

Social Dimension of EMU: Raise Minimum Wages!

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With respect to the social and political dimension, the current state of the European Union is characterised by rising inequalities of incomes and wealth, skyrocketing youth unemployment rates, by taxpayers in Ireland, Spain, Greece bailing out bond holders in Germany and France, and by eroding democratic rights through de-facto application of the “one dollar, one vote” principle (© Joseph Stiglitz). So what can be done for the time being? There is an alternative to never ending structural reforms, more surveillance from the EU side, and less social security (TINA is a female first name, only): Raise Minimum Wages to a level of some 50% to 60% of average incomes!

Non-Papers and Non-Debates

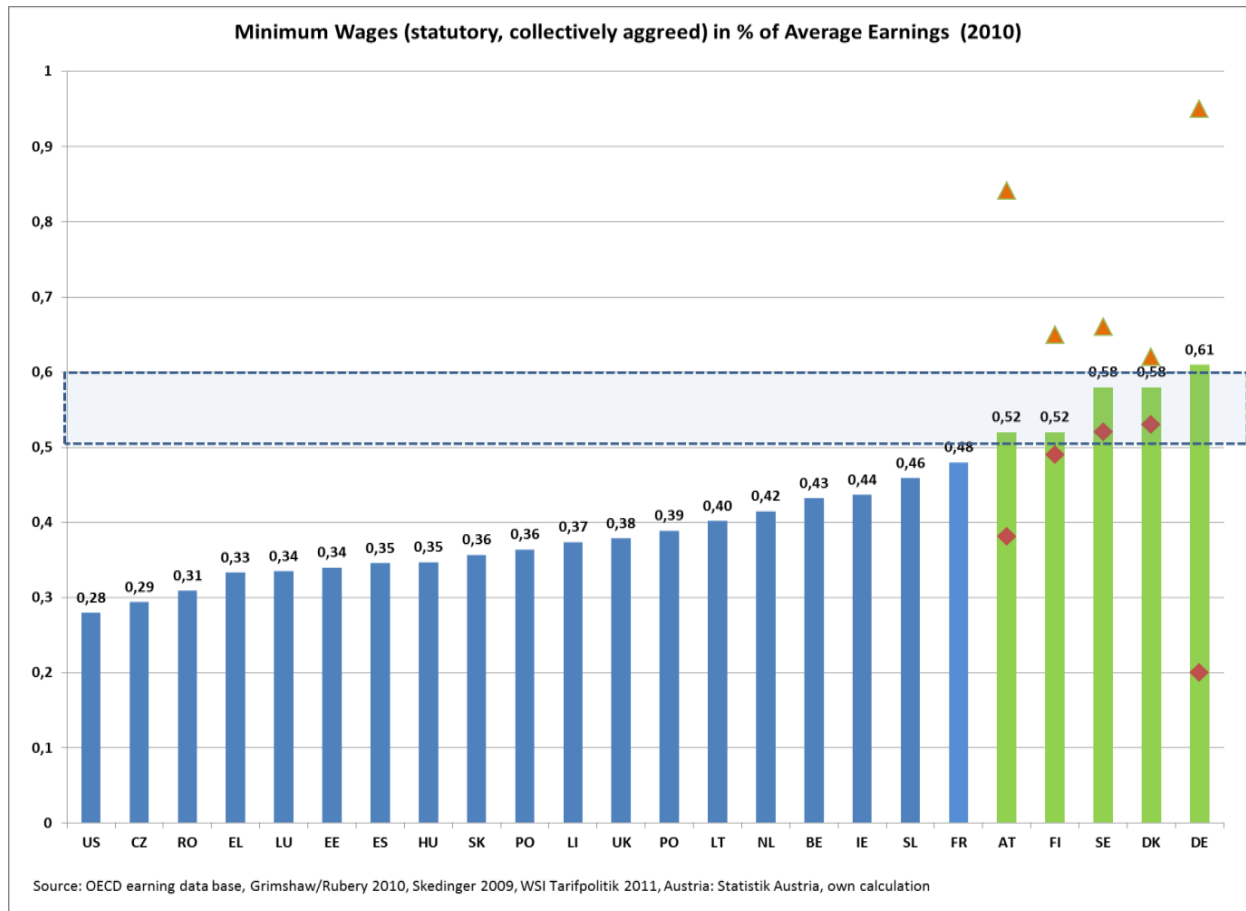
It is ridiculous! Es ist lächerlich! C’est ridicule! What Mr. van Rompuy and his EU mandarins are currently discussing under the heading of a “*Social Dimension of EMU*” can only be labelled a big scandal. They are aiming for more monitoring, ex ante coordination, and contractual arrangements to foster economic, structural and social reforms i. e. more hardship for workers, although the rationale for this further step of a deeper integration, namely spill over effects of structural policies, is basically non-existent under reasonable assumptions e.g. low migration rates. These EU bureaucrats are missing the point, by purpose!

