Bank of Greece

«Η ελληνική αγορά εργασίας στην κρίση»
27/11/2012

Minimum Wages in Greece

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Benchmarking the MW (1)

Real MW and ratio of MW to compensation per employee and to average wages

mw to cpe - ameco · mw to aw - oecd · real mw (CPI based, 1980=0.5)

Benchmarking the MW (2)

Real MW, GDP per person employed, and adjusted labour share

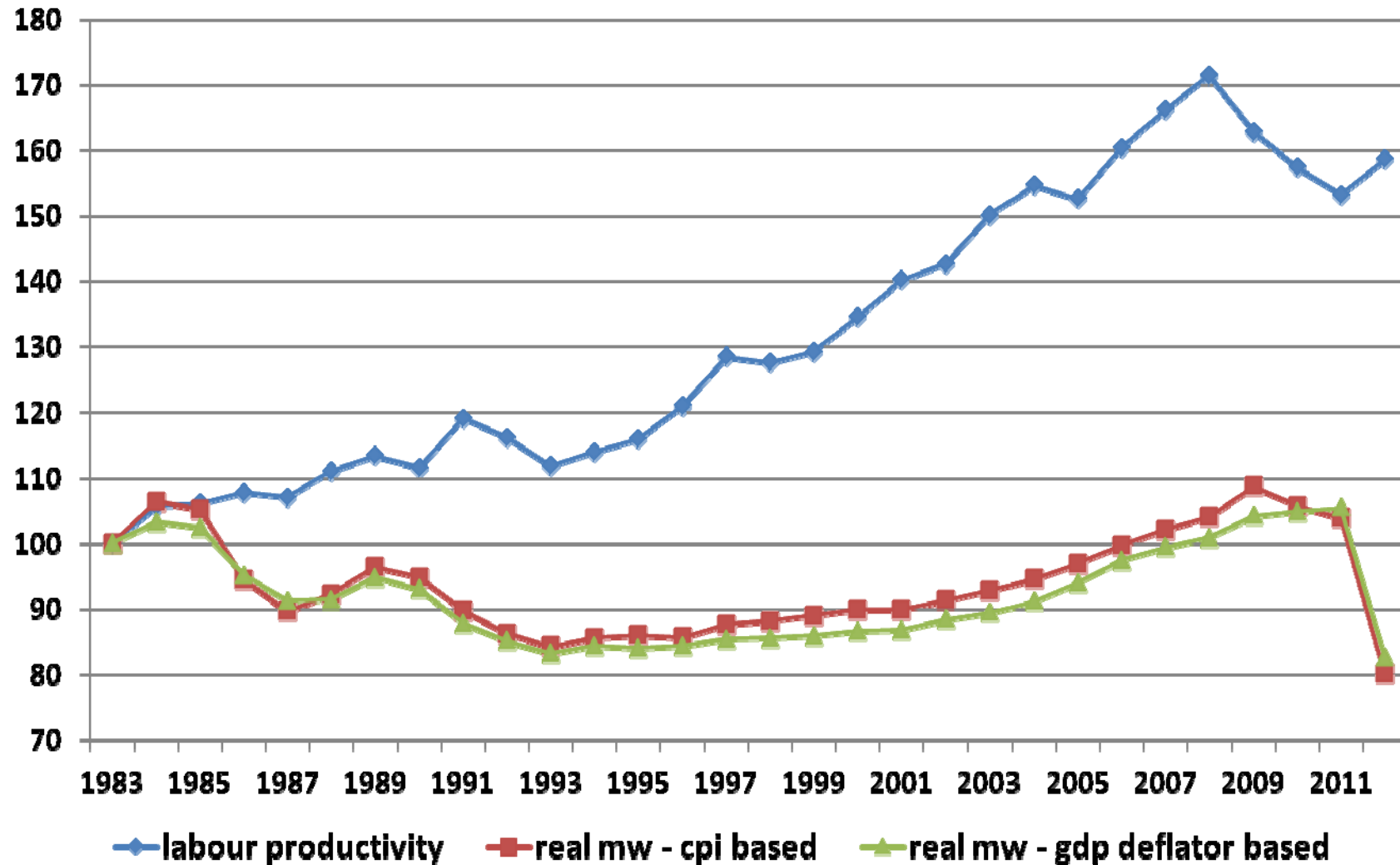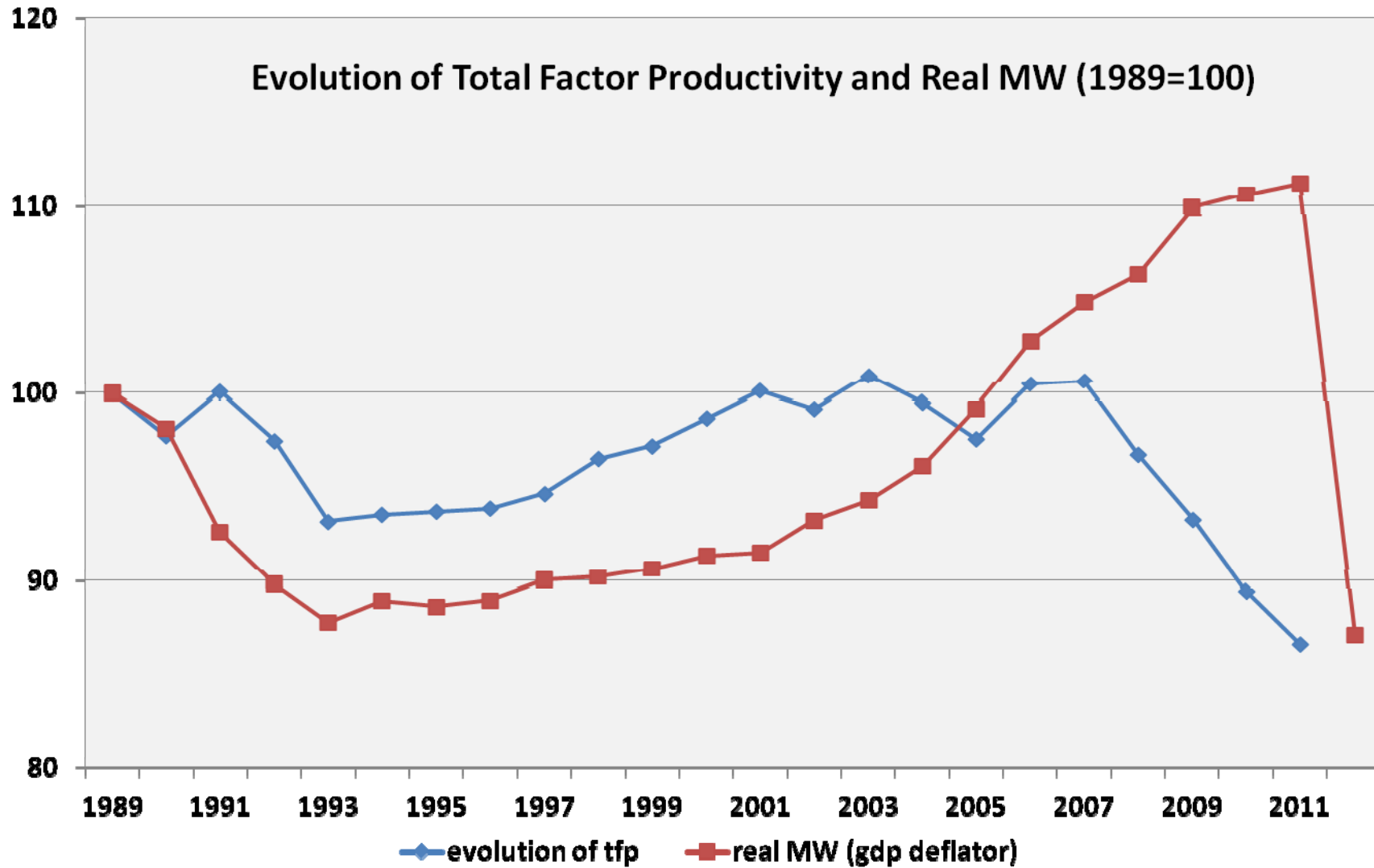Legend: real MW (1980=100) — gdp per person employed (1980=100) — adjusted labour share (right axis)

Benchmarking the MW(3)

Labour productivity per hour worked and real MW (1983=100)

legend: labour productivity — real mw - cpi based — real mw - gdp deflator based

Benchmarking the MW (4)

Evolution of Total Factor Productivity and Real MW (1989=100)

