

# The Minimum Wage in Greece

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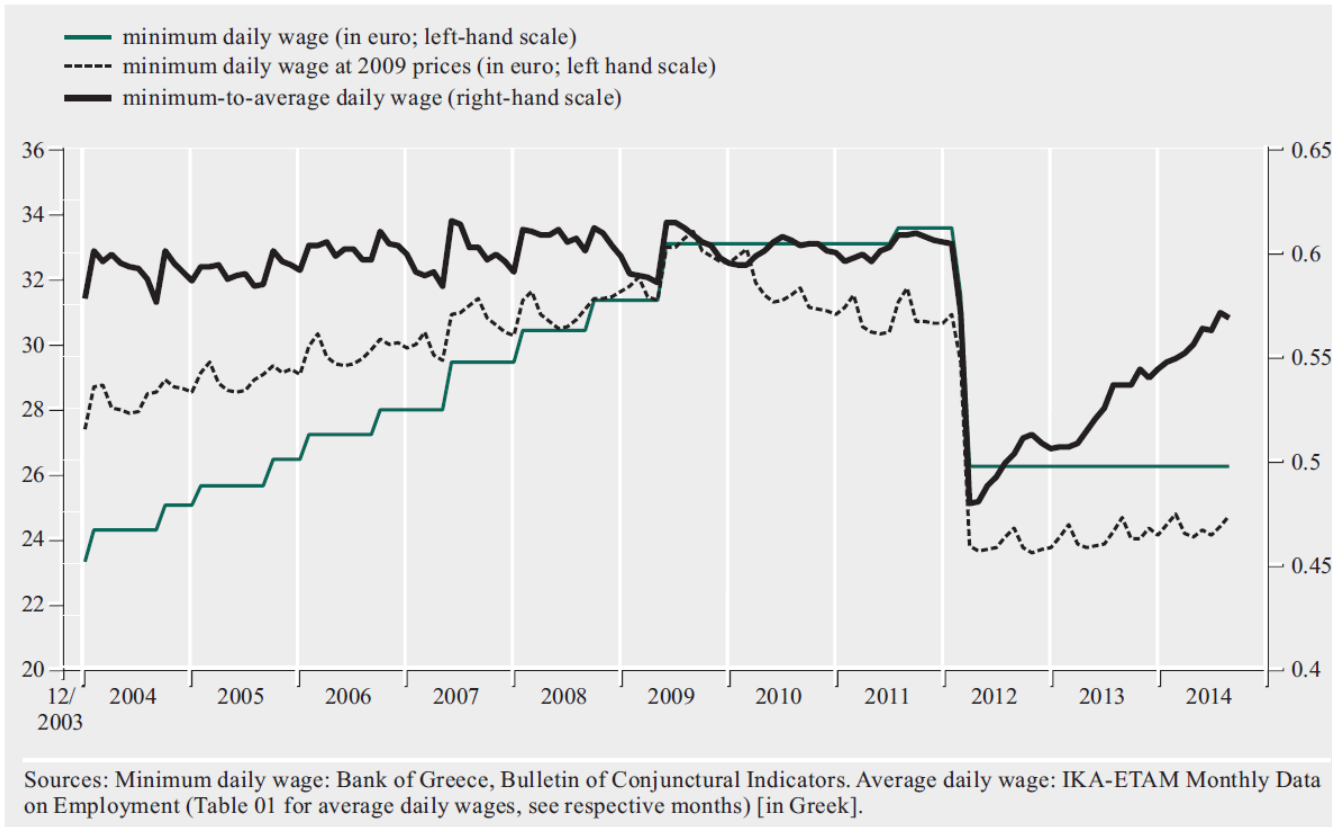
# The Minimum Wage

