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Structure of the presentation

1. What is happening with MW's internationally?
2. The varieties of MW's
3. Impact of MWs on employment
4. Impact of MWs on income distribution
5. MWs and collective agreements
6. The EU Directive on MWs

1.1 What is happening with MW's internationally?

Statutory MWs are a widespread institution

- exist in 90% of ILO member states and 79% of OECD countries
- Some countries which do not have MW's have functional equivalents: industry specific MW's (Cyprus) or minimum standards through collective agreements (Denmark, Sweden, Finland, Austria, Norway, Italy)

1.2 What is happening with MW's internationally?

- In the 1990`s MWs criticized in the 1990s by OECD, IMF, World Bank and European Commission:
 - OECD “**Jobs Study**” of 1994 and EU-Directorate General Ecfín: MWs and industry-wide collective agreements “*set wages above the market equilibrium and prevent full employment*”
 - In 2012 Ecfín demanded **to freeze or cut MW's** and “**Overall reduction of wage-setting power of trade unions**”
 - **Highly indebted countries** (Greece, Spain, Portugal, Romania) were **forced by the Troika** (European Commission, International Monetary Found, European Central Bank) **to reduce their MW's and to abolish the extension of collective agreements to get credits**



1.3 What is happening with MW's internationally?

Since then a clear change in the policy stance

OECD Jobs Strategy in 2018:

“Consider using a statutory minimum wage set at a moderate level as a tool to raise wages at the bottom of the wage ladder, while avoiding that it prices low-skilled workers out of jobs.”

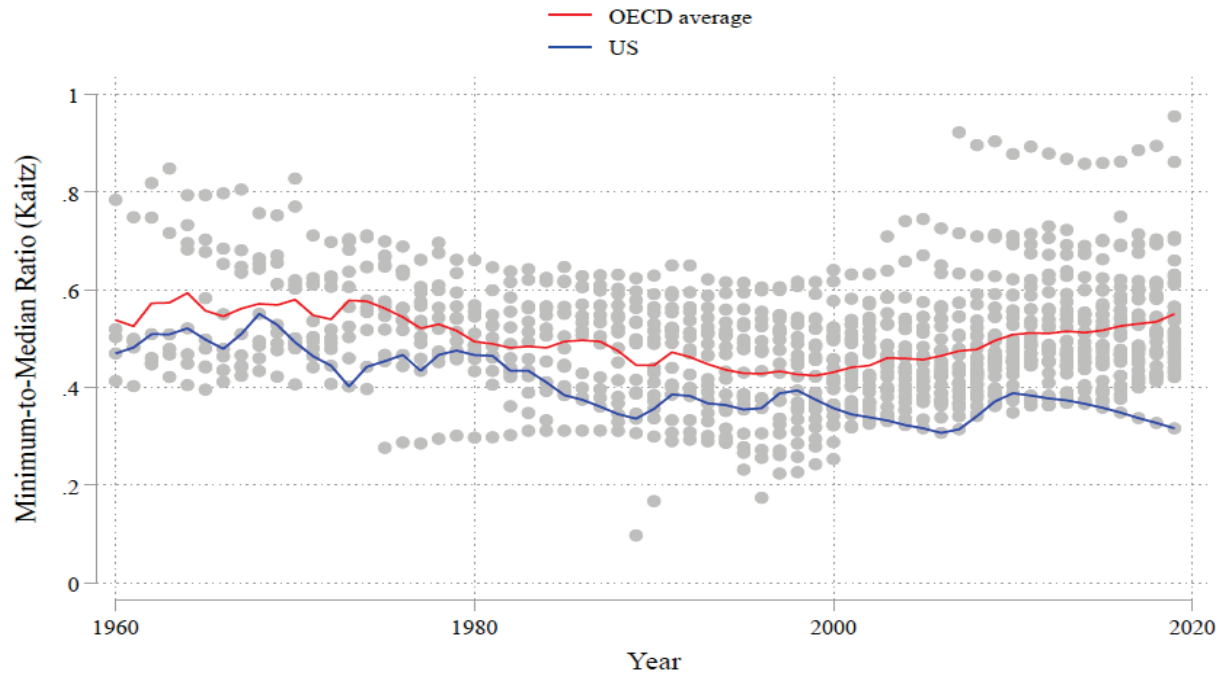


Brussels, 28.10.2020
COM(2020) 682 final
2020/0310 (COD)

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on adequate minimum wages in the European Union
{SEC(2020) 362 final} - {SWD(2020) 245 final} - {SWD(2020) 246 final}

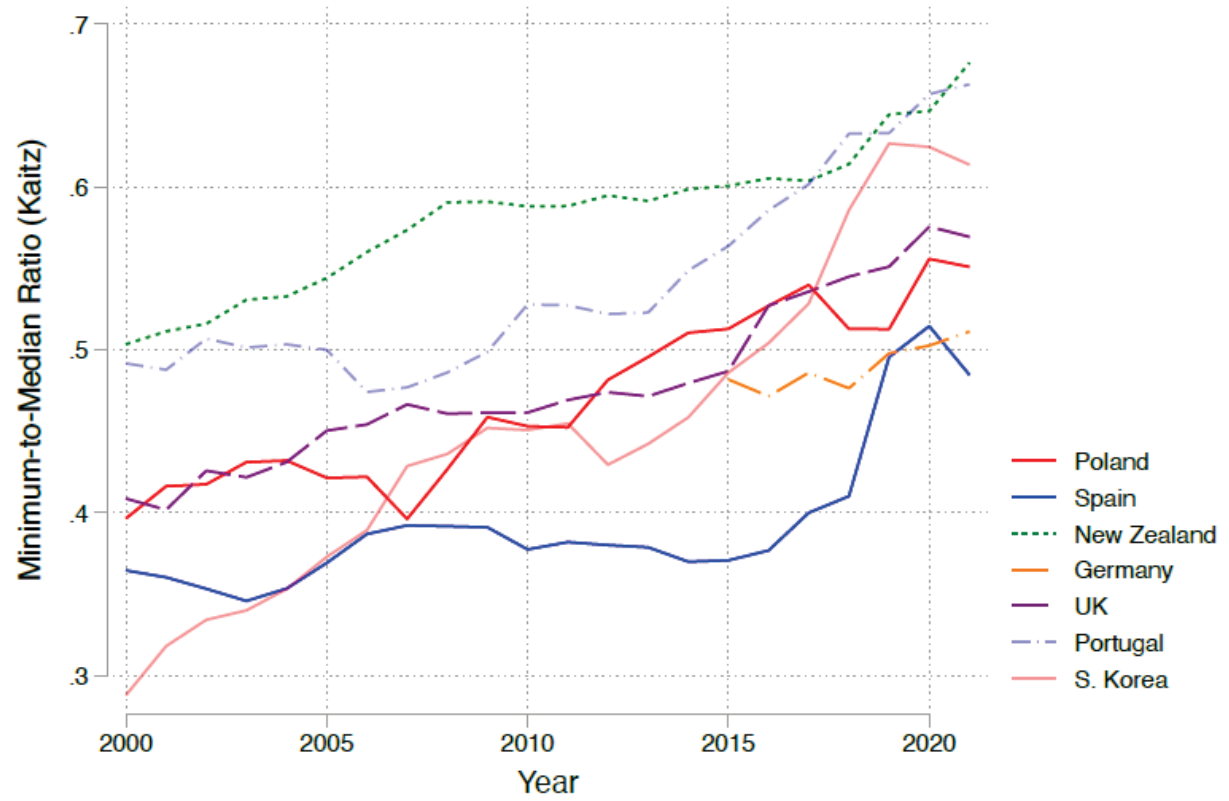
European Union: 2022 **Directive on adequate Minimum wages** (A Directive in the European Union is a framework law which has to implemented in all member states)