But TFP may just be a measure of our ignorance…

Factor Contributions to Growth and TFP Growth (%)

Legend:
- ◆ contrib labour composition growth
- ■ contrib non ICT K services growth
- ▲ contrib ICT K services growth
- ✕ tfp growth
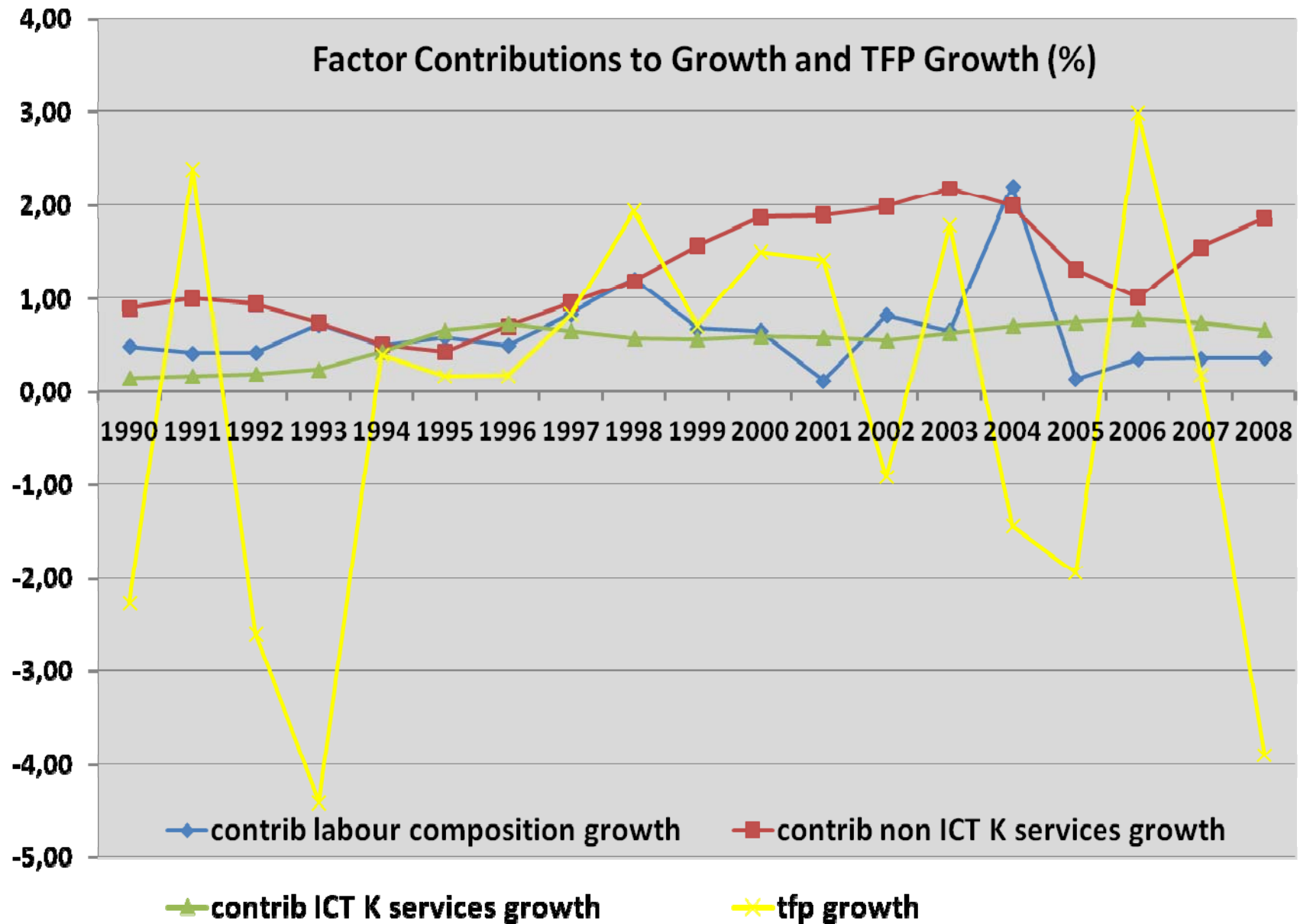
Benchmarking (5): Nominal MW levels in 2012

July 2012	BG	RO	LT	LV	EE	CZ	HU	SK	PL	HR	TR	PT	MT	EL	ES	SI	US	UK	FR	NL	IE	BE	LU
	148	157	232	287	290	312	323	327	353	374	412	566	680	684	748	763	998	1244	1426	1456	1462	1472	1801

EUR per month

Group 1 Group 2 Group 3
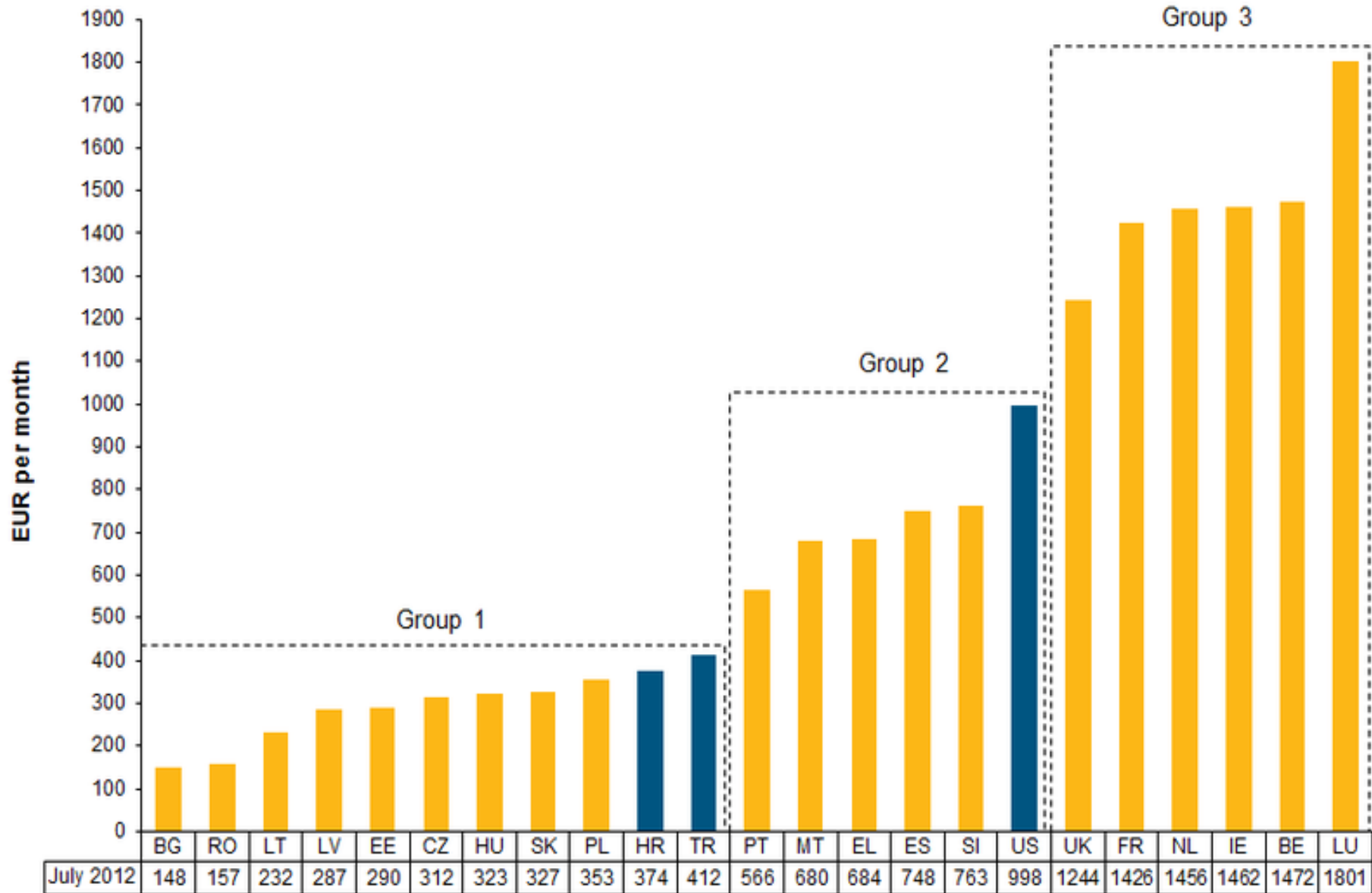
Benchmarking (6): MW in PPS, 2012

