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MINIMUM WAGES ACROSS OECD COUNTRIES: BACK TO THE FUTURE?

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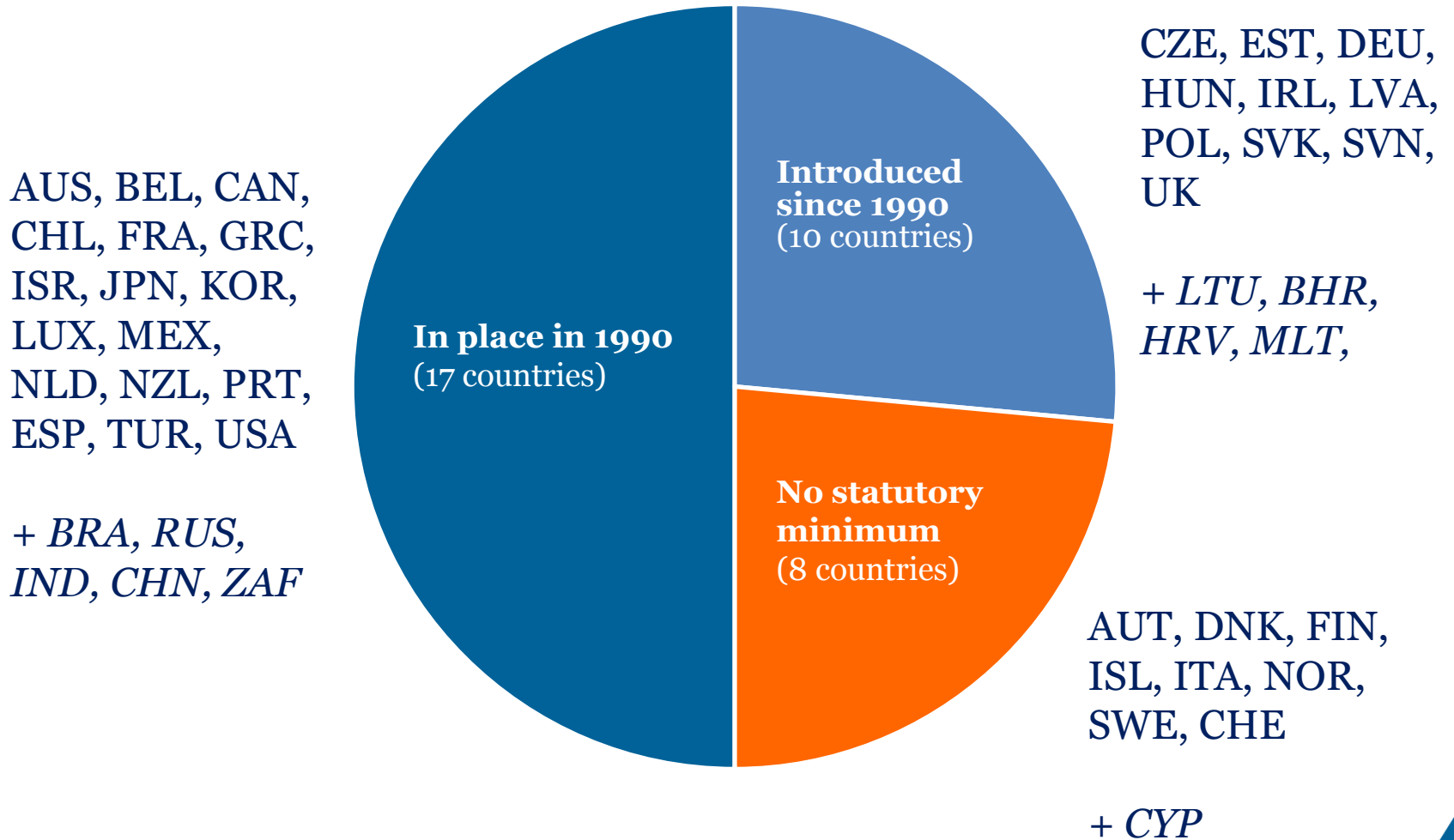


A widespread (but heterogenous) wage setting institution

- Minimum Wages exist in 90% of ILO member states
(But only 78% of EU countries)
- Three broad classifications
 - National, Sectoral/Occupational/Regional, Hybrid
 - Globally 50% have NMW, 50% have complex schedules
- Developing countries have increasingly turned to the use of MW as part of broader welfare policy interventions
- But also coming back in OECD/EU countries



A renewed interest in minimum wages





Impact on the labour market?

Many channels of adjustment to MW but almost only a single focus! Topics by # of papers in Google Scholar*:

- Employment (434)
- Wage structure (27)
- Productivity (11)
- Quality (1)
- Hours (40)
- Prices (14)
- Profits (2)

*Based on search: e.g. « allintitle: Minimum Wages Employment/Hours/etc. », 22/08/2017

Is there anything such as « the » effect of a minimum wage?

