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The Impact of Minimum Wages on Employment: Existing evidence and the case for Greece

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In recent years, minimum wages have been increasingly popular with policy makers. This is indicated by the number of countries that have either introduced a statutory minimum wage or have increased their statutory minima to a high level relative to median earnings. For example, Germany has introduced a National Minimum Wage in January 2015, in the UK the minimum wage for adults (25 years and older) has increased by around 11% in April 2016 with a pledge by the government to increase it annually so that it reaches 60% of median earnings in 2020, and the government of South Africa has also committed to introduce a National Minimum Wage. Moreover, international organisations have also embraced a positive attitude towards Minimum Wages. In particular, a joint report from the IMF, World Bank, OECD, and ILO for a G20 Conference in 2012 wrote “a statutory minimum wage set at an appropriate level may raise labour force participation at the margin, without adversely affecting demand, thus having a net positive impact especially for workers weakly attached to the labour market” (ILO, 2012). The IMF also recommended to the US in October 2014 that “given its current low level (compared both to U.S. history and international standards), the minimum wage should be increased” (IMF, 2014).

The key reason of the popularity of the policy is the accumulating evidence and even an emerging consensus among economists, that, contrary to conventional wisdom and previously held view, the introduction or increase of minimum wages has little or no effect on employment. This conclusion is based on a large number of studies across countries and sectors. The most influential of these studies is that by Card and Krueger (1995) in the USA that casted doubt on the view that minimum wages increases necessarily lead to job losses. This finding was echoed by Machin et al. (1994, 2003) who found that in the UK care homes sector, the lowest wage sector in the UK, the 1999 introduction of the UK National Minimum Wage had a dramatic impact on the wage structure, but no negative employment effect. More recently, a number of meta-analyses of empirical studies on the effect of minimum wages on employment from the USA, the UK, and internationally find evidence of no significant employment effect and of publication bias in the case of US and international studies (Doucouliagos and Stanley, 2009; Leonard, et al., 2014; Chletsos and Giotis, 2015).

There are several economic explanations of why the employment effect of an increase in the minimum wage may be elusive (Manning, 2016). First, the increase in total labour costs associated with a given increase in the legal minimum wage is often considerably smaller than the increase in the wage generated by the minimum wage. This is because, the minimum wages may, at least partly, "pay for themselves", as the higher wage makes work more attractive and as a result labour turnover rates and absenteeism tend to decline and workers effort may increase and monitoring may decrease leading to cost savings and offsets (Georgiadis, 2013).

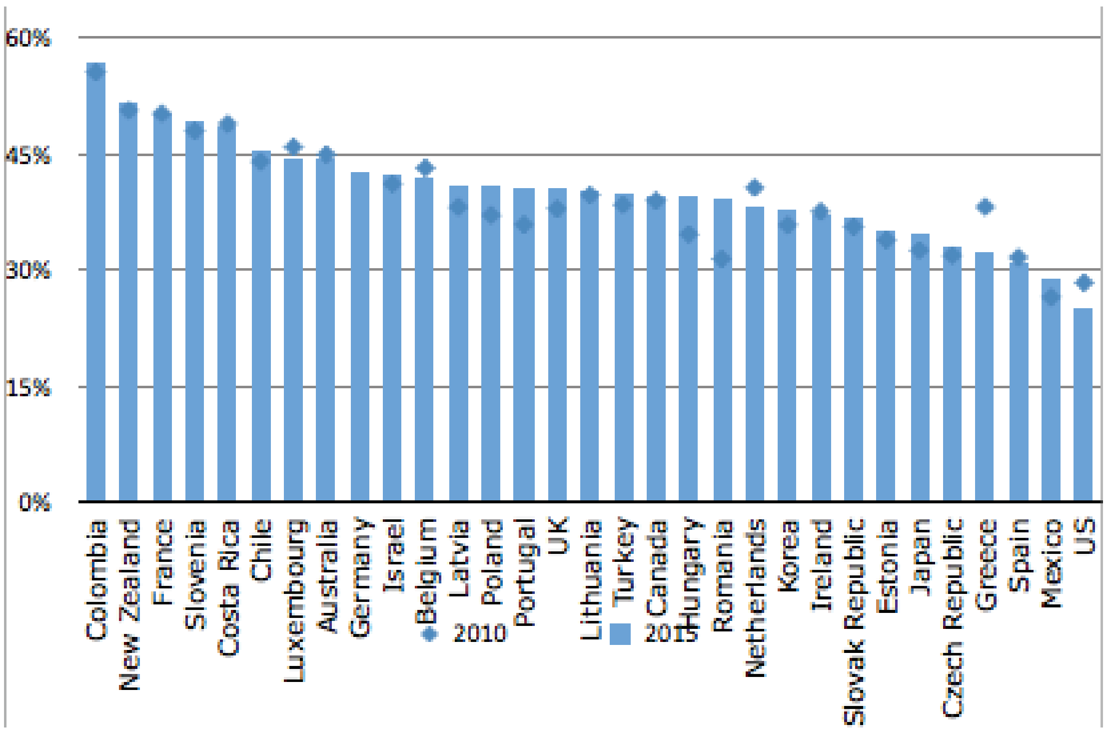
Another explanation is that, in the sectors affected by the minimum wage, wages are increased across all employers and thus some of the costs may pass on to prices. Higher prices, however, may have a small effect on sales and through that to employment, as the demand elasticity of products and services in sectors employing low-wage workers is not large and because product demand may increase through increased demand from minimum wage workers (Manning, 2016). Another potential reason why minimum wages increases may not have a negative employment effect is that any increase in the firm's costs is absorbed through lower excess profits, as firms employing minimum wage workers are not likely to operate in a perfectly competitive product market (Draca et al., 2011). Finally, a fundamental reason of the lack of significant negative employment effects of minimum wages is that labour markets are not perfectly competitive, as in reality employers who cut wages will not lose all their workforce to other firms, as the model of perfect competition in the labour market would predict (Manning, 2003). Thus, a non-negative employment effect of minimum wages can reconcile with models of imperfect competition in the labour market that seem to provide a more realistic model of the actual operation of low-wage labour markets (2003).