	RO	BG	LT	EE	LV	CZ	SK	HR	HU	PL	TR	PT	EL	ES	MT	SI	US	UK	IE	FR	BE	NL	LU
July 2012 (e)	276	291	353	367	382	424	451	512	518	606	645	647	719	768	872	914	1026	1138	1252	1288	1317	1348	1478
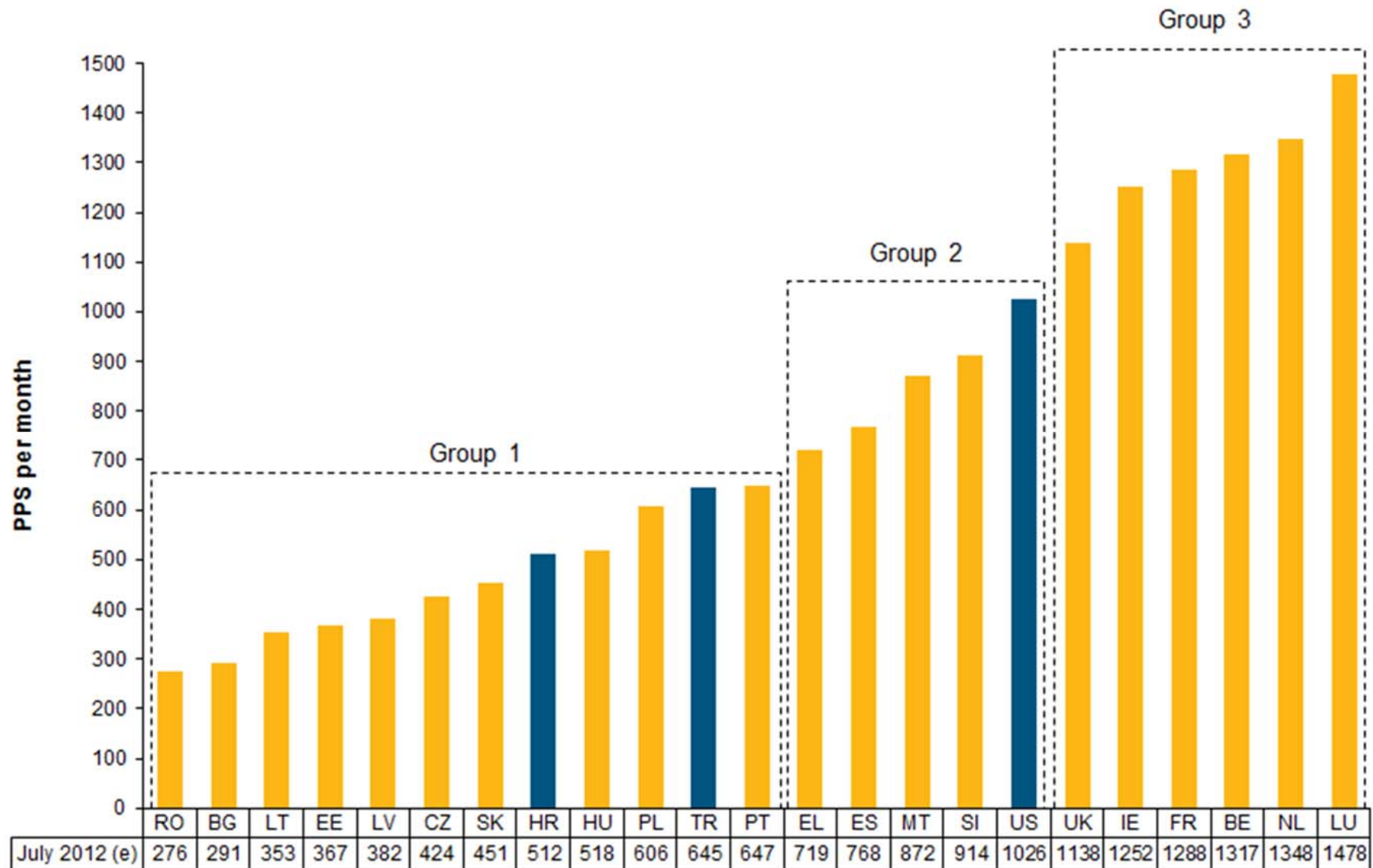
Benchmarking (7): MW/AW ratio, 2011

	EL	SI	TR*	FR*	MT	LU	LV	BE*	NL*	PT	IE	LT	HU	UK	PL	SK	HR	ES	EE	BG	CZ	RO*	US
2011	50.1	50.0	50.0	47.4	47.4	46.7	45.1	44.7	44.6	42.6	41.9	41.1	39.1	38.5	38.3	36.6	36.0	34.6	33.8	33.7	32.5	32.3	31.4
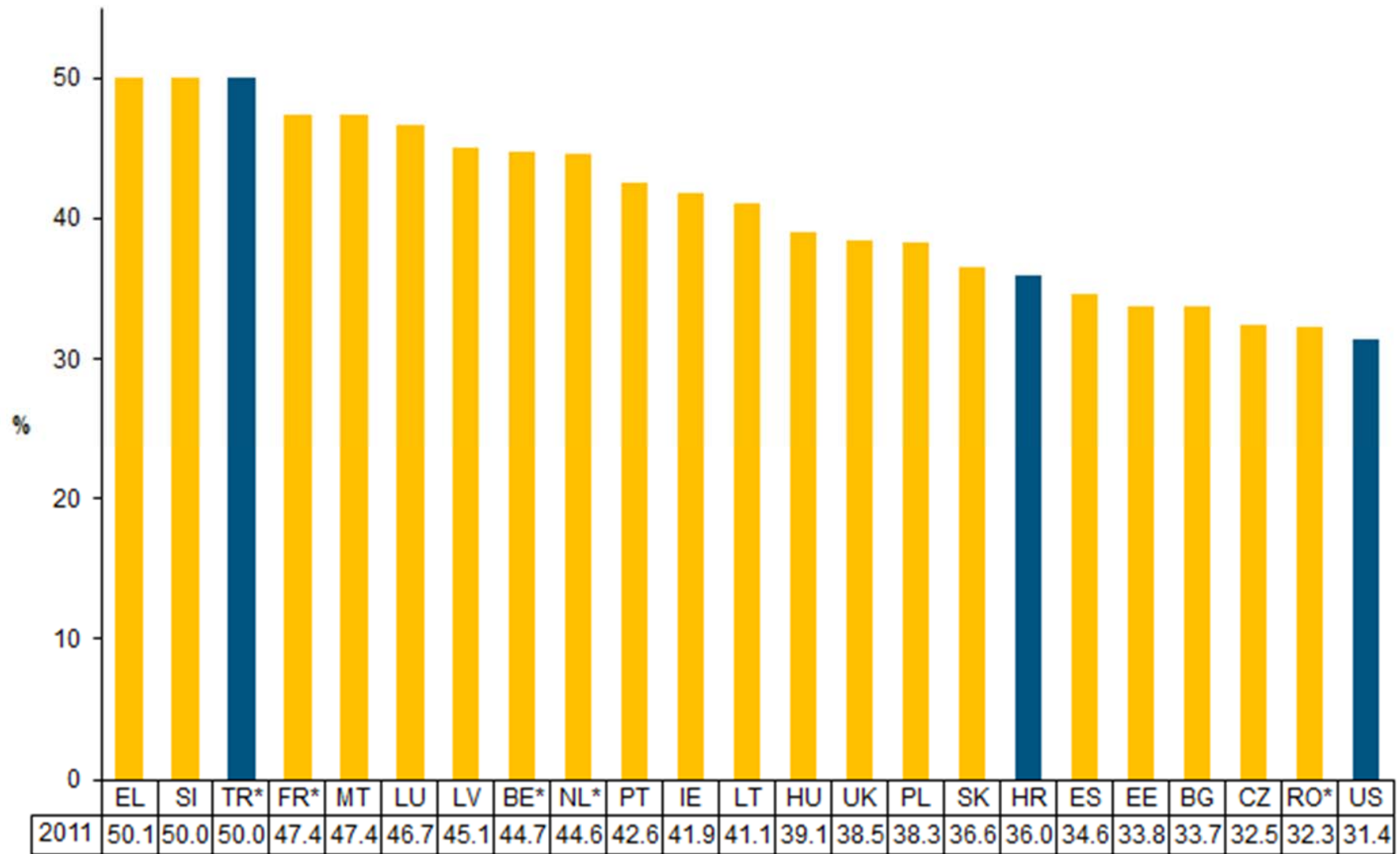
*BE, FR, NL, RO, TR: 2010. BG: provisional. BE, EL: B-S without section O.