1.4 What is happening with MW's internationally?



Internationally after a long-term decline an **increase in the relative MWs** measured as Minimum to median wage relation (**Kaitz-Index**), but **not in the USA at federal level**

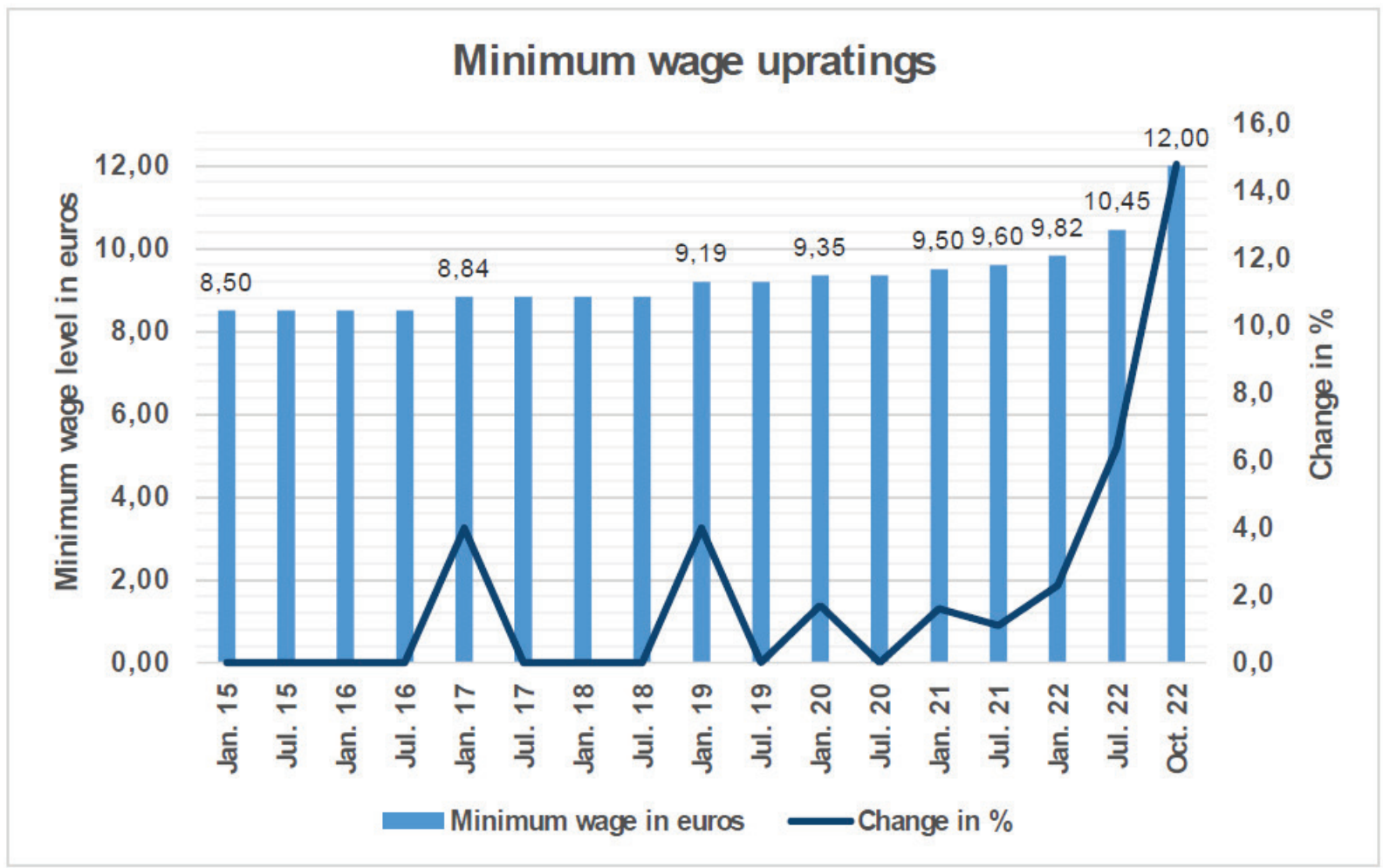
1.5 What is happening with MW's internationally?



Strong increases of MW's in many EU-countries, also in Spain and Portugal after the cuts imposed by the Troika

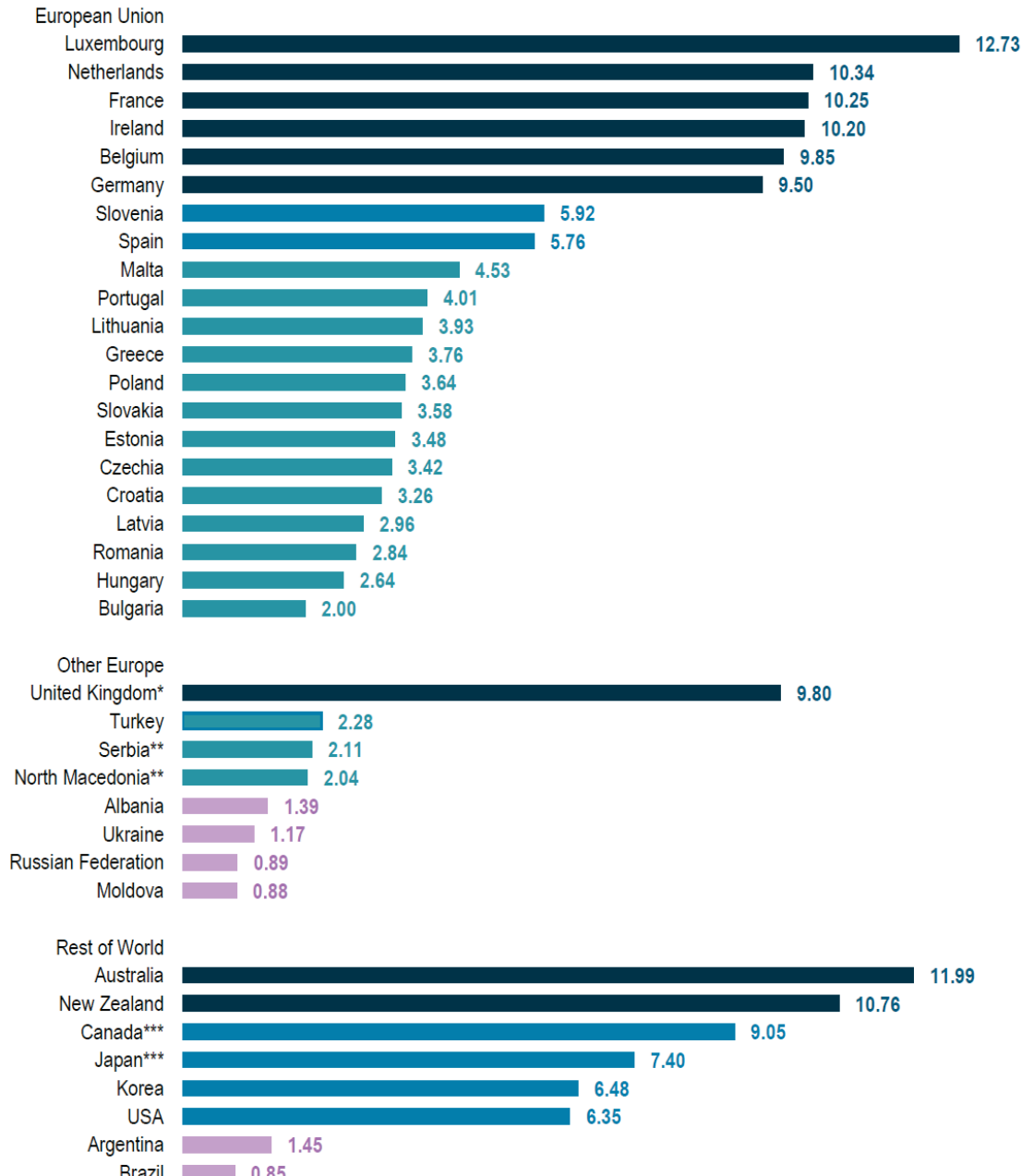
1.6 What is happening with MW's internationally?