Overall, the evidence overwhelmingly seem to suggest that minimum wages may significantly increase the wages of low-wage workers and incentives to work among and reduce wage inequality without necessarily destroying jobs or hurting business competitiveness. Nevertheless, there is a limit to the level minimum wages may be increased without decreasing employment. According to many investigators, identifying this level is the key research gap in the minimum wages literature and this type of evidence would be of great interest to policy makers who are aiming to improve the welfare of workers and the performance of firms.

The situation in Greece

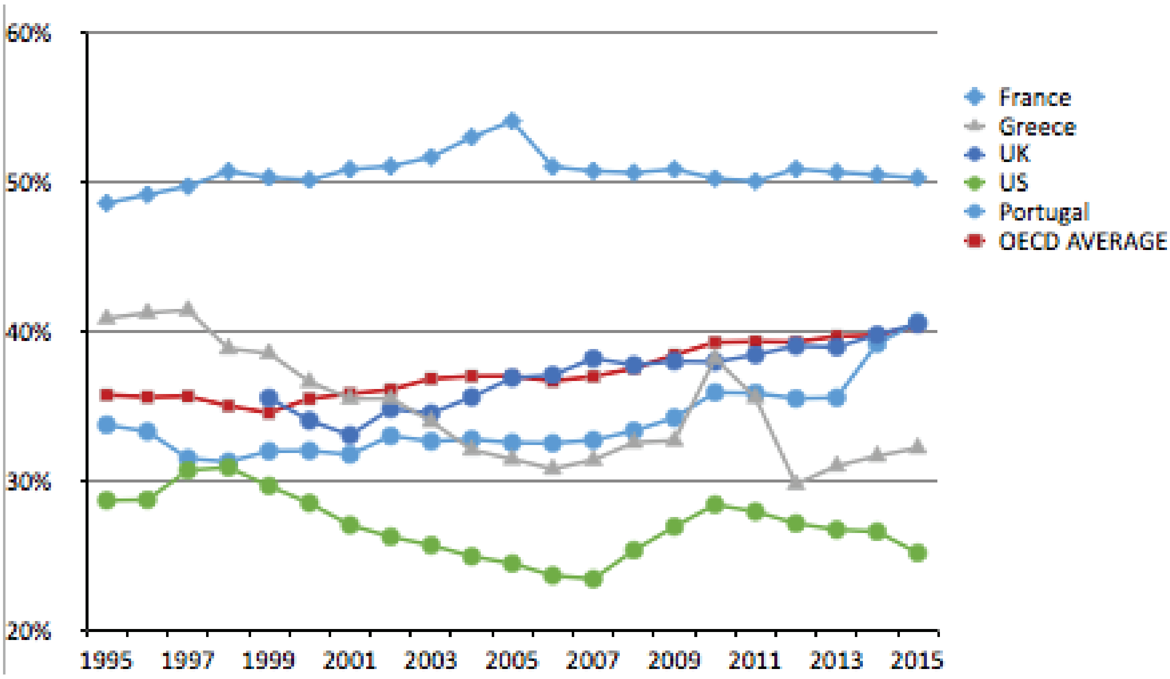
In 2012 the level of minimum wage in Greece was reduced from 751 to 586, a fall of 22%, enacted as part of the government policies to promote downward wage pressure in order to absorb part of the effects of the severe recession on employment. The result has been that Greece has currently one of the lowest minimum wages in relative terms, with the ratio of the MW to the mean wage at 32% while the average for OECD and Europe is 40% (Figure 1). In absolute terms, Greece has a minimum wage of 4.8 US dollars per hour that is 28% less than the average of the OECD countries, and lower to countries like Ireland, Slovenia, Poland, Spain and Turkey (when adjusted for 2014 constant prices at 2014 USD PPPs; OECD_Stat). It would be of crucial interest to the current debate in Greece to investigate the impact of the 2012 decline of the minimum wage to the low-wage sectors in Greece, the number of workers affected and whether future increases might have adverse effects in employment. Given its low current level and the empirical evidence from other countries labour markets, one would expect that a modest rise in the Greek statutory MW would have limited effects to levels of employment, while it could improve the welfare of low-wage workers and reduce inequality.