Benchmarking (8):MW bargains provide the benchmark for sectoral wage bargains

Bargained wages and minimum wage growth rates, 1995-2007

Benchmarking (9): 21% of private-sector workers were earning less than the MW in 2006 (possibly 15% being full-time workers)

Distribution of monthly earnings of insured (IKA) population in 2006, MW=€717

	250	550	850	1150	1450	1750	2050	2350	2650	2950	3250	3550	3850	>3851
%	4,68%	14,68%	34,15%	61,97%	75,92%	82,95%	87,43%	91,27%	93,57%	95,13%	96,29%	97,06%	97,60%	100,00
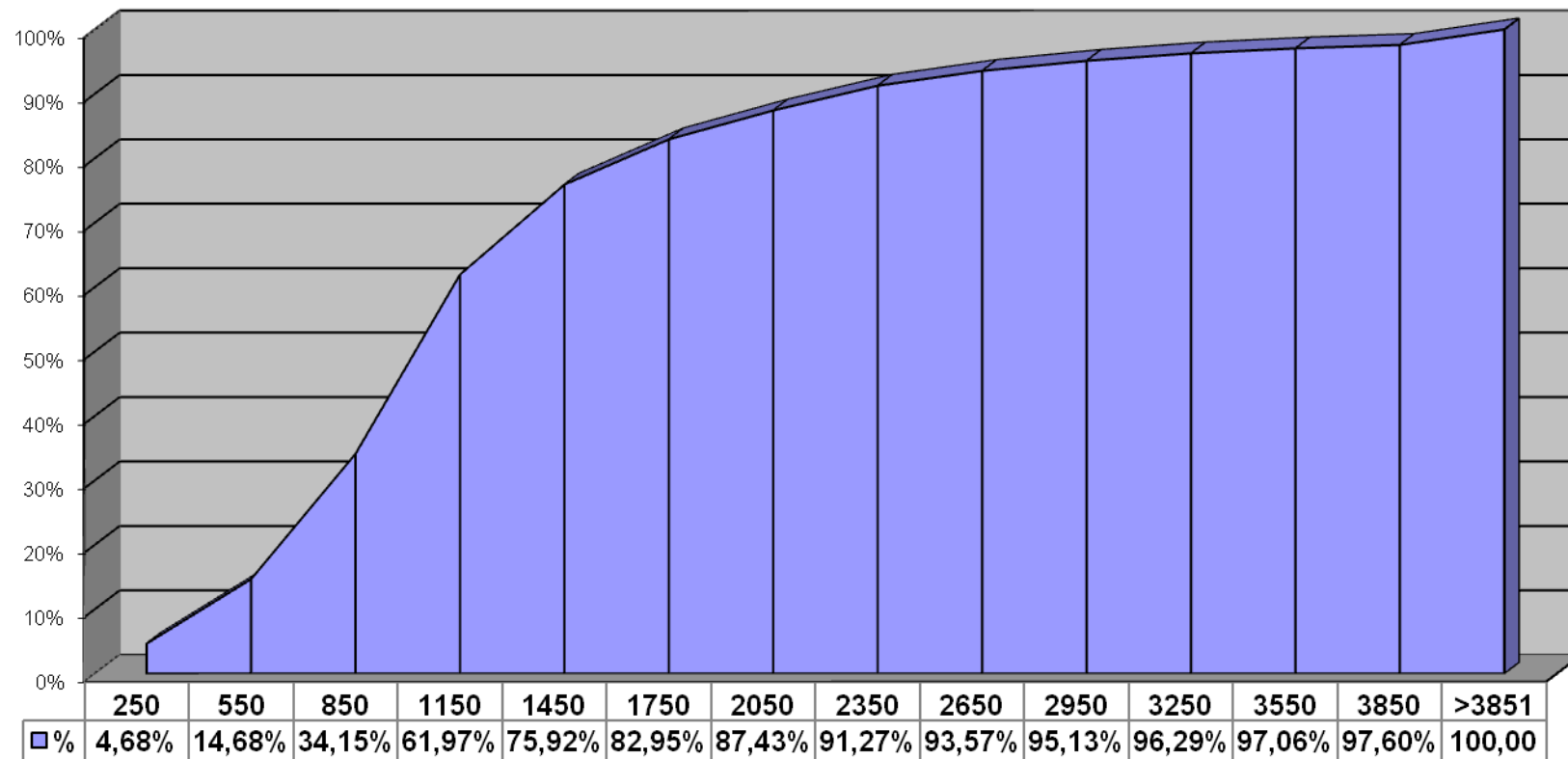
"How do we know that MWs are high?", or, the tyranny of a diagram
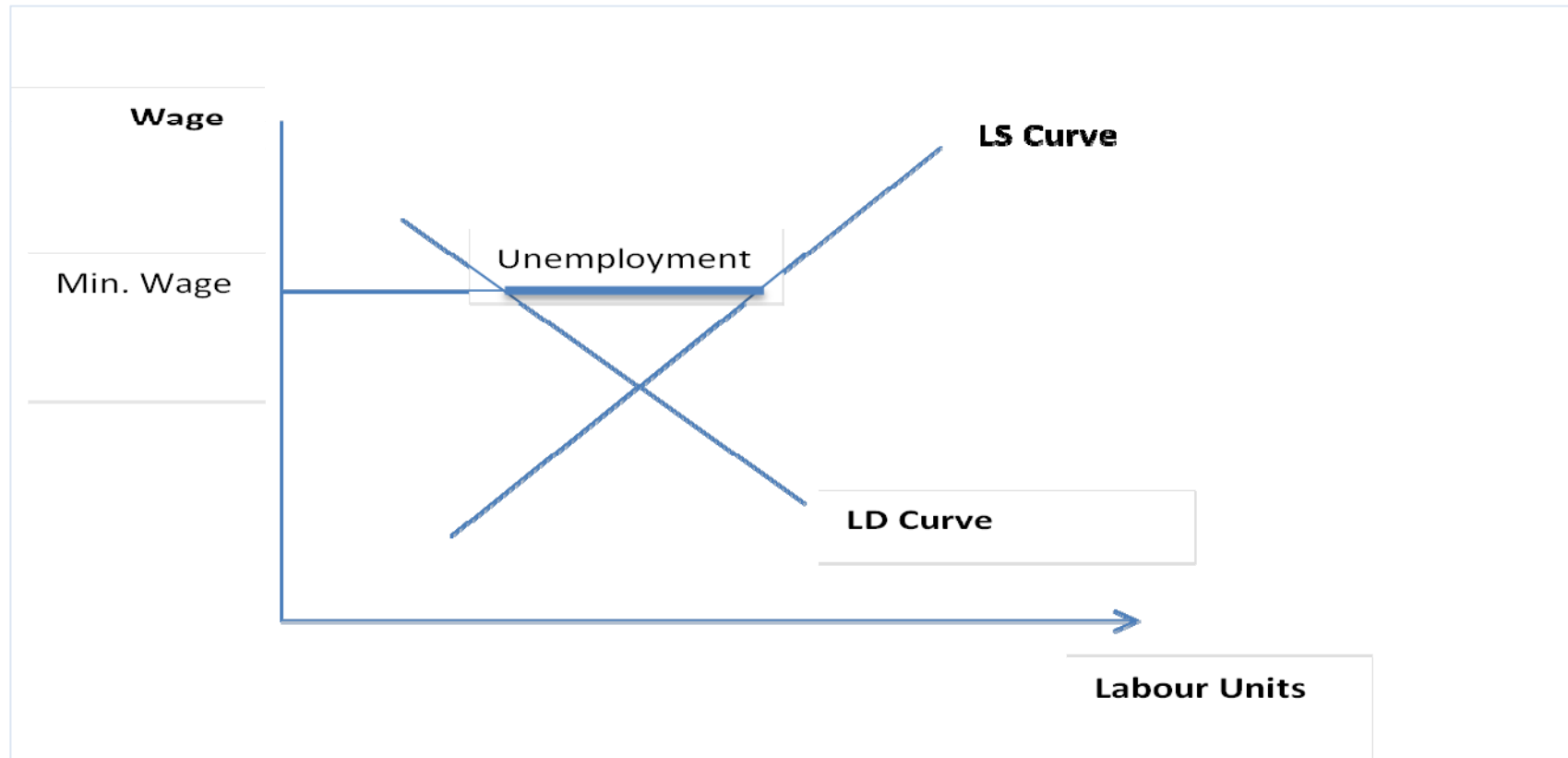
- The meaning of the firm's labour demand curve (Patinkin, 1956)) can be understood by conducting the conceptual experiment of confronting a perfectly competitive firm with a particular value of the (real)wage rate, and asking it to designate (subject to its production function) the amount of labour that it wishes to employ. By repeating this conceptual experiment with different values of wages, we obtain the firm's "labour demand curve".