The Current Situation of Minimum Wages in the EU

In his State of the Union address, President Obama called for a rise in minimum wages from \$ 7.25 (€ 5.64) to \$ 9, with subsequent increases in line with inflation (Krugman 2013). By international standards and compared with average national incomes (applying the so called “Kaitz-Index”, see figure below), the statutory federal minimum wage in the US is extremely low, and has been basically unchanged in real terms since the 1960s.

But minimum wages, either statutory fixed on national level or collectively agreed by trade unions and employer’s organizations on sector level, are rather low in many European countries, too: in the Czech Republic, in Romania, and in Greece, for example. In Greece, the minimum wage has even been reduced by 24.3% in 2012 (not shown in the figure, which refers to 2010). What is really new in the graph shown below, are the five countries on the right side, namely Austria, Finland, Sweden, Denmark, Germany – they don’t have a statutory national minimum. The figure reveals the following insights concerning these countries: Firstly, where the social partners negotiate minimum wages at branch level, they tend to be on average higher than in countries with national minimum wages. The averages for Austria and Germany are weighted averages by employment (for the rest unweighted). For the five countries on the right, these minimum wages refer to unskilled and low skilled white and blue colour workers with short tenures (older than 20, regional minimum). Secondly, the lowest level for unskilled workers might be very low, which is true for Austria and particularly for Germany: € 492 hairdresser (East Germany), which refers to some 20% of average earnings, or € 1009 for temporary workers (Germany, overall). In Austria, an unskilled person can earn a minimum wage of € 1000 as a taxi driver in Vienna (i. e. 0.38% of average) or € 2330 in the banking sector – at the same skill level! The minimum and maximum levels in Denmark, Sweden, Finland are by far closer to each other, reflecting an income distribution which is more equal (but in a strict sense not comparable with Austria and Germany, because they refer only to a limited number of sectors). Beyond that, it has to be stressed that in countries with bargaining systems and no national minimum wages, coverage rates vary

significantly: Austria (98%), Sweden (92%), Finland (90%), Denmark (82%), Germany (62%); this makes the German situation look even more unfavourable.



A European Minimum Wage Target

By way of variation, it would be nice to have some good news coming from Brussels. And leave aside for a moment the question of lack of competence for the EU in the area of wage policies. One element for improving the missing “*Social Dimension of EMU*” could be a European minimum wage target – let’s say 50% for the low achievers with a clear distance to this threshold and 60% for the rest. Implementation is possible by a general national law or social partner agreements, within a period of three years. In case of non-compliance, there would be a EU regulation, enforcing this 50% to 60% benchmark.