Germany increased its MW in October 2022 by 14,8% to 12 €



Statutory minimum wages, as at 1 January 2021

In Euros, per hour

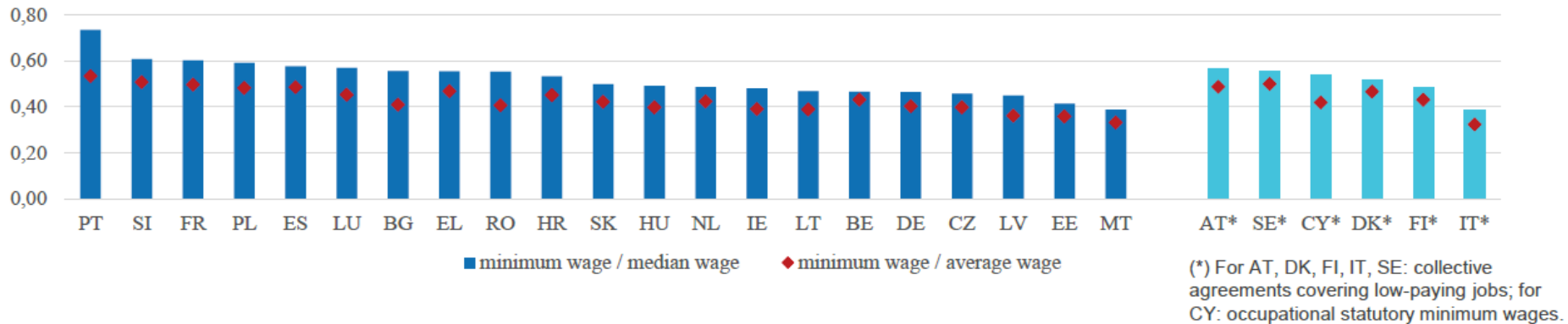


2.1 Varieties of MWs

- Absolute levels of MWs vary
- Level of MWs depend on (1) economic development and (2) political will

2.2 The varieties of MW's

Minimum Wages as a % of national gross median and average wage (2021)



- Because of different economic development for international comparison mostly **relative measures** are used
- High differences in relative levels show different political decisions
- Figure shows that some EU-countries have high minimum floors **through collective bargaining (no need for MWs)**

2.3 Varieties of MWs



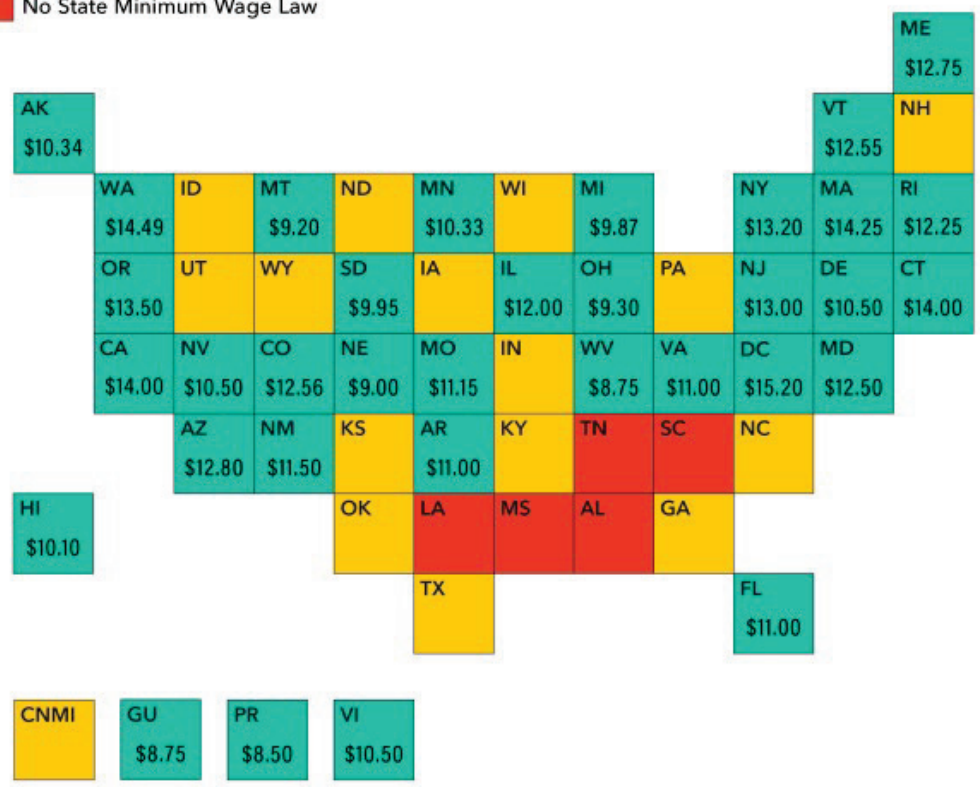
- The highest MW in the EU was **7 times higher than the lowest**
- Disparities are considerably smaller once price level differences are taken into account
- Expressed in purchasing power standard (PPS) the **highest MW was 3 times as high as the lowest**

2.4 The varieties of MWs

In the US MWs very controversial: Low minimum wages in most but not all Republican states

Minimum Wages as of 2022

- Greater Than Federal Minimum Wage
- Equals Federal Minimum Wage of \$7.25
- No State Minimum Wage Law



Note: Minimums may vary within California, New York, and other states based on region, employer size, and other factors.

Source: Department of Labor

Strong MW increase in many US cities: successful MW campaigns because of high living costs

Cities	Population	MW in 2020	Kaitz index	Planned nominal MW in 2022
Panel A: Largest cities with minimum wages above the state-level one				
1. New York City	8,398,748	15.00	0.66	15.00
2. Los Angeles	3,990,469	14.25	0.75	15.72
3. Chicago	2,705,988	13.00	0.65	13.60
4. San Jose	1,030,119	15.25	0.56	16.20
5. San Francisco	883,305	15.59	0.45	17.05
6. Seattle	744,949	16.39	0.57	17.19
7. Denver	716,492	12.85	0.58	15.87
8. Washington, D.C.	702,455	14.00	0.48	14.50
9. Portland	652,573	12.50	0.56	14.75
10. Albuquerque	560,234	9.35	0.55	9.60
Mean of top 10				
Unweighted	2,038,533	13.82	0.58	14.95
Pop weighted		14.33	0.64	15.04

3.1 Impact of MWs on employment

Mainstream economic thinking:

- Labour market is like any other market
- **Equilibrium wages are set at the intersection of the supply and demand for labour**
- No indicators that the markets are not functioning
- Employees are hired up to the point where the extra cost of hiring an employee is equal to the extra sales revenue from selling their output
- If a minimum wage is set above the equilibrium wage then employees with lower productivity will **lose their job**
- **Trade-off between the goals of full employment and more equality**