- Then, by a "sleight of hand", we sum over all the firms in the economy and we call the resulting thing the "**aggregate** labour demand curve".

- What's wrong with this procedure?

- Although a perfectly competitive firm can sell as much as it wishes at any wage-price combination, this can not be true of the economy as a whole
  …

- Yet, in constructing the "**aggregate** labour demand curve", this is what has been implicitly assumed.

- This issue loses its force in the context of a small country facing a perfectly elastic product demand curve from the rest of the world.

"Theory" imposes no constraints on the evolution of factor shares

- With C-D technology, the MP product of labour is proportional to the AP. Perfect competition (in both goods and labour markets) implies that labour productivity and real (product) wages should move in tandem - labour's share stays constant.
- In general, the labour share (under perfect competition and CRS technology) is a function of the capital-output ratio,

  e.g. with a CES technology, $Y = [\alpha(AK)^\rho + (1-\alpha)(BL)^\rho]^{1/\rho}$,

  $S_L = 1 - \alpha(Ak)^\rho$, where k is the capital-output ratio.

- The elasticity of substitution, $\sigma = 1/(1-\rho)$, is thus key for determining how the labour share responds to changes in k.
- Nevertheless, "theory" provides little guidance since:

(i)   The capital-augmenting technical progress coefficient (A) need not be constant

(ii)   for more general production functions the labour share/capital-output ratio relationship is not monotonic

(iii)   the relationship between σ and the labour share breaks down if production requires imported intermediate inputs (III); the labour share is now affected by the relative price of III, but not in a monotonic way

(iv)   changes away from the competitive paradigm (e.g. unions, efficiency wages) complicate the issue further

Impacts : Low-wage employment

Gender-wage differentials and low-wage workers, 2002-2006

Year	Average Monthly Wage in € (Annual/12)	Men's Average in €(Annual/12)	Women's Average in €(Annual/12)	Percentage Women's/ Men's average wage	Percentage of low-wage workers (2/3 of average wage)
2002	848	952	718	75%	24%
2003	917	1.047	760	73%	37%
2004	980	1.110	821	74%	39%
2005	1.019	1.157	856	74%	35%
2006	1.062	1.203	900	75%	31%

Impacts: Unemployment Rates

Unemployment rates by age and gender
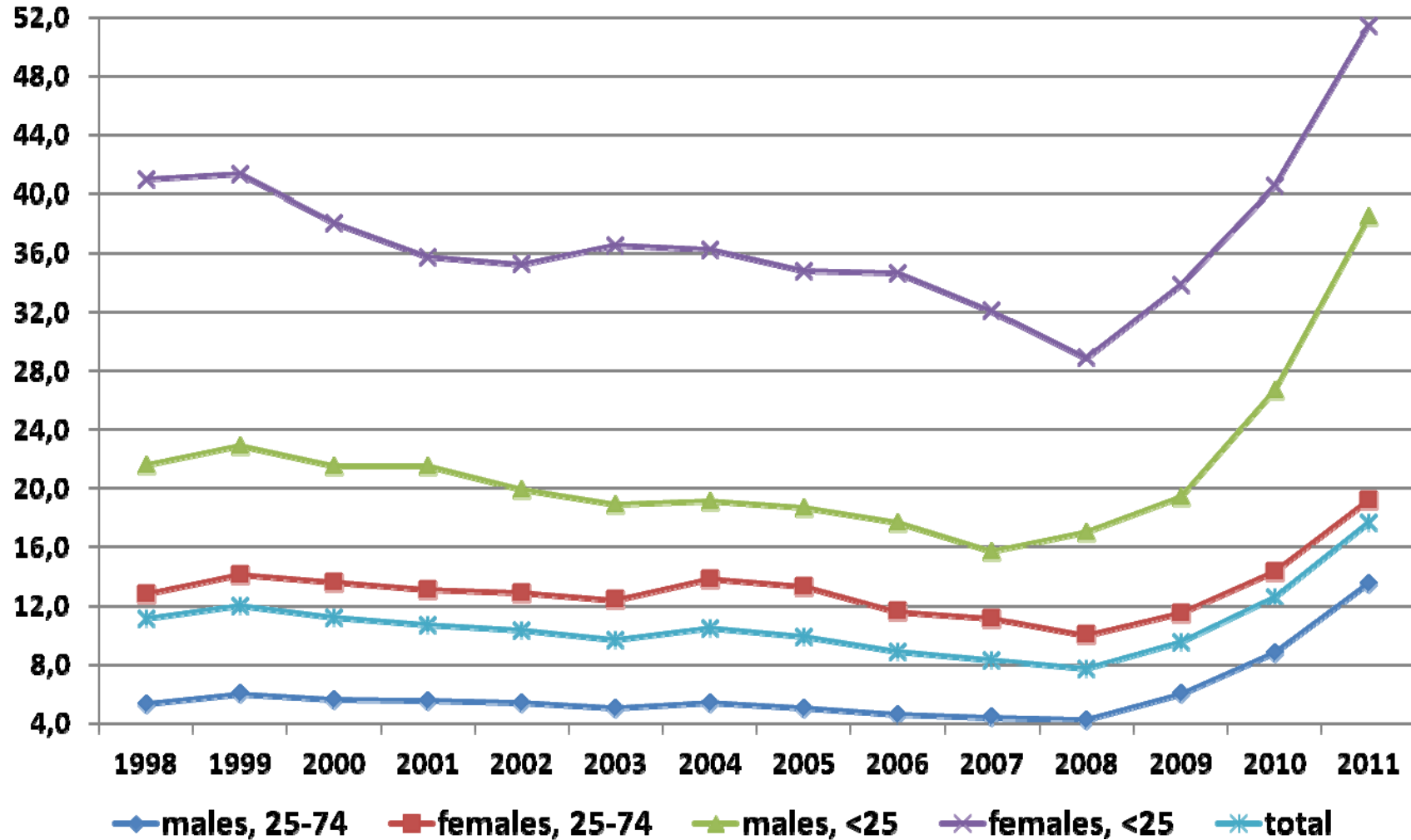
Impacts: Employment Rates

Employment rates by age and gender

males, <25 — females, <25 — males, 15-64 — females, 15-64 — total
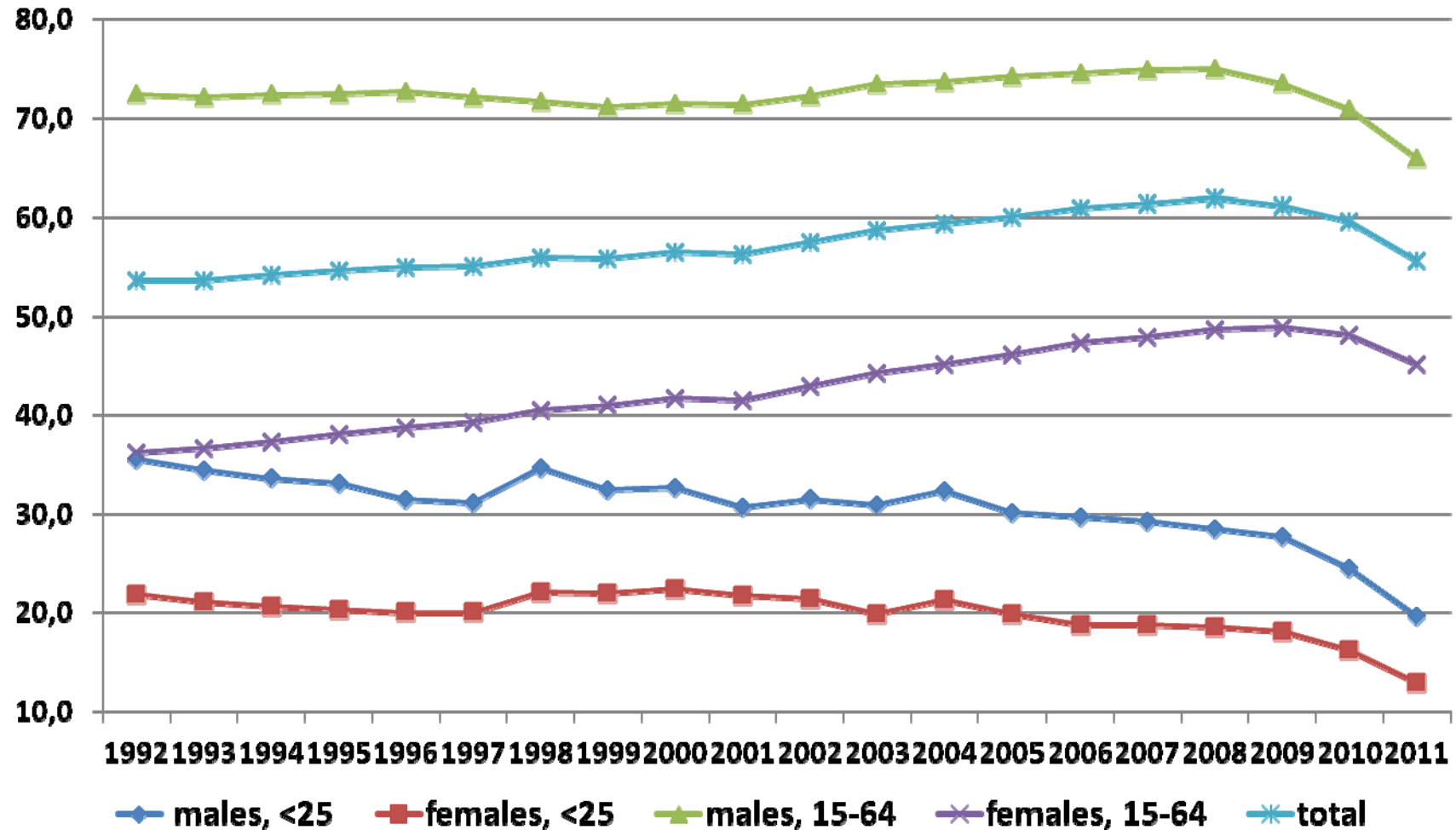
Impacts : Gender-related unemployment and average wages