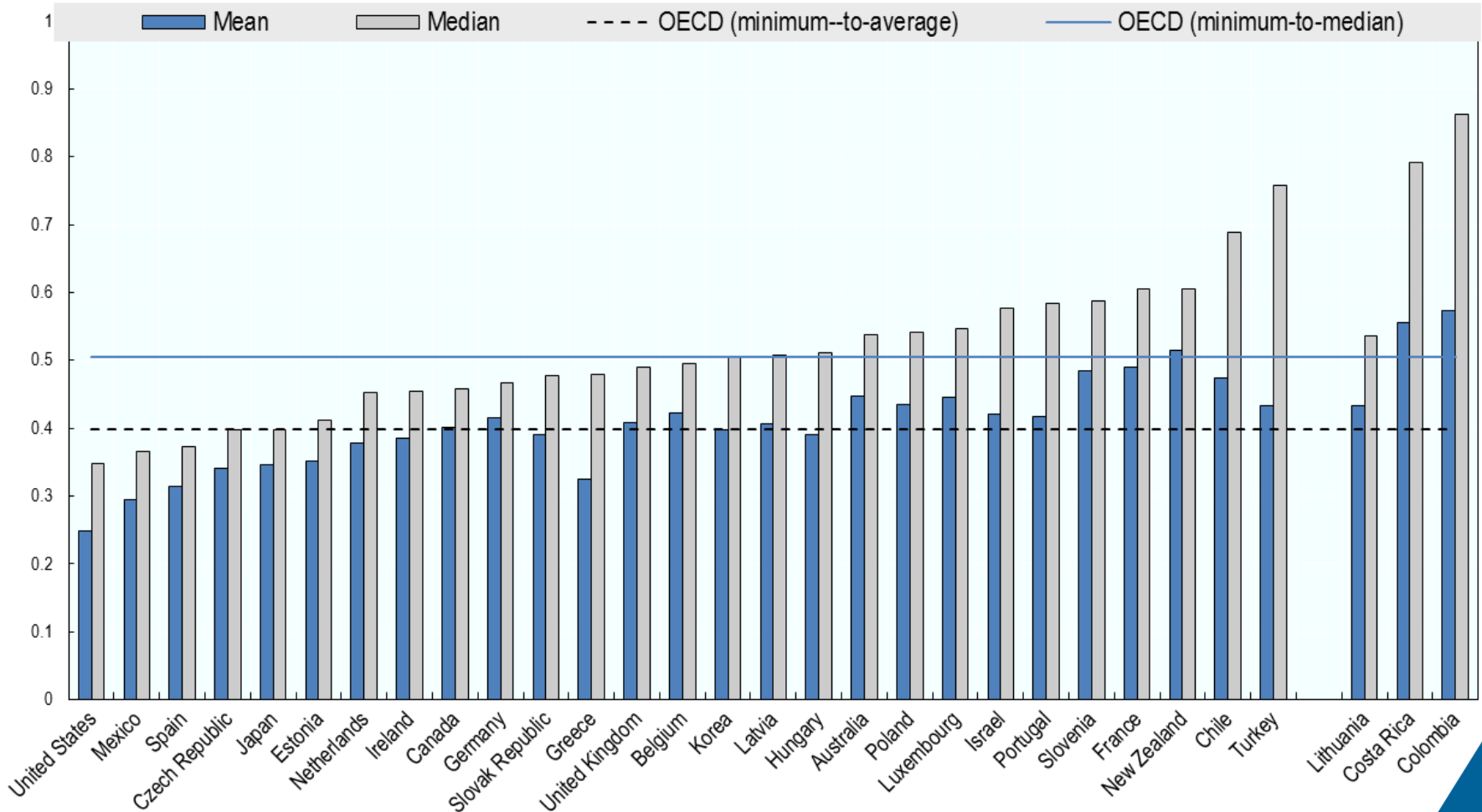


MINIMUM WAGES IN OECD COUNTRIES



Strong differences across countries

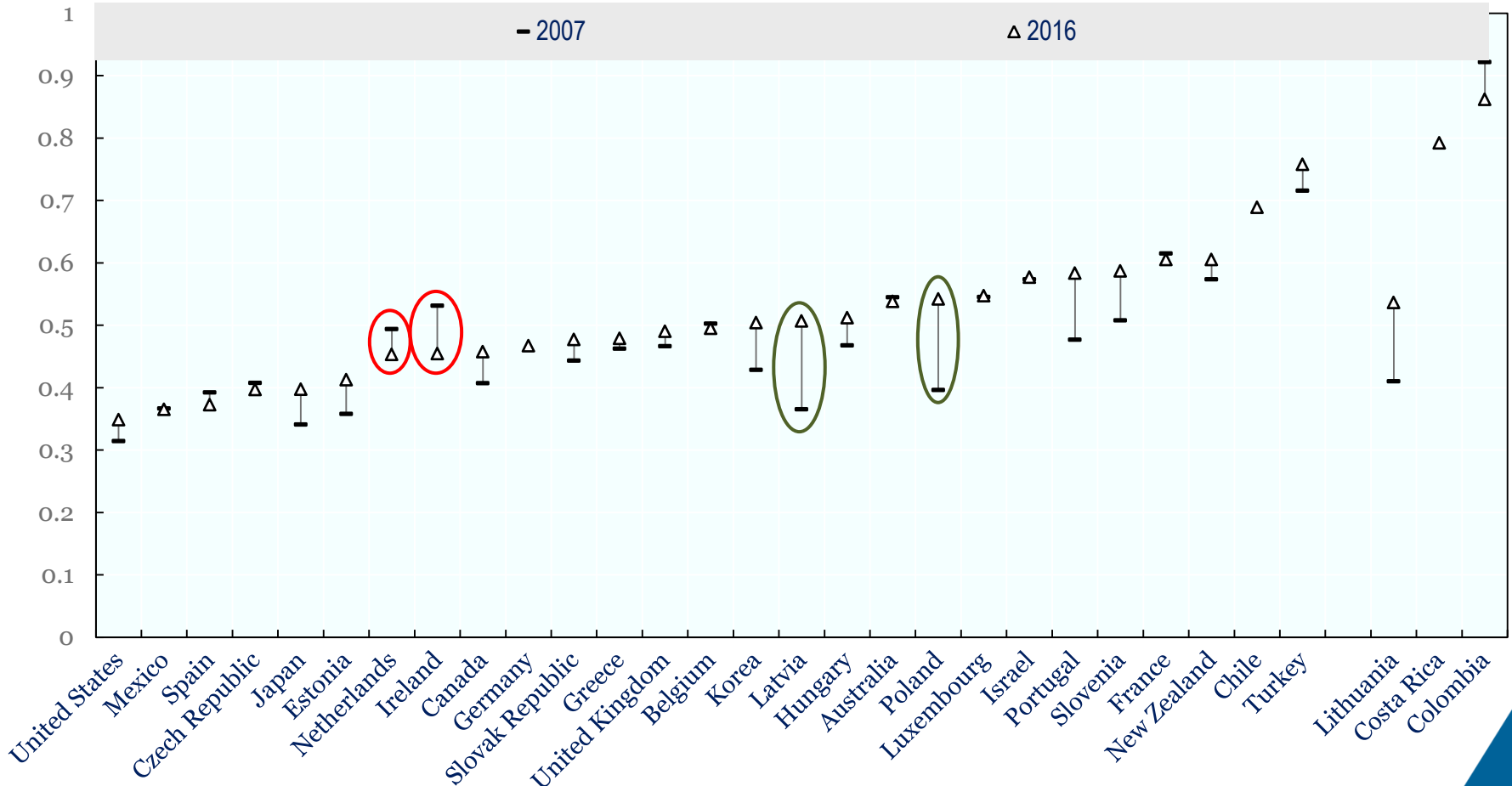
MW as a % of median and average wages of FT employees, 2016