3.2 Impact of MWs on employment

Alternative Theories:

Within the market model:

- Markets are not setting equilibrium wages: employers have the power to set wages below the productivity of employees (monopsony)
- Reasons: Employers bargaining power stronger, unions are getting weaker, employees are not mobile like products

Keynesian Theories:

- Wages are not only costs but also income
- Wage increases stimulate demand and employment is increasing

Economics is not a religion but an empirical science: Empirical research not beliefs should decide

3.3 Impact of MWs on employment

State of the art in empirical MW research: No negative employment effects

Meta analysis of the UK research

„there are small but significant positive employment estimates from 2003 onward, when the average bite of the NMW was at its highest since its introduction“. (Dolton et.a.l 2012)

Meta analysis of 200 studies in the USA

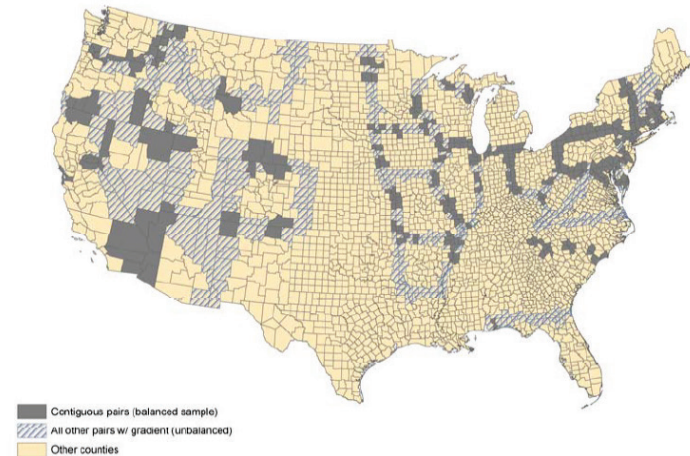
„overall elasticities for the United States are both statistically insignificant and very close to zero, even when restricting the focus to teenagers and young adults“
(Belman/Wolfson 2014: 402)

But there is a turning point when minimum wage is set to high. We do not know where the turning point is. The best solution: gradual increases to approach it

3.4 Impact of MWs on employment

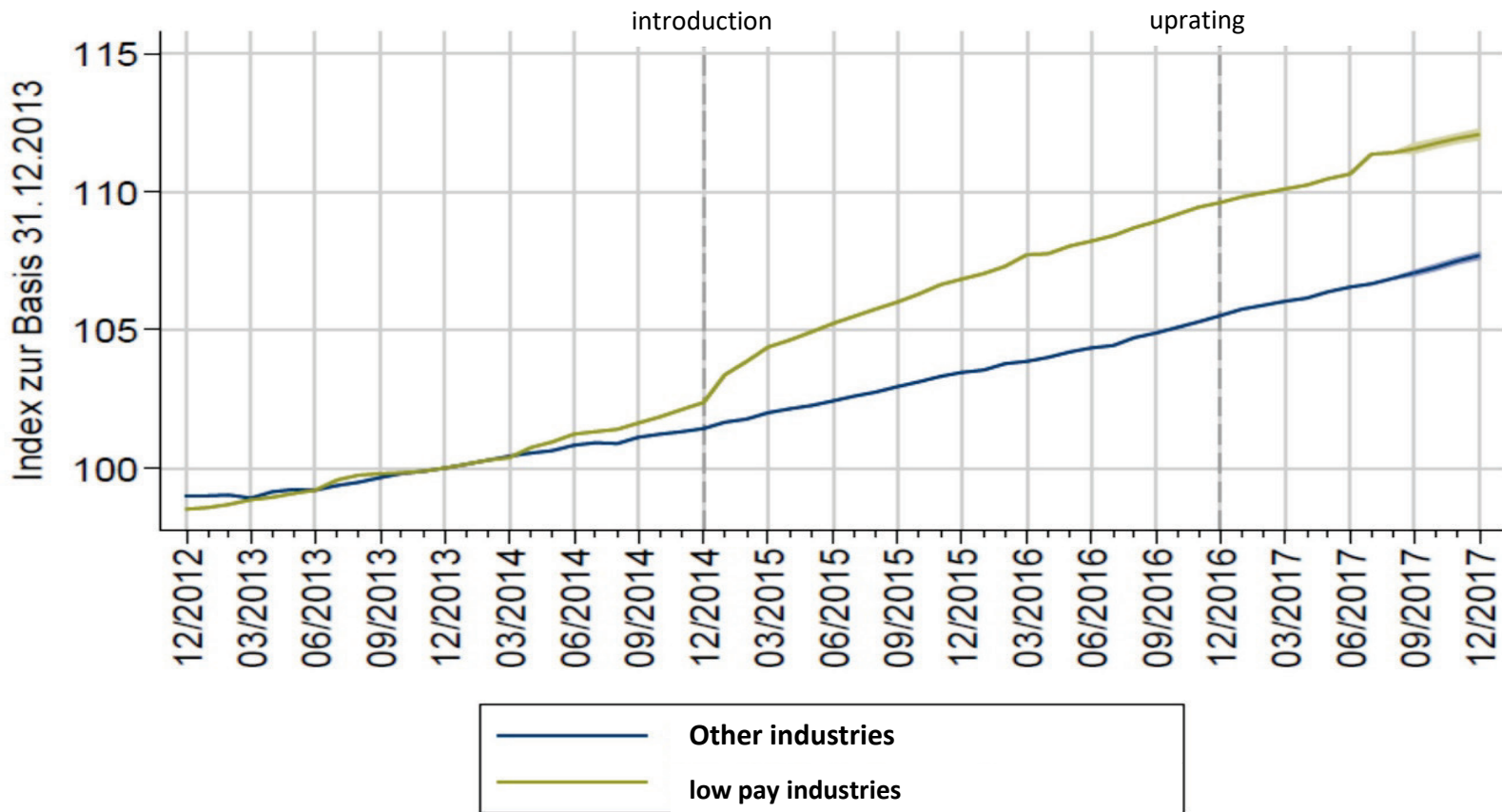
New MW research compares wage and employment development in **treatment and control groups**

- Control groups and their development have to be similar to treatment groups
- Example the study of Dube/Lester/Reich (2007): 1990 - 2006 comparisons of employment development in 1381 contiguous counties along state borders with different MWs



