The Minimum Wage in Greece

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The Minimum Wage

- Key policy challenge when setting minimum wage: balance trade-off between wage gains for low-paid vs potential employment losses
 - Recent research: employment losses might be very low, if MW not too high
- **Two criteria** to assess appropriate level for minimum wage:
 - 1. How productive is the economy? (minimum wage as % of median/average wage)
 - 2. How high is the unemployment rate? (what weight to assign on potential job-loss)

• This presentation:

- Overview of minimum wage policy in Greece: pre-crisis, crisis, post-crisis
- Some thoughts about policy for the future

The labor market before the crisis

- Greece experienced very strong GDP growth in 1993-2007 (3.6%, 2nd highest in EU15)
- But poor labor market performance. In 2008:
 - 8% unemployment rate! (2nd highest in EU15)
 - Probably even higher without massive hiring in public sector during 2000s
 - 12% unemployment rate for women, 17% for the young (20-29 year-old)
 - Half of the unemployed out of a job for more than 1 year (long-term unemployed)
 - Difficulty in accessing jobs is source of **great inequality**
- Paradox?
 - **Eurosclerosis**: combination of *high GDP growth* and *persistent unemployment*
 - Poorly designed labor market institutions discourage job creation even when growth is strong
 - *Minimum wage* and wage determination mechanisms
 - Employment protection legislation
 - Unemployment insurance (not applicable in case of Greece)

The minimum wage before the crisis



Sources: Minimum daily wage: Bank of Greece, Bulletin of Conjunctural Indicators. Average daily wage: IKA-ETAM Monthly Data on Employment (Table 01 for average daily wages, see respective months) [in Greek].

• Minimum wage:

- Stable at 60% of average private-sector wage (IKA)
- UK ≈ 55%, Germany ≈ 48% of *median* wage
- Greek MW was high by int'l comparison
- Additionally, MW could 个 with
 - Seniority bonus
 - Marriage bonus
 - From 740 to more than 1000 euros/month (2009)
- National minimum wage basis for
 - 100 sectoral min. wages
 - 90 occupational min. wages
- **Rigid system** of high minimum wages:
 - Discourages job creation
 - Discourages hiring of marginal workers
 - Key factor in labor market under-performance

The minimum wage during the crisis



Red vertical line shows the month when the minimum wage decreased

- End of 2008: employment peak (IKA)
- 2009-11: in full-time private sector
 - employment collapsed by 25% (≈ 1/2 million)
 - wages for job-keepers did NOT fall!
 - Unbalanced adjustment to negative shock

• After 2012:

- Labor market liberalization, MW \downarrow 22%
- Wages decline, esp. for low-paid
- Stabilization of full-time employment
 - Job creation $\uparrow50\%$ during 2012 and $\uparrow100\%$ during 2013
 - Part-time employment 个50% by 2014

• GDP and employment

- GDP \downarrow 7% in 2012, 3% in 2013, stabilized in 2014
- FT employment stabilized much earlier than GDP
- Labor market institutions matter!

The minimum wage after the crisis

- Employment rebounded after economy stabilized: +1.8%/year in 2014-2019
- Feb 2019: minimum wage was increased by 11%
- High-quality World Bank study on effect of MW increase
 - Low-wage workers gained 10%
 - Employment at low-wage firms grew by 2% less than it would have
- Employment-wage trade-off
 - Need to weigh value of employment positions vs other goals, e.g. inequality + job composition
 - Perhaps public policy should discourage low-wage (low-productivity) firms
 - Greatest source of inequality today is unemployment. 17% in 2019
 - Magnitude of MW increase seems premature

Looking ahead

- The minimum wage is useful tool to reduce in-work poverty and inequality among low-paid
- Limited tool
 - Should not be used to increase all wages. Only productivity growth can do so
 - Should not be a substitute for social policy, e.g. marriage/seniority bonus
- Need to prioritize growth *and inclusivity* in employment
- Low-earners should be helped through combination of policies
 - Lower tax wedge esp. social insurance contributions (some recent progress)
 - Encourage formal employment to provide legal protections & social insurance