Minimum wages during the crisis

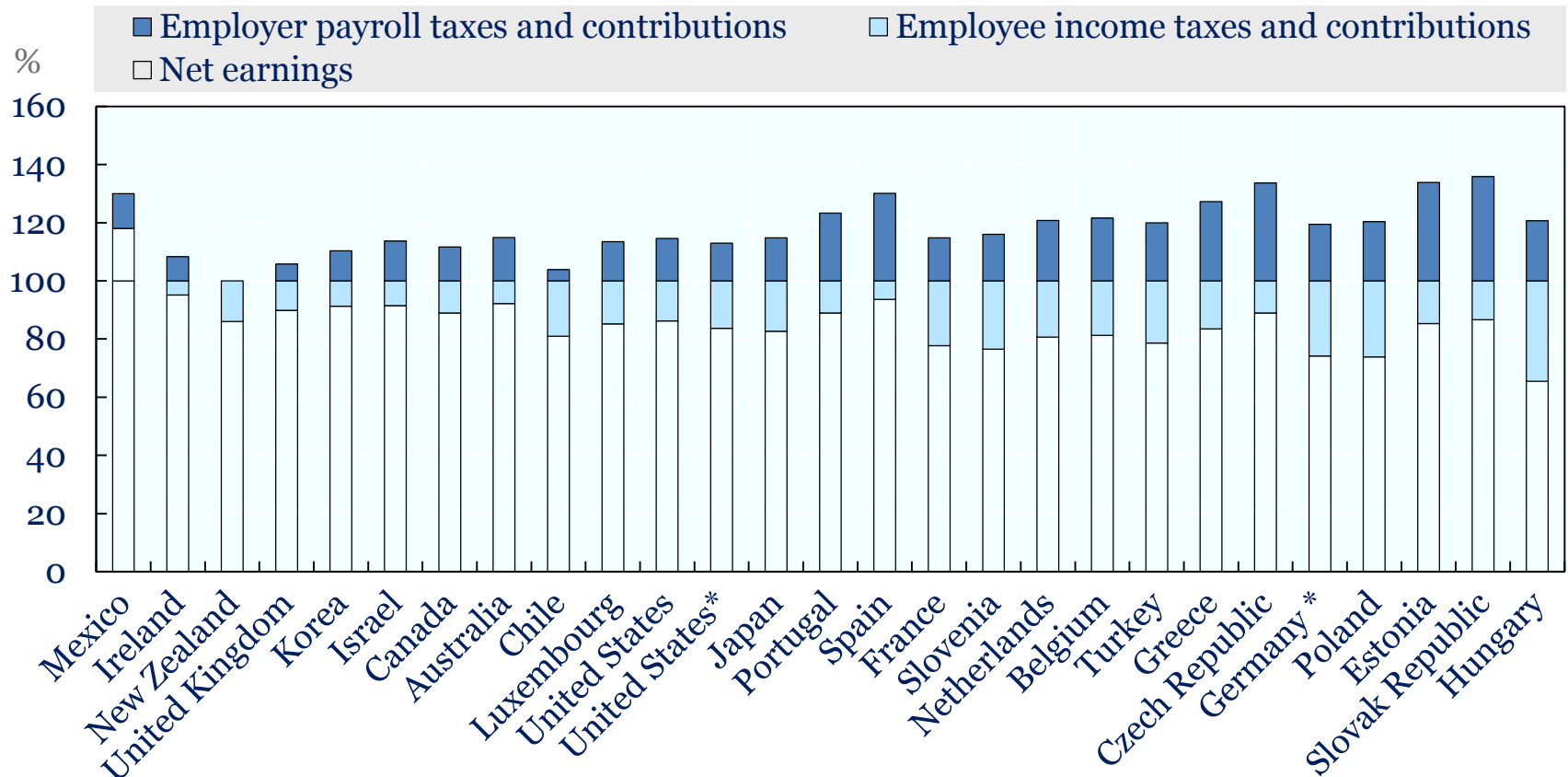
MW levels pre- and post-crisis, OECD
MWs as a % of median wages of full-time employees (in gross terms)