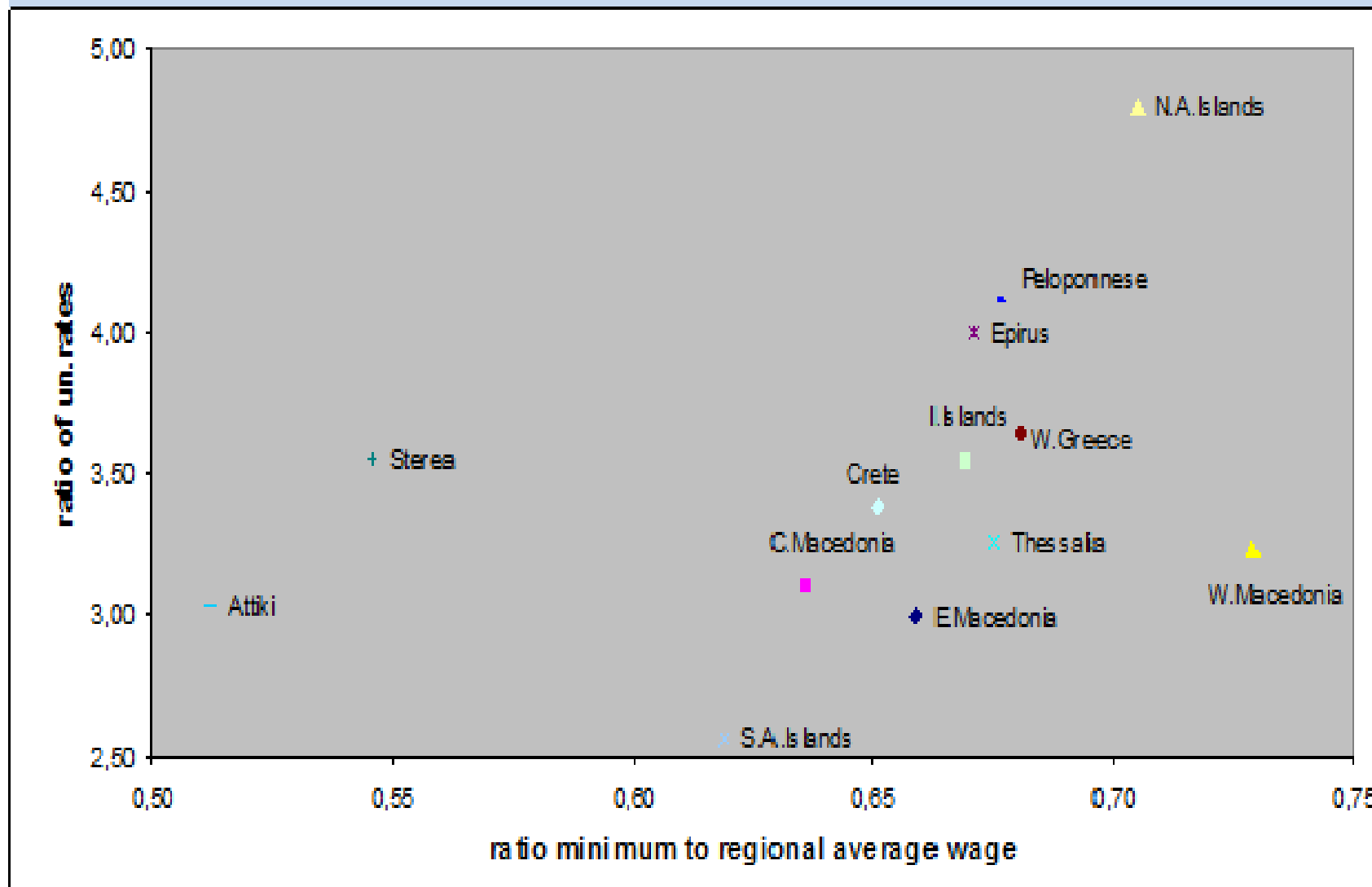Female to male wage and unemployment ratio (2002-2006, averages)
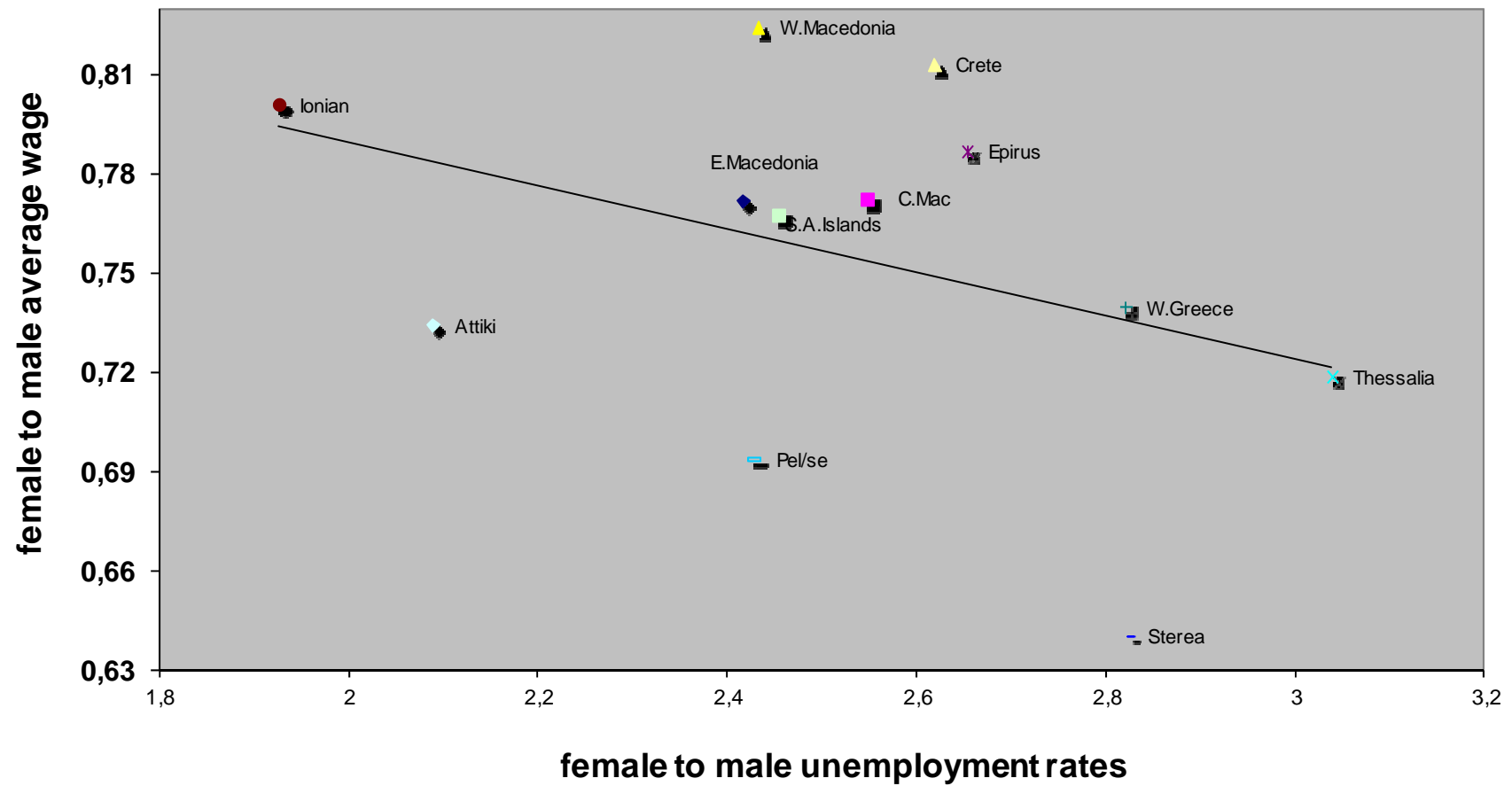
Impacts: Gender-Related wage ratios across regions (2002-2006 averages)
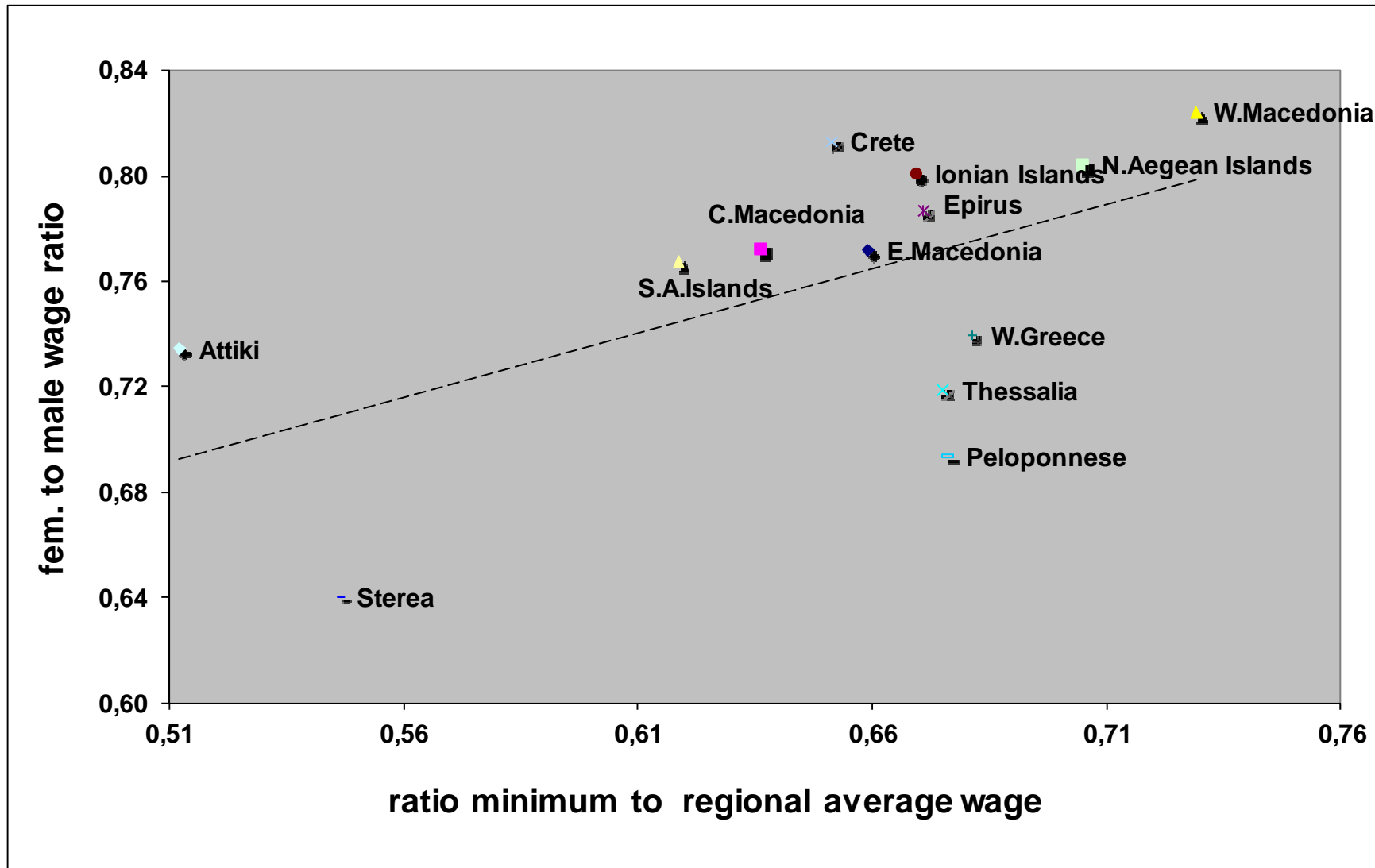