- **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

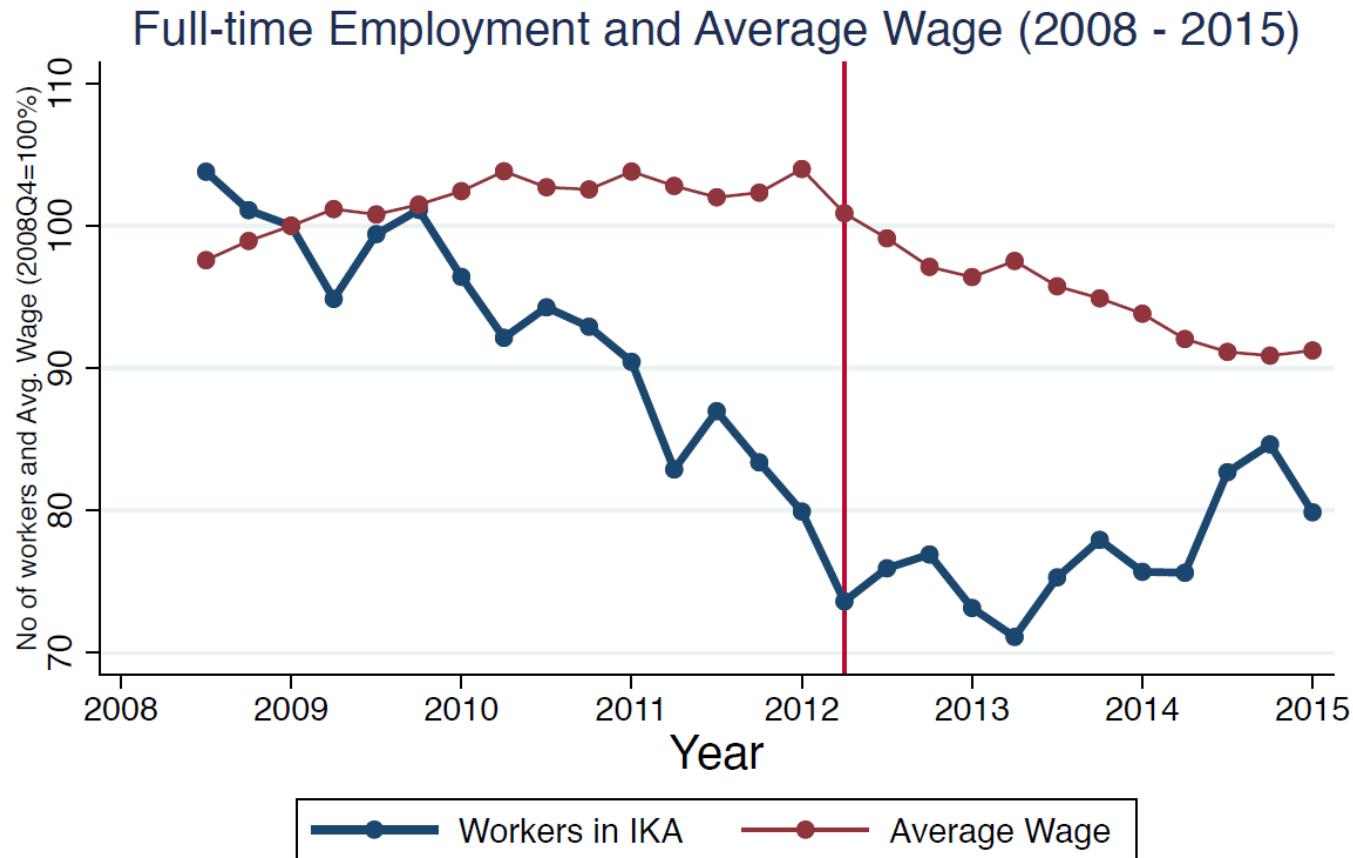
- Greece experienced **very strong GDP growth in 1993-2007** (3.6%, 2<sup>nd</sup> highest in EU15)
- But **poor labor market performance**. In 2008:
  - 8% unemployment rate! (2<sup>nd</sup> highest in EU15)
    - Probably even higher without massive hiring in public sector during 2000s
  - 12% unemployment 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



- Minimum wage:
  - Stable at 60% of *average* private-sector wage (IKA)
  - UK  $\approx$  55%, Germany  $\approx$  48% of *median* wage
  - Greek MW was high by int'l comparison
- Additionally, MW could  $\uparrow$  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% ( $\approx 1/2$  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  $\uparrow$  50% during 2012 and  $\uparrow$  100% during 2013
    - Part-time employment  $\uparrow$  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