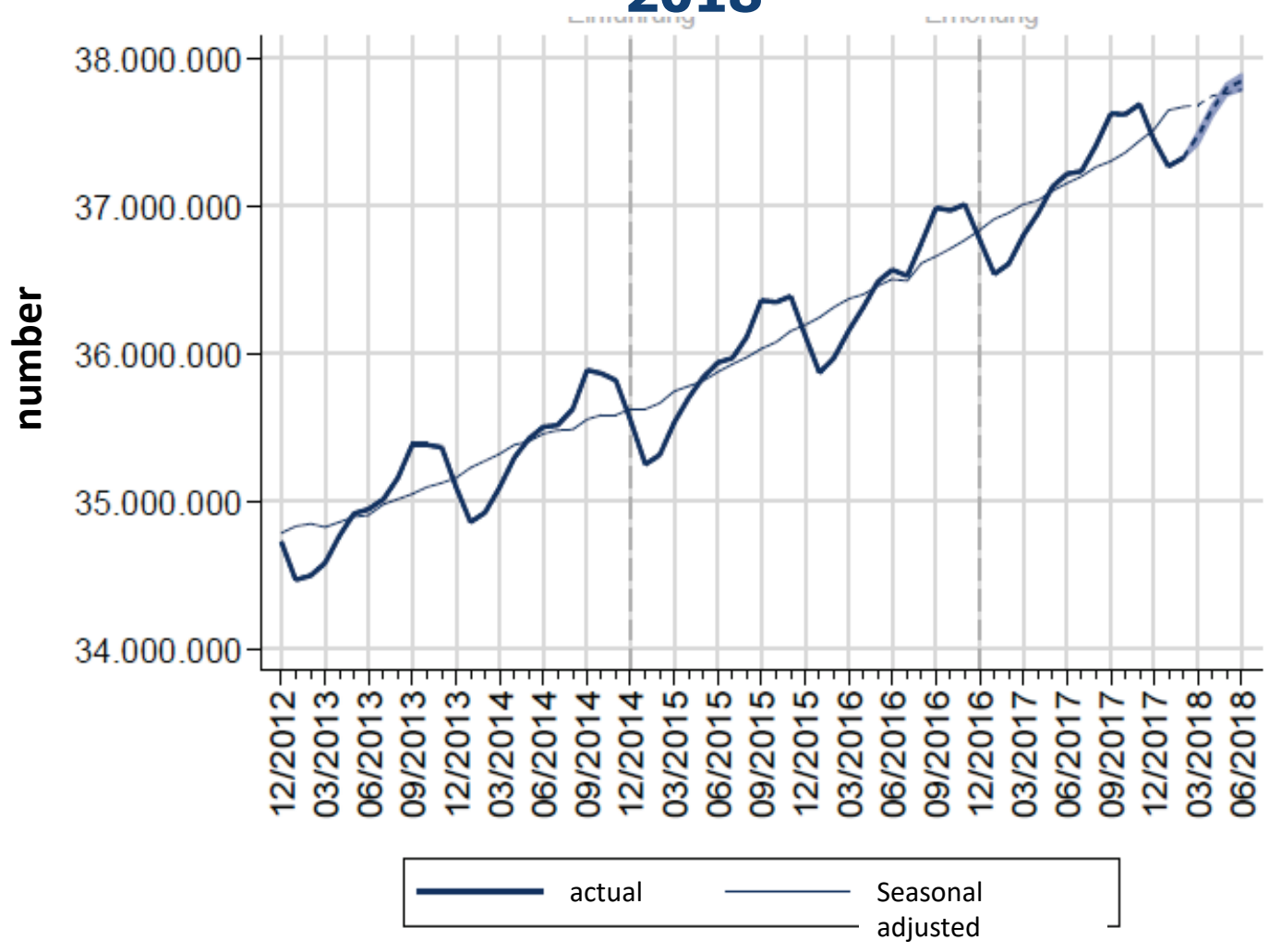
3.5 Impact of MW's on employment

Germany: Employment development in industries with high shares of low pay and other industries 2012 – 2017



3.6 Impact of MW's on employment

Germany: Development of total employment 2012 – 2018



Source: vom Berge et.al. 11

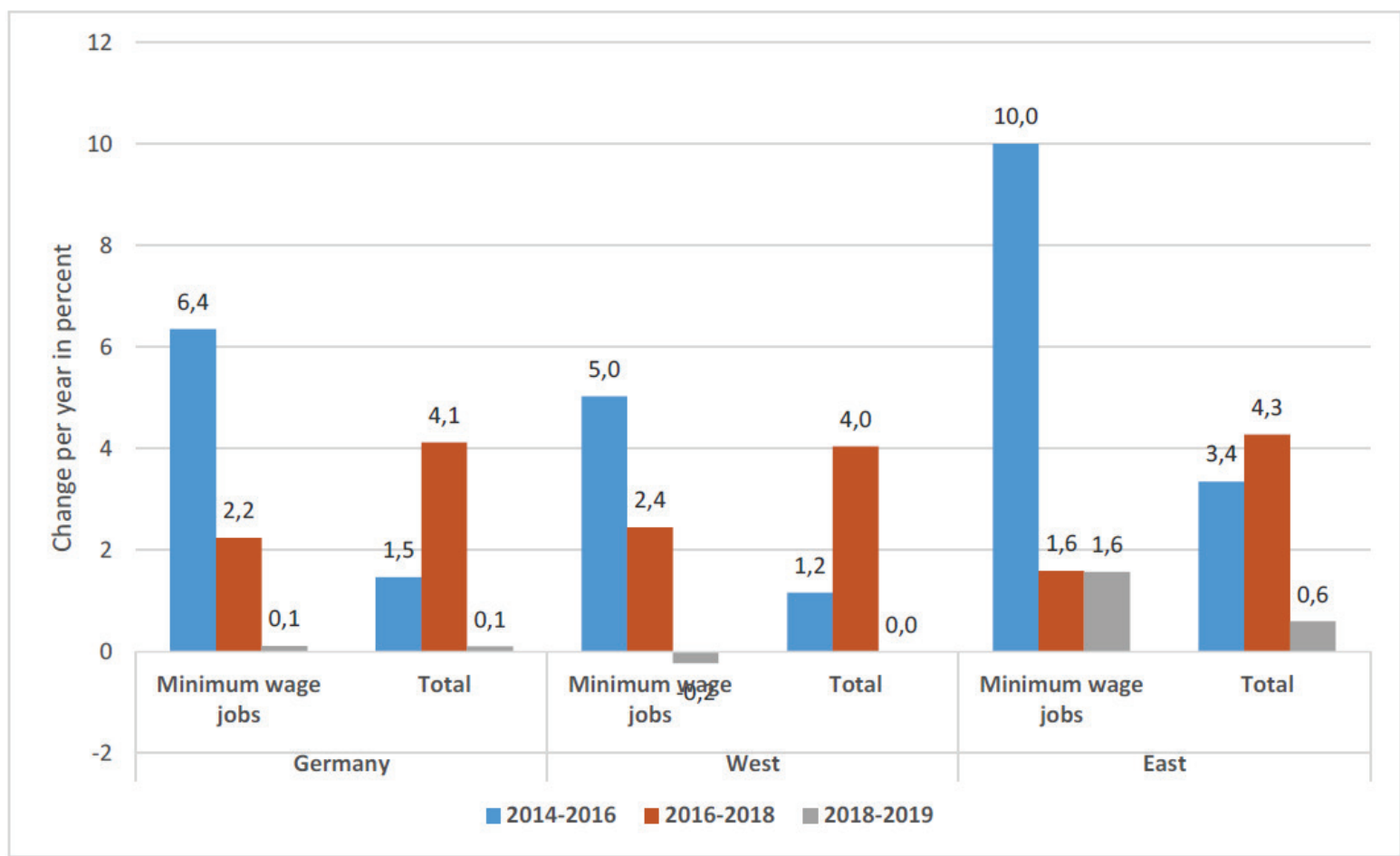
4.1 Impact of MW's on income distribution

Goal of MW: improve low wages and prevent a downward cost competition between companies

- Obviously the impact depends on the level of the MW
- Research shows wage improvements especially in the **two lowest deciles** of the income distribution
- Impact **above average** for women, foreigners, precarious workers, foreigners, in typical low wage industries like hotels and restaurants, cleaning, retail trade etc.
- **Moderate positive impact on poverty** because not all MW-workers are living in poor households and because often employees with good wages and big families are poor
- **Positive ripple effects** on higher incomes because of collective bargaining or because companies want to maintain wage differentials between skilled and unskilled workers