Beware: Gross \neq Net \neq Labour Cost

Employer and employee taxes and social contributions, 2013
% of gross earnings

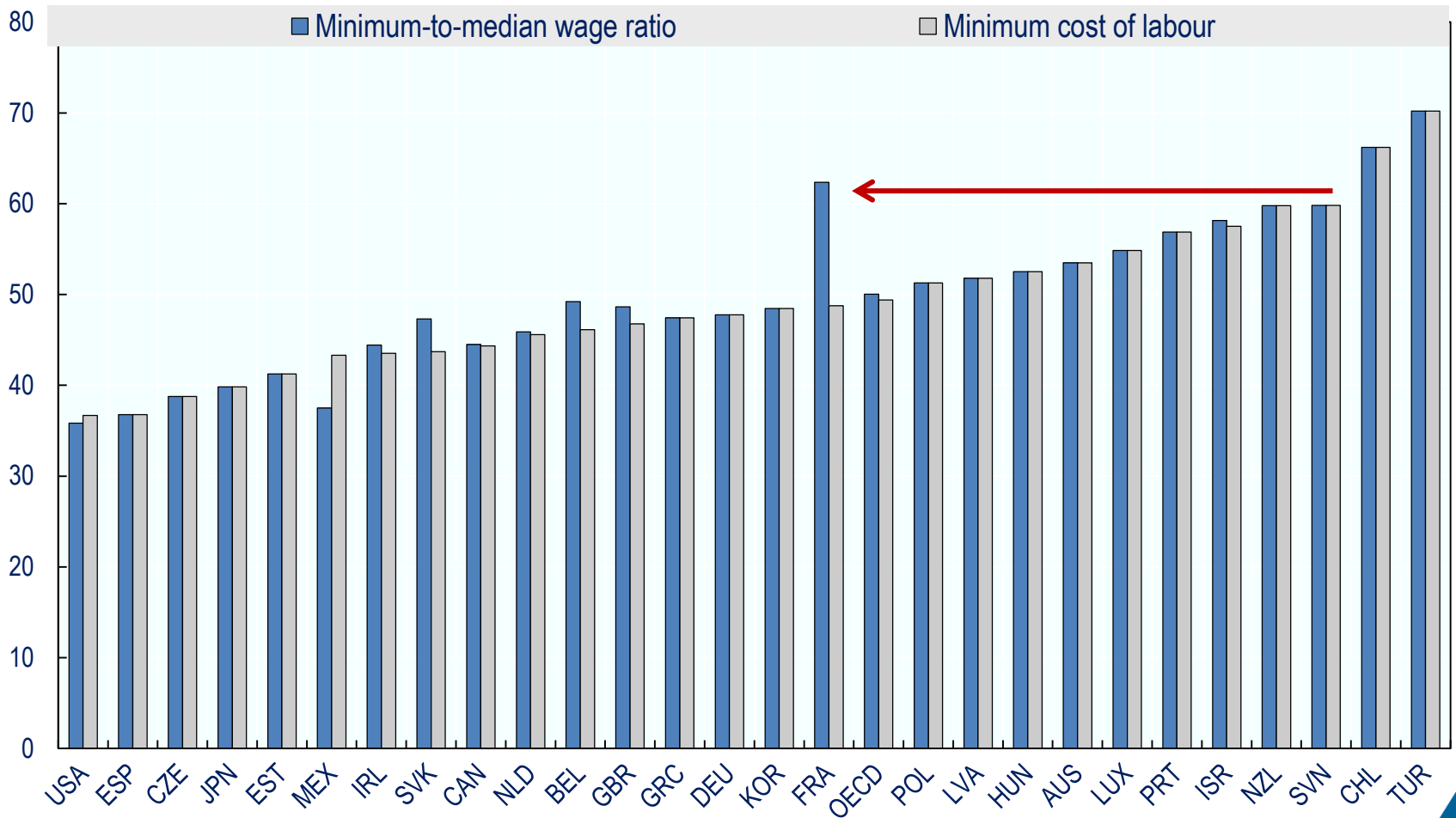


* Germany: Minimum-wage level 2015 is expressed in % of the projected 2015 median wage. United States: Government-proposed federal minimum for 2016 is expressed in % of the projected 2016 median wage. Projections are based on earnings data from the OECD Economic Outlook database.