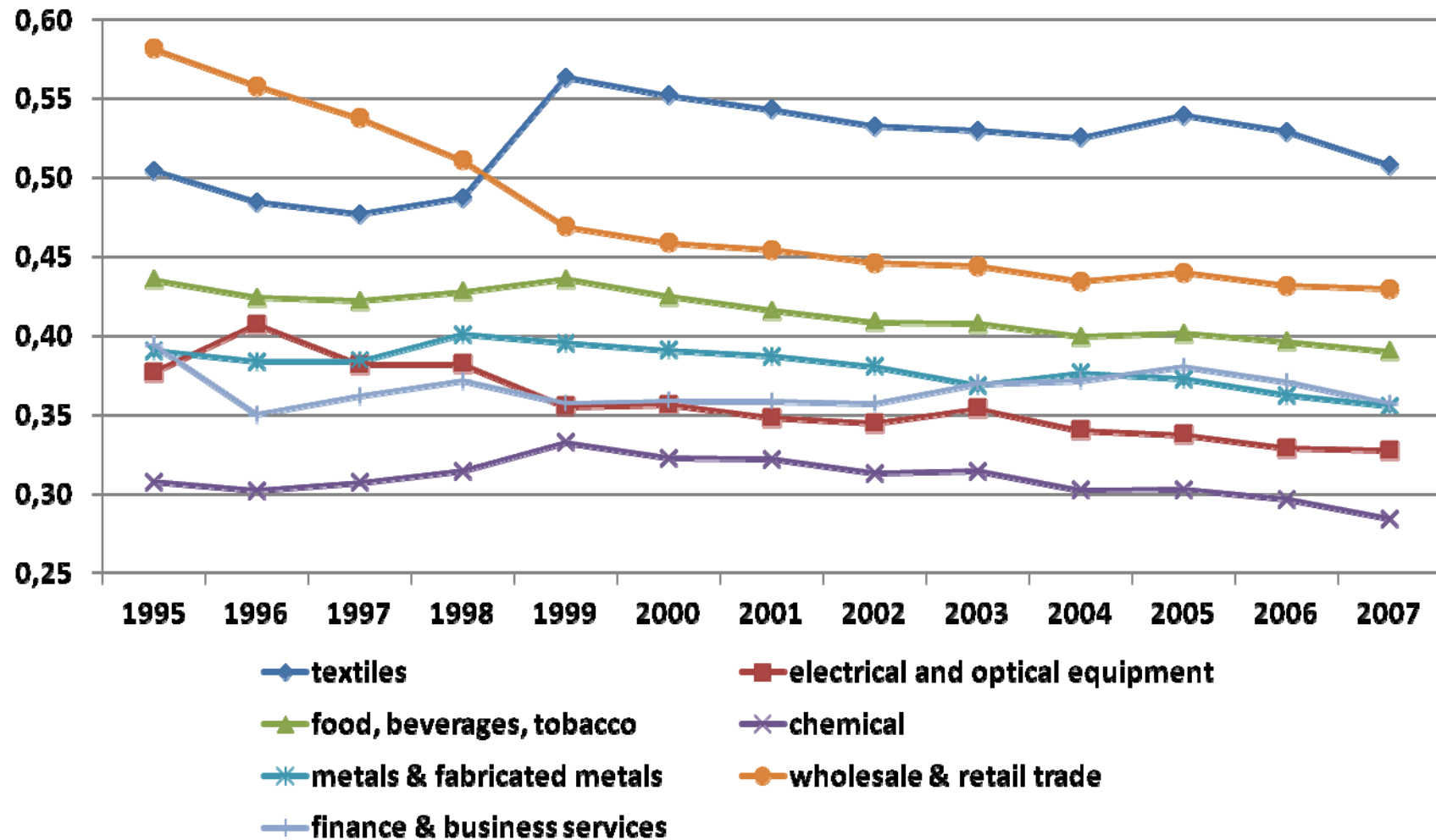Impact: Gender-related wage and unemployment relativities across regions (2002-2006 averages)
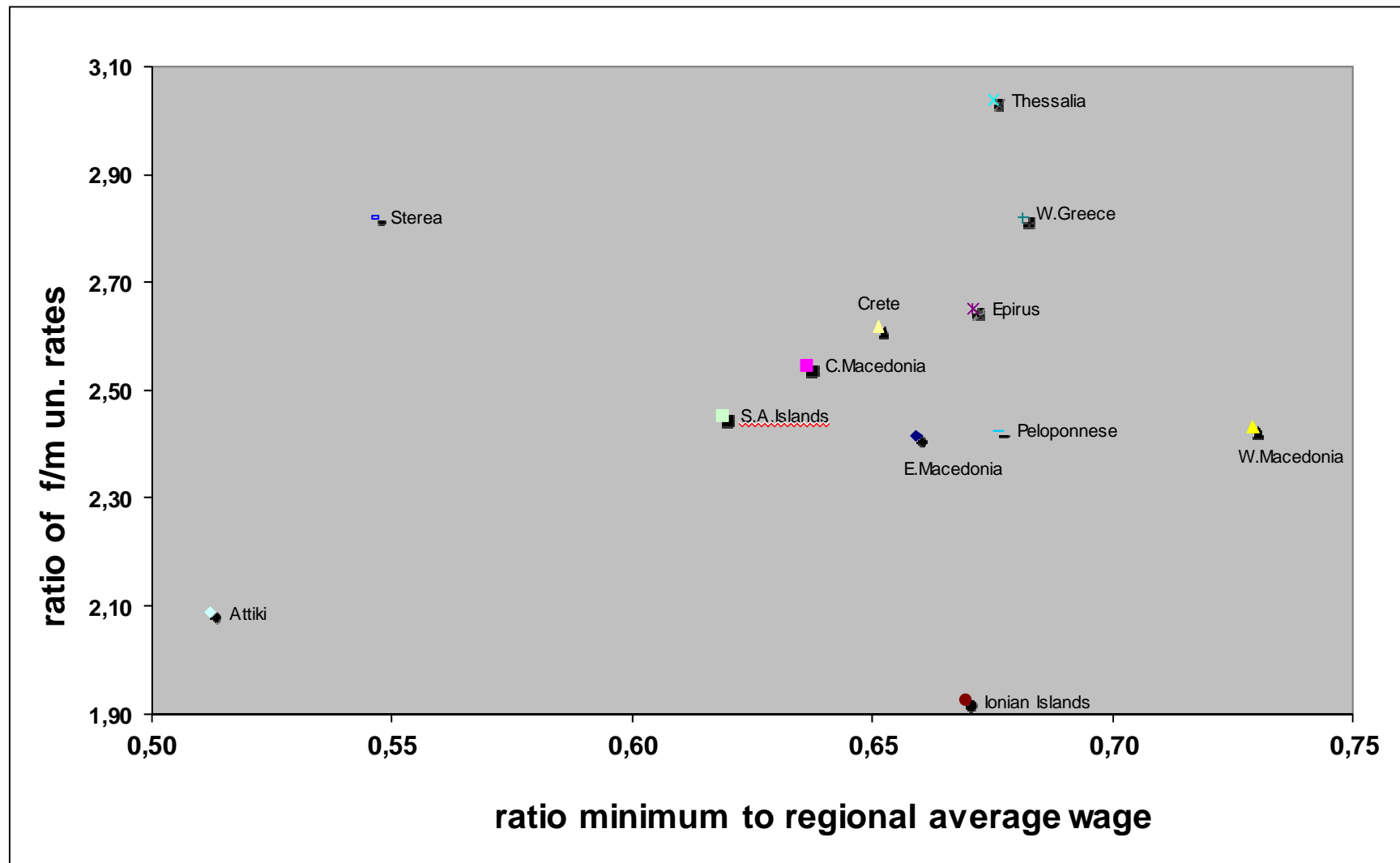
Impacts: MW/AW ratio and the ratio of the age-related unemployment rates (15-24/25-64), 2002-2006 averages