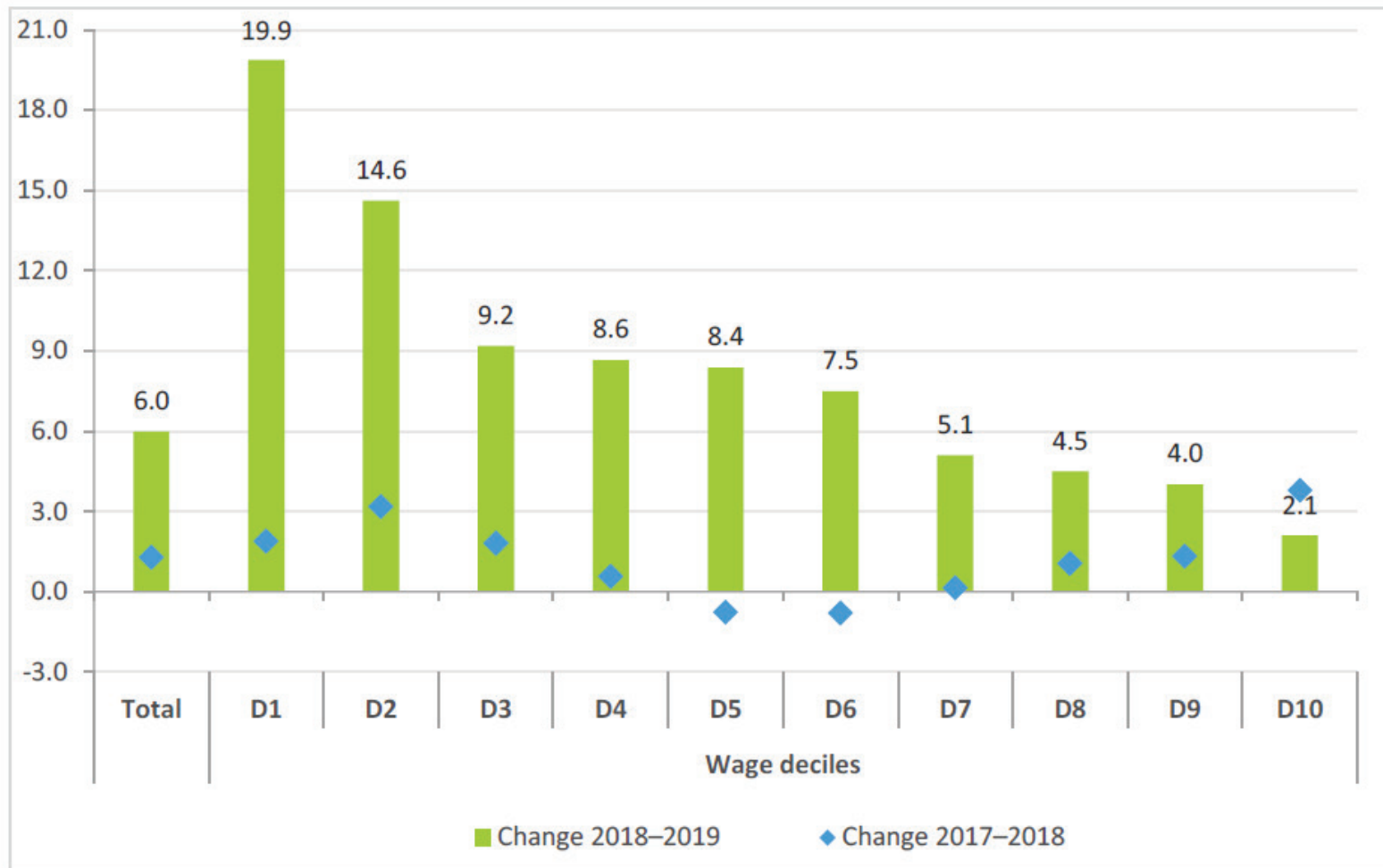
4.2 Impact of MW's on income distribution

Germany: After the introduction of the MW 2014 above average wage increases for MW-earners, 2016-2018 lower because of lower uprating



4.3 Impact of MW's on income distribution

Spain: Impact of high uprating of the MW 2018-2019: above average increases in the two lowest deciles



5.1 Minum wages and collective bargaining

High collective bargaining coverage most important instrument to reduce inequality of market incomes

MW's important but not the silver bullet to reduce inequality

- an important baseline for wages
- limits for increases of skills, responsibility, hard working conditions

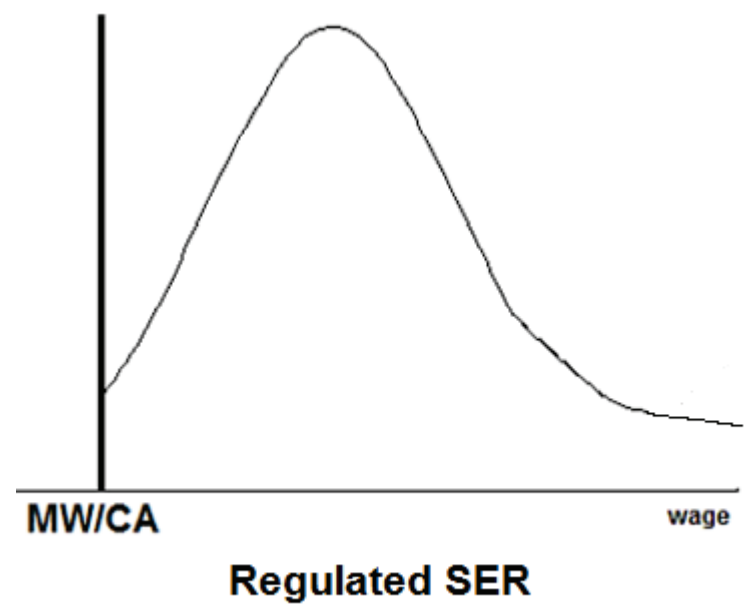
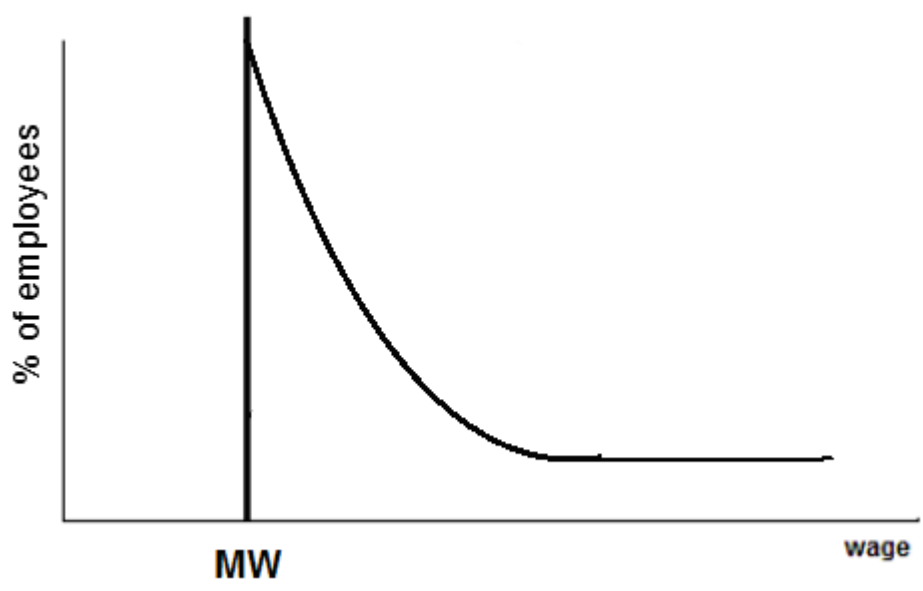
Only Collective Agreements with differentiated pay scales can