Which can impact the cross-country ranking...

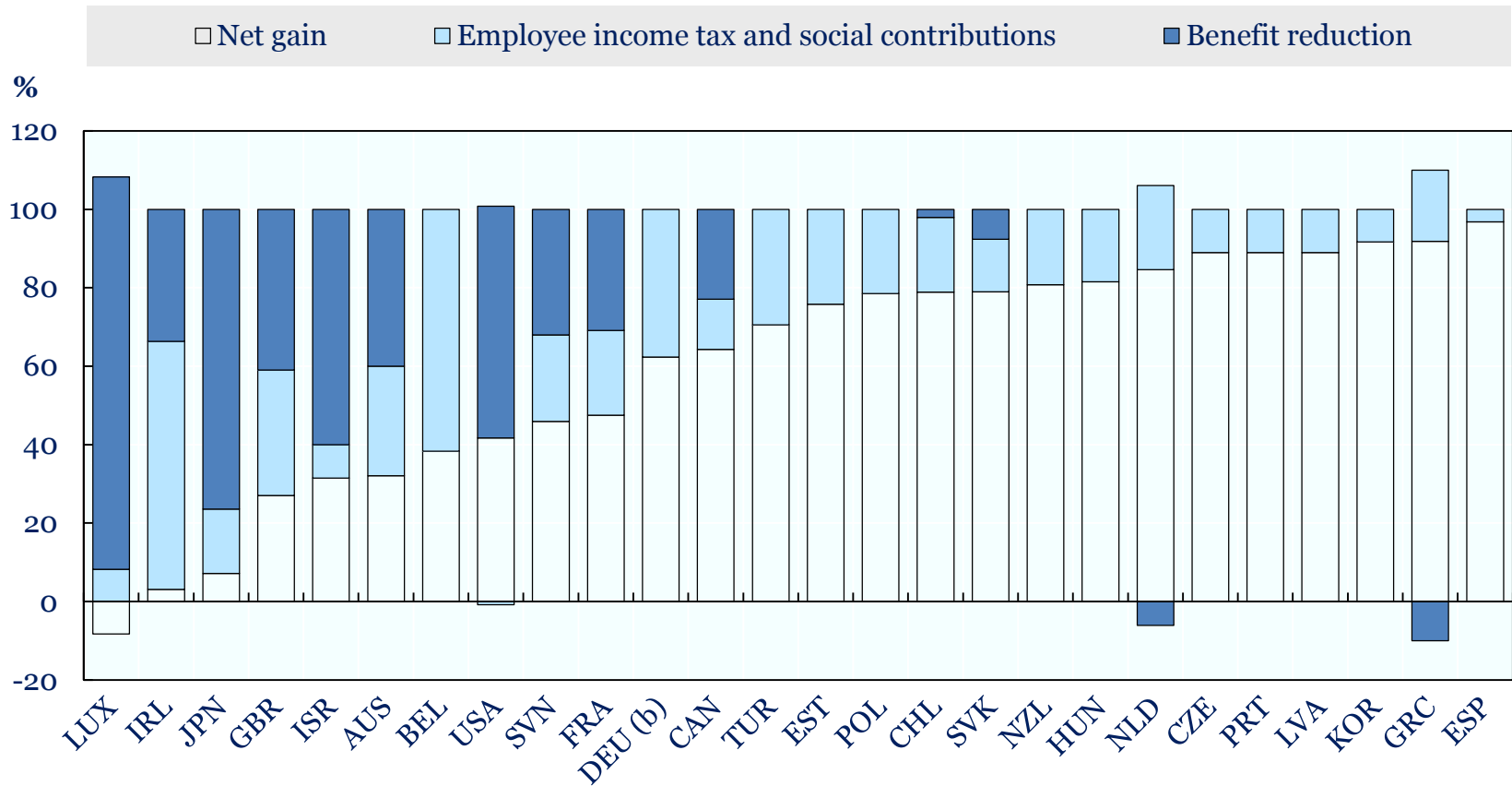
Minimum wages as a % of median wages, 2015





...and how much workers pocket of a minimum wage increase!

Share of MW increase that is left after taxes and benefit reductions, lone parent family, 2013





HOW ARE MINIMUM WAGES FIXED?



How are minimum wages fixed?

Different setting mechanisms:

- Government legislated
- Consultation process
- Bargaining process

Exemptions:

- Youth
- Long-term unemployed
- Regions
- Others (e.g. disabilities)

Uprating procedure:

- Regular revisions vs. irregular (and political)
- Presence of a commission or not



Exemptions

Youth	Long-term unemployed	Regions	Others
AUS, CHL, FRA, DEU , GRC, IRL, ISR, LUX, NLD, NZL, PRT, SVK, GBR, USA <i>CRI</i>	DEU	CAN, JPN, MEX, USA <i>BRA, CHN, IDN, RUS, ZAF</i>	AUS, GRC, KOR, LVA, MEX, NZL, PRT, SVK, GBR, USA <i>CRI, IDN, ZAF</i>

Curiosity: MW higher for young people in Latvia (because of lower working hours)!