Figure 1.
Minimum wages relative to average wages in 2010 and 2015



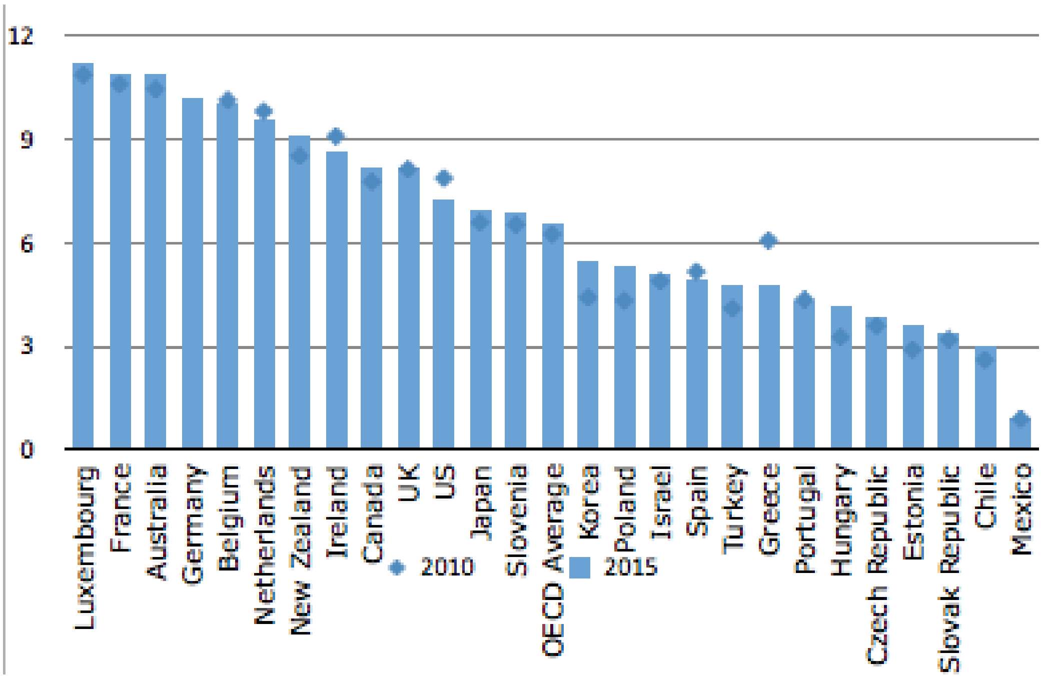
Source: OECD_Stat

Figure 2.
Evolution of MW relative to average wages
for selected countries (1995-2015)



Source: OECD_Stat

Figure 3.
Real minimum wages in US Dollars (in 2014 constant prices at 2014 USD PPPs)



Source: OECD_Stat

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