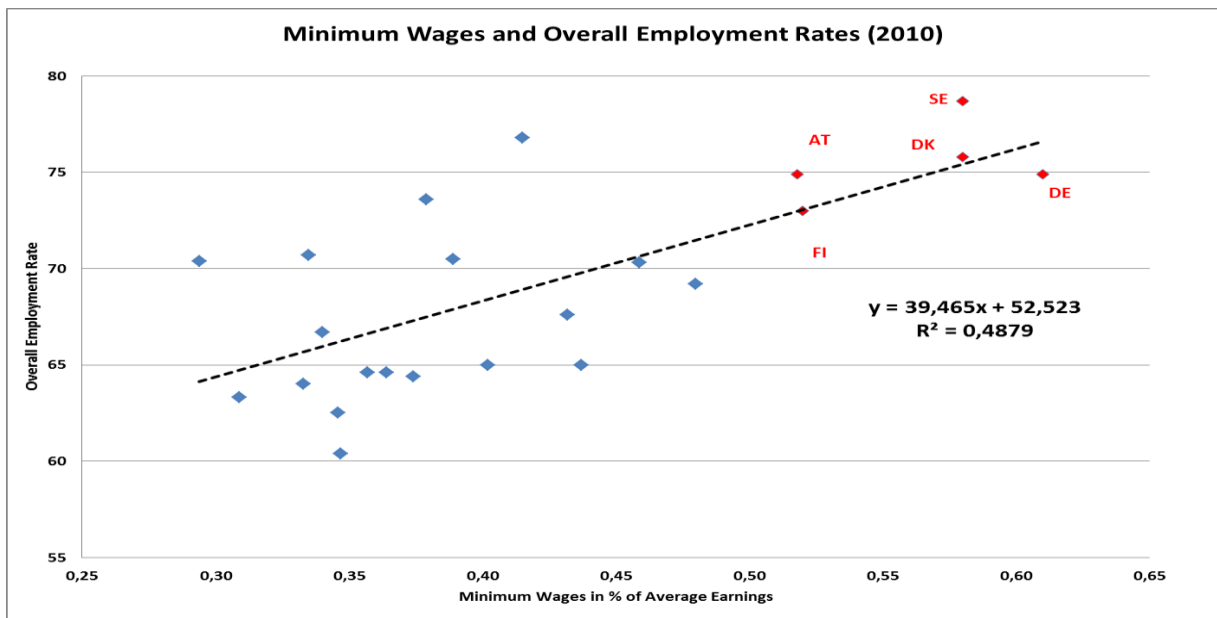
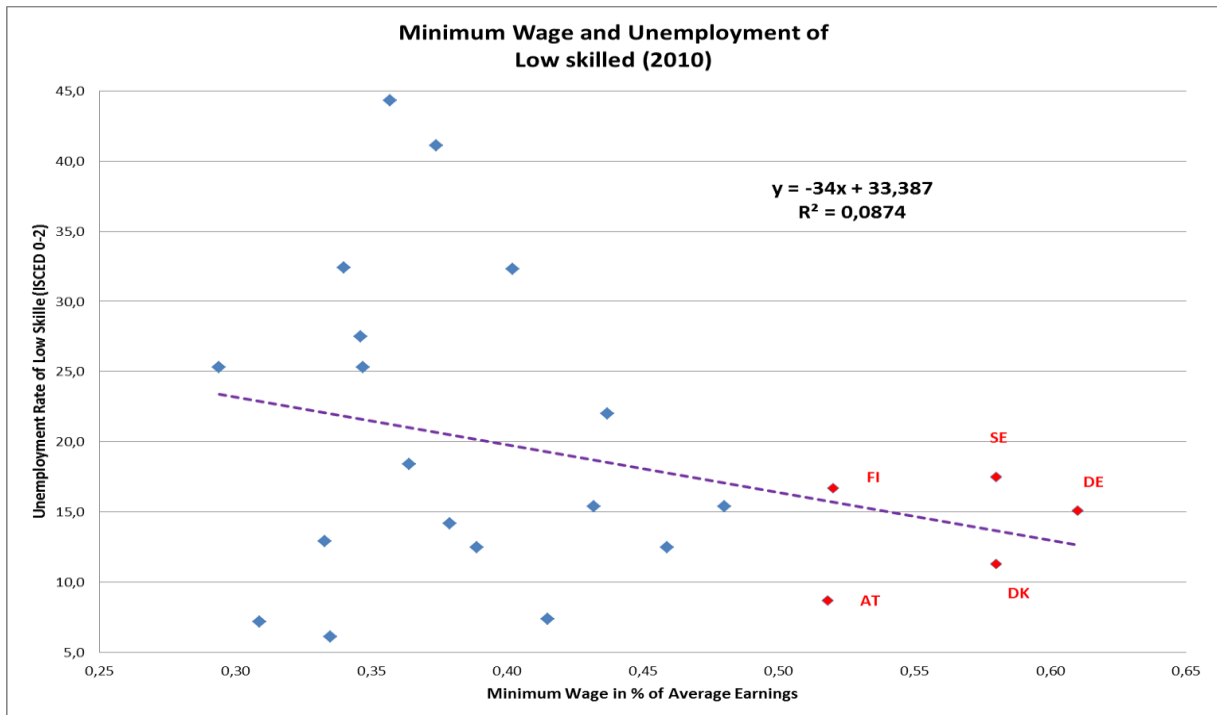
The labour market consequences of minimum wages!

The answer to this question depends very much on the obvious, namely the level of the minimum wage (relative to productivity of the affected workers), an aspect which deserved not enough attention in the past. It makes a big difference whether the lower bound is set at a level of €5 or €20!

There is a vast amount of research literature on the question of the labour market consequences of minimum wages. As far as employment and unemployment are concerned the empirical evidence seems to be rather mixed (see references below): There are studies showing positive results caused by the introduction or the increase in minimum wages; others come to neutral or negative conclusions.

As can be seen in the figure below, there is virtually no correlation between the level of the minimum wages (set by law or collective agreements) and the unemployment rates of low skilled for 23 EU countries (R^2 of 0,09); with a slight negative tendency! One could not conclude from this graph that

higher minimum wages cause lower unemployment, but higher minimum levels are a characteristic feature of strong trade unions which also have strong preferences for lower unemployment. On the other hand, there is a rather close relationship between higher minimum wages and higher (overall) employment rates. There seems to be a supply effect at work.



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