Uprating procedures

Irregular	Commission
CAN, USA	CHL, DEU, FRA, GBR + IRL (since 2015)

Indexation: Belgium (CPI), France (inflation and average wages), Luxembourg (CPI), Netherlands (negotiated wages) [+ Slovenia & Malta]

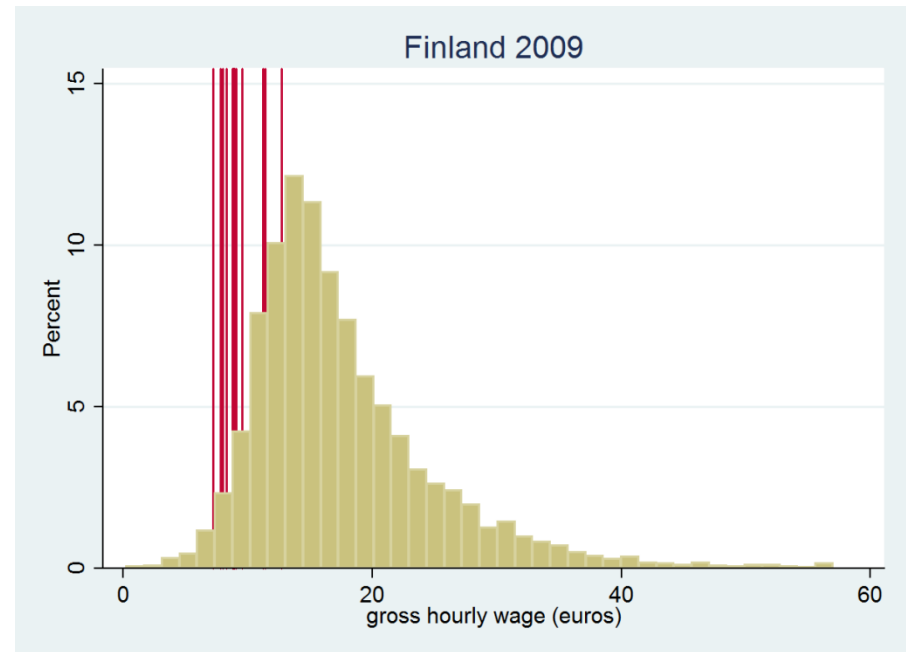
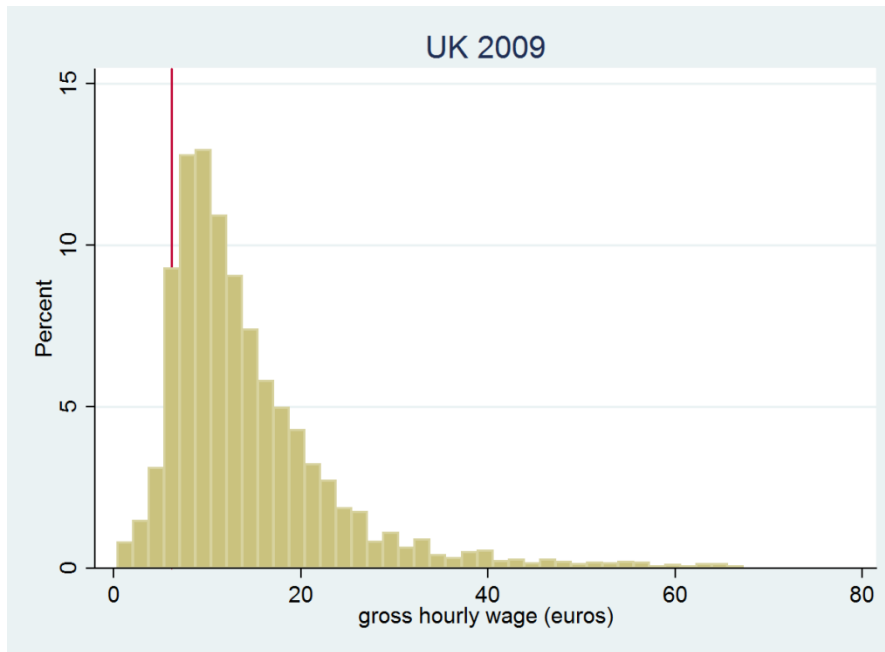
(In Belgium also “*wage norm*”: max increase defined by wage increases in FRA, DEU and NLD)

Several countries take into account economic conditions in their decisions



Minimum wages also fixed by collective bargaining

Not a single statutory minimum but hundreds/thousands negotiated by social partners:



Particularly important in Austria, Denmark, Finland, Italy, and Sweden SWE (and Iceland, Norway and Switzerland) but also in many others EU countries:

- Wage rates/increases by **sector** (sometimes very narrow) and by **occupation**
- Sometimes **full pay-scale** (seniority and skill)



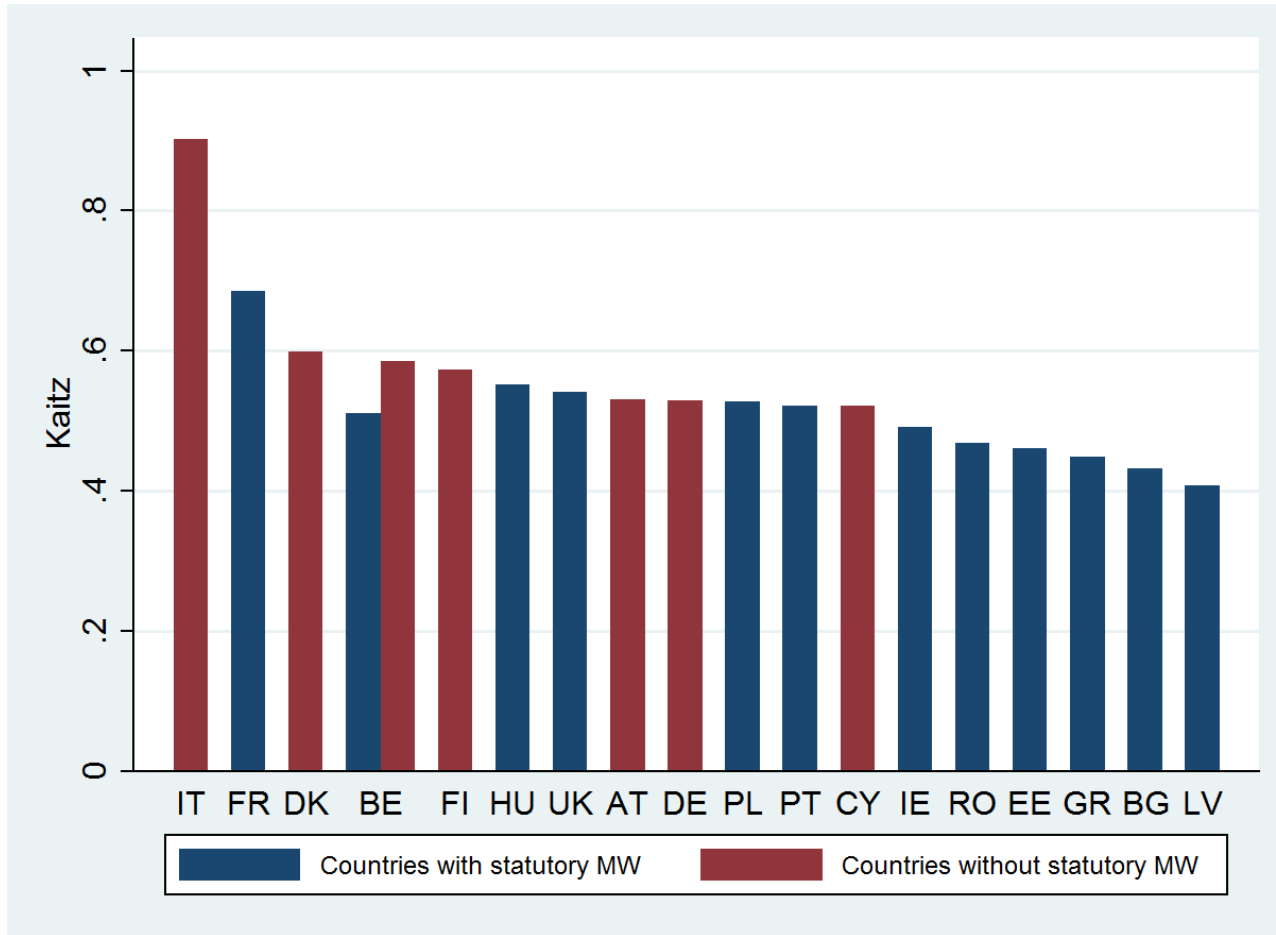
Interaction with collective bargaining

	Low bargaining coverage	Medium coverage	High coverage
Sectoral/occupational MW	-	Cyprus, Germany ↓	Austria, Finland, Denmark, Italy
National statutory MW	Latvia, United Kingdom, Ireland, Bulgaria, Estonia, Hungary, Portugal, Poland	Romania, Greece, Germany	Belgium, France

The two systems can **reinforce each other** or be **functional equivalent**



How do the systems compare?

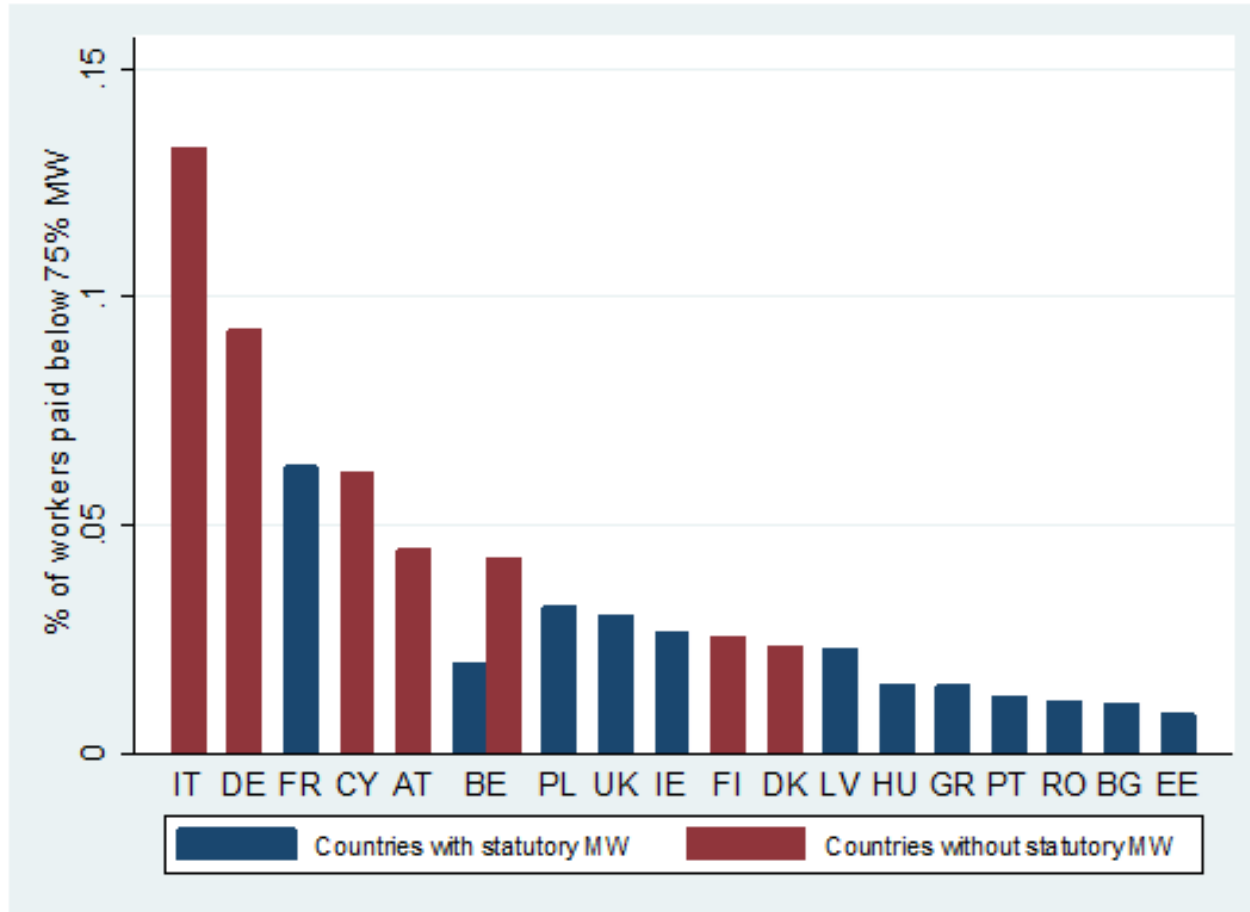


CB higher MW (also controlling for workforce characteristics, part-time, % public employment, occupation, sectors), mean 2007-2009



But compliance is an issue

Average non-compliance rates, European Union Country comparison



Source: Garnero et al. 2015



OECD Key Principles

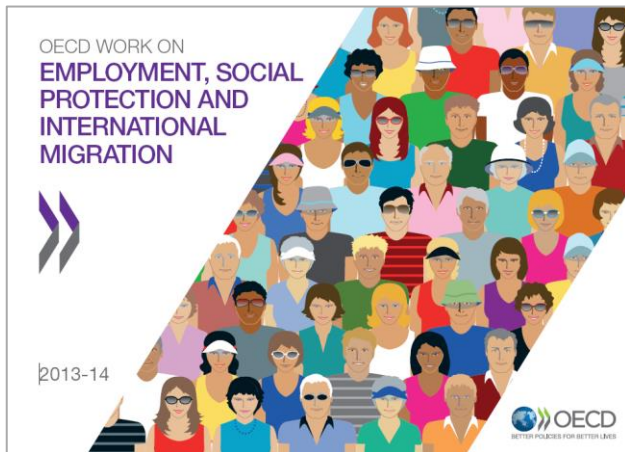
1. Improve **coverage** of and **compliance** with minimum wage legislation, especially in countries where collective bargaining is weak or declining.
2. Ensure that minimum wages are **revised regularly**, based on accurate, up-to-date and impartial information and advice that carefully considers current labour market conditions and the views of social partners.
3. Where necessary, allow minimum wages to **vary by group** (to reflect differences in productivity or employment barriers) and/or by region (to reflect differences in economic conditions) – bearing in mind that **simple minimum wage systems** are most likely to achieve high compliance.
4. Make minimum wages pay while avoiding that they price low-skilled workers out of jobs, by carefully considering their **interactions with the tax-benefit system**.
5. Use minimum wages as a tool to raise wages at the bottom of the wage ladder, but **accompany them with other tax and benefit measures** to effectively fight poverty in and out of work.



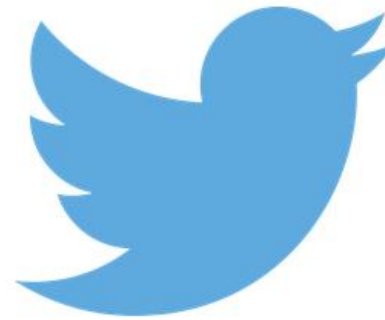
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