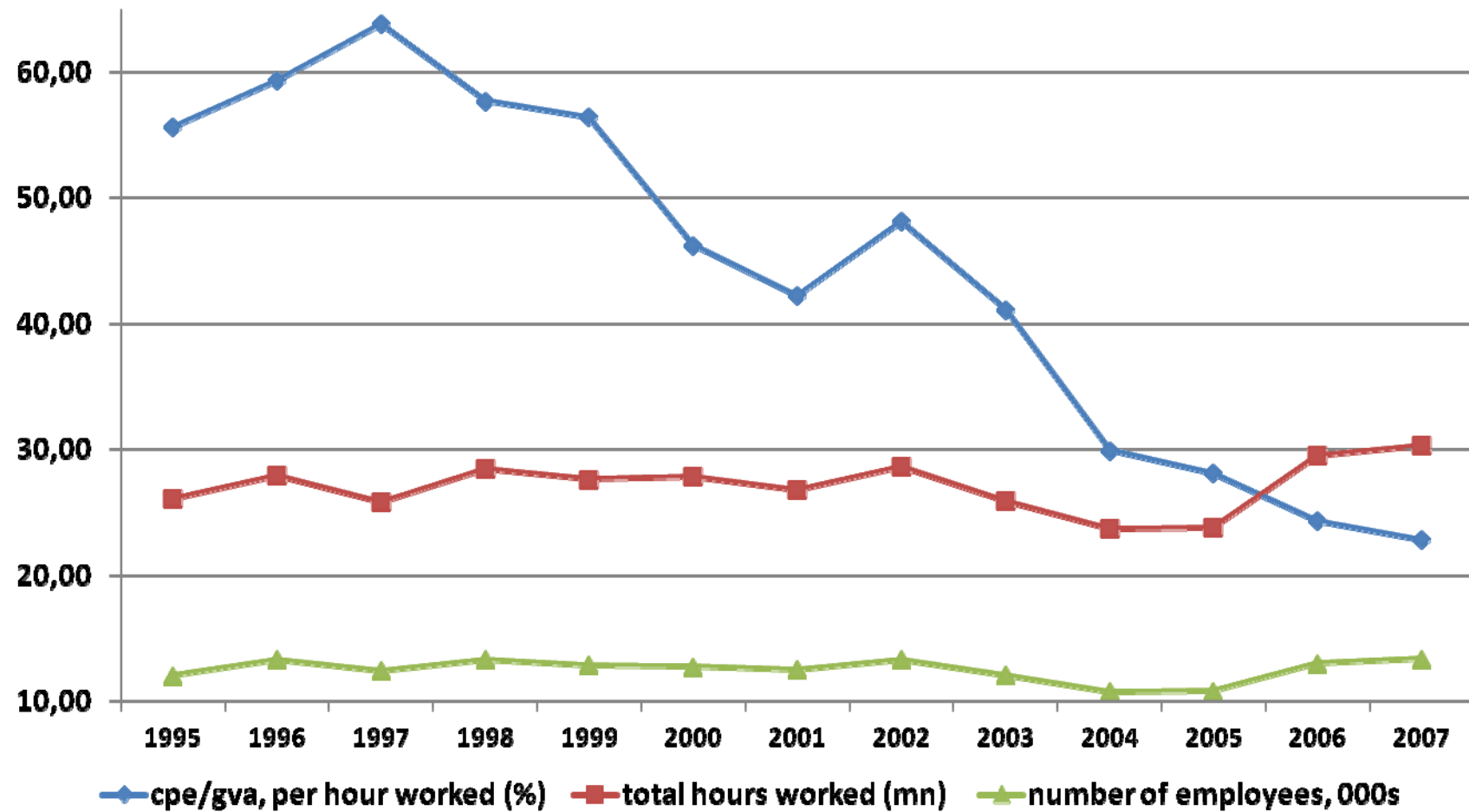# Impacts-Sectoral (1)

Ratio of MW to compensation per employee

Impacts-Sectoral (2)
