Reducing inequalities by minimum wages

Nicos Poulantzas Institute
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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

Correlation: -0.562

Minimum wage in % of the median wage of a full-time earner

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

Quelle/Source:
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

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<tr>
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<th>Extended Collective Agreements</th>
<th>Collective Agreements</th>
<th>Minimum Wage</th>
<th>Minimum Wage for skilled work</th>
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<td>Coverage by CA's 2015/2016</td>
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<td>France</td>
<td>98,5</td>
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<td>96,0</td>
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<td>Germany</td>
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<td>Minimum Wage: Kaitz-Index 2016</td>
<td>60,5</td>
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<td>49,5</td>
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<td>Direct Interaction</td>
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<td>Distant Co-Existence</td>
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<td>Extensive MW</td>
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Positive ripple effect of new German MW up to the 5th 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