- guarantee fair remunerations
- create stable middle incomes classes

Positive interactions between MW's and CA's crucial

5.2 Minum wages and collective bargaining

Wage distribution in (1) a liberal market economy with MW and in a (2) coordinated market economy with high coverage by collective agreements and standard employment relationships with good wages

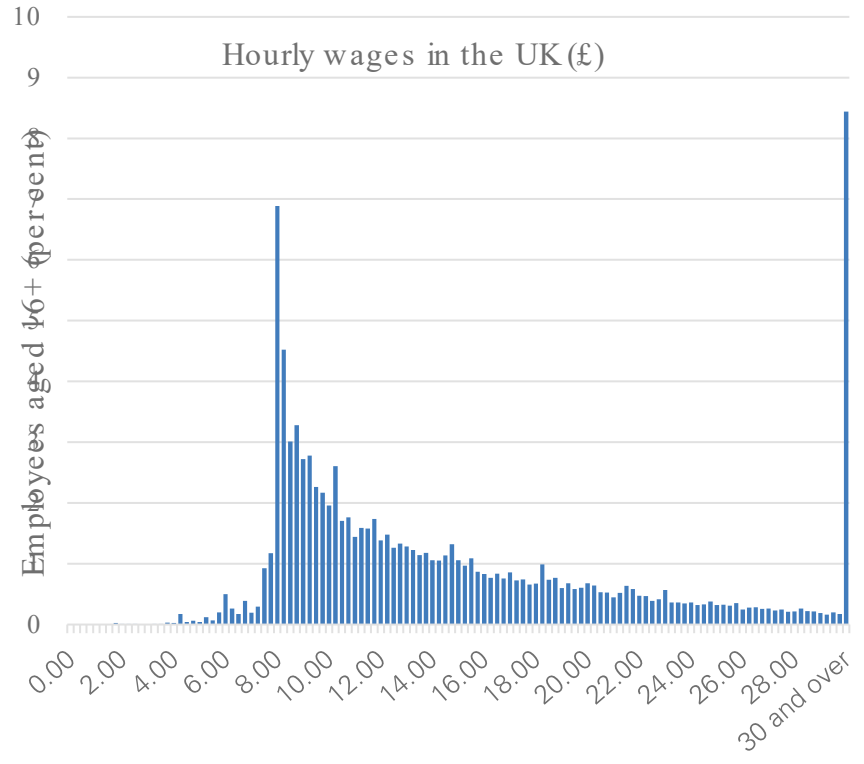
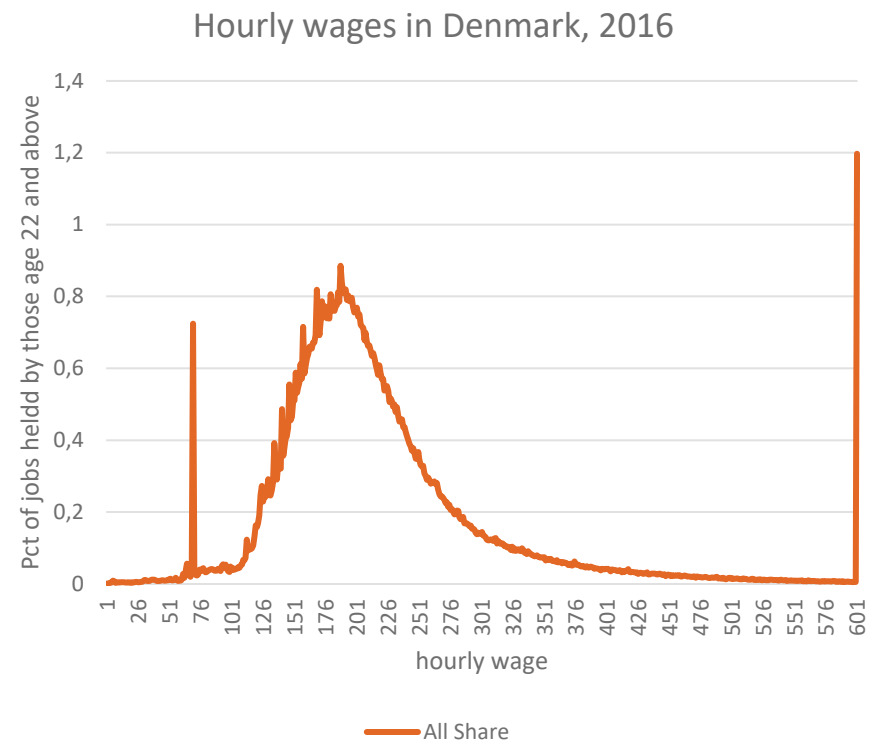


5.3 Minum wages and collective bargaining

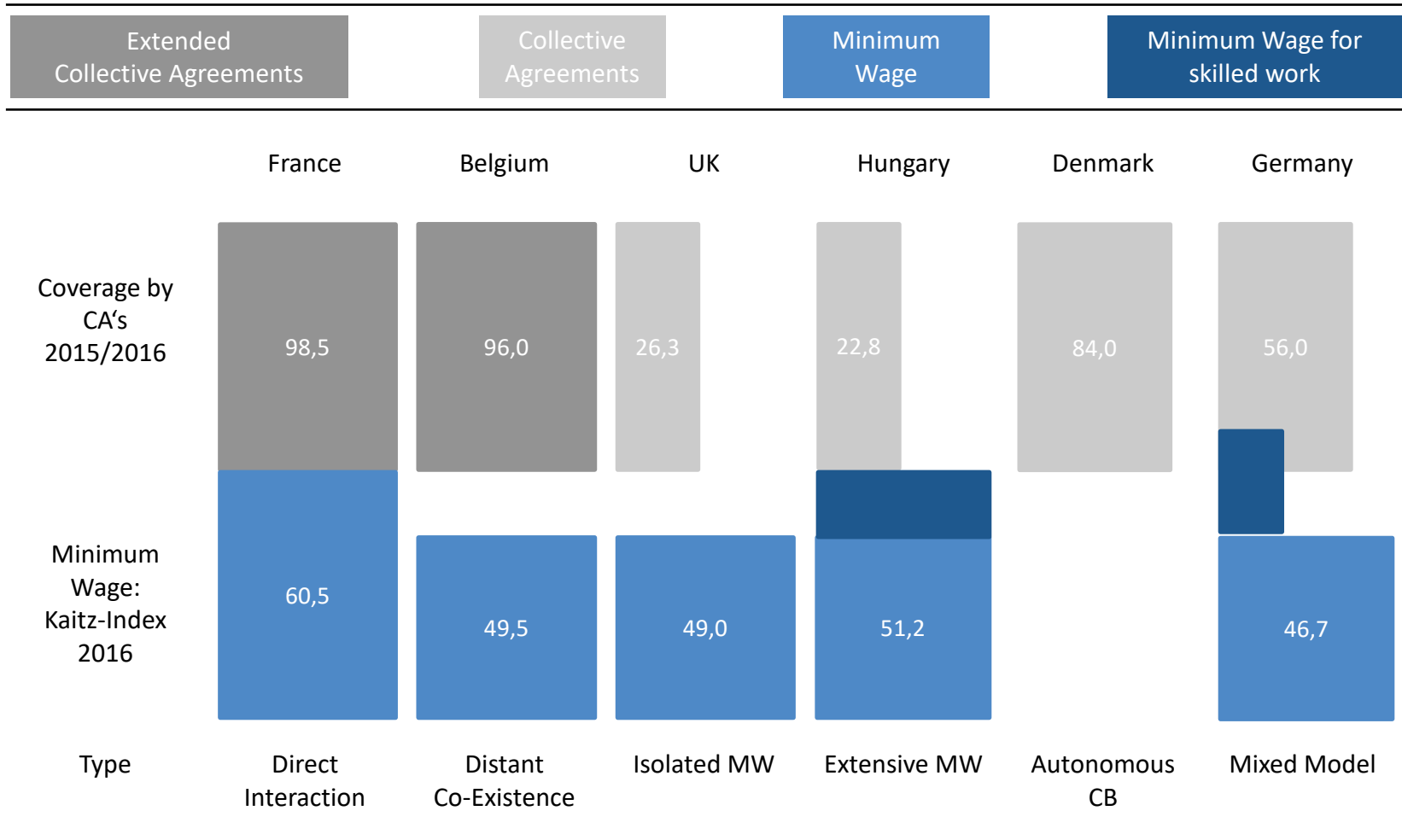
Two real cases:

Denmark 2016: high coverage by collective agreements, strong middle income groups

UK 2018: low coverage by collective agreements, weak middle income groups



5.4 Interactions between CB and MW and in 6 EU countries – a typology



Source: Bosch, Gerhard, 2021: Industrial Relations and inequality in the EU. In: Fischer, Georg; Strauss, Robert (eds.): Europe's income, wealth, consumption, and inequality. New York NY: Oxford University Press, pp. 452–485

6.1 The EU Directive on MWs 2022



Procedure for setting adequate statutory minimum wages (Article 5)

1. Member States with statutory minimum wages shall establish the necessary procedures for setting and updating of statutory minimum wages. Such setting and updating shall be **guided by criteria** (...) The criteria shall be defined in a clear way. Member States may decide, **on the relative weight of these criteria** (...) “

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;

(b) the **general level of wages** and their **distribution**;

(c) the **growth rate of wages**;

(d) **long-term national productivity** levels and developments

Quelle/ Source:

6.2 The EU Directive on MWs 2022



Procedure for setting adequate statutory minimum wages (Article 5)

3. (...) Member States may additionally use an **automatic mechanism for indexation adjustments** of statutory minimum wages.
4. Member States shall **use indicative reference values** to guide their assessment of adequacy of statutory minimum wages. For that purpose, they may use indicative reference values commonly used at international level such as **60% of the gross median wage** and **50% of the gross average wage**, and/or indicative reference values used at national level.

6.3 The EU Directive on MWs 2022



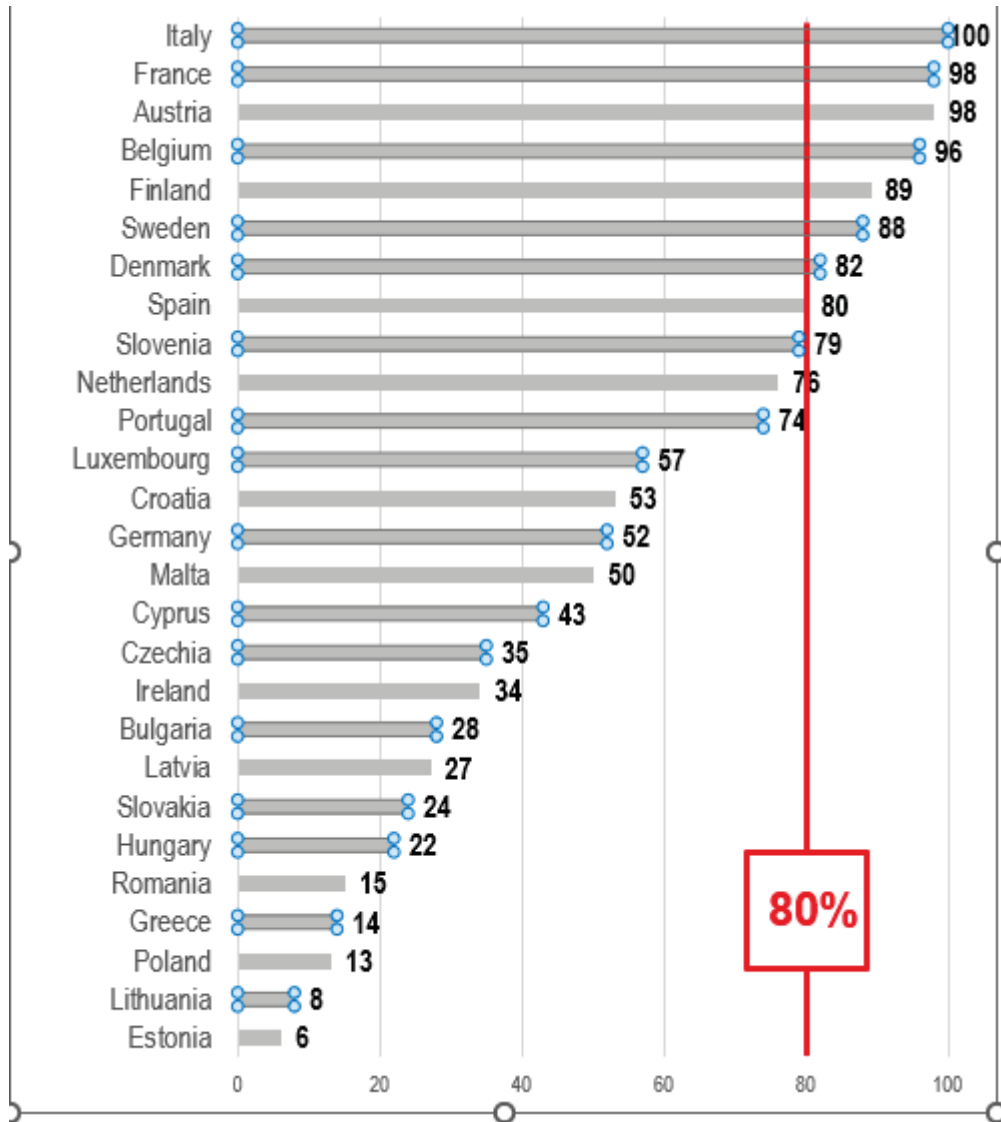
Promotion of collective bargaining on wage setting (Article 4)

2. In addition, Member States shall, where the collective bargaining coverage rate is **less than a threshold of 80%**, provide for a framework of enabling conditions for collective bargaining, either by law after consultation of the social partners or by agreement with them. These Member States shall also establish an **action plan to promote collective bargaining**. (...).

The **action plan** shall

- set out a **clear timeline and concrete measures**
- be **reviewed regularly and updated** (...).
- be **made public** and notified to the Commission.

6.4 The EU Directive on MWs 2022



8 EU Member States
with a
Collective Bargaining Coverage > 80%

19 EU Member States
with a
Collective Bargaining Coverage < 80%

80%

Conclusions

- **MWs are a widespread instrument to improve wages of low-wage earners with low bargaining power in the labour market**
- **Recent research shows that MWs do not have negative employment effects**
- **These research results encourage governments to raise MWs**
- **With the MW directive the EU tries to convince members states to set adequate MWs**
- **MWs only have a strong impact also on middle income groups in countries with high coverage by collective agreements**
- **With the MW directive the EU tries to convince members states to increase the coverage by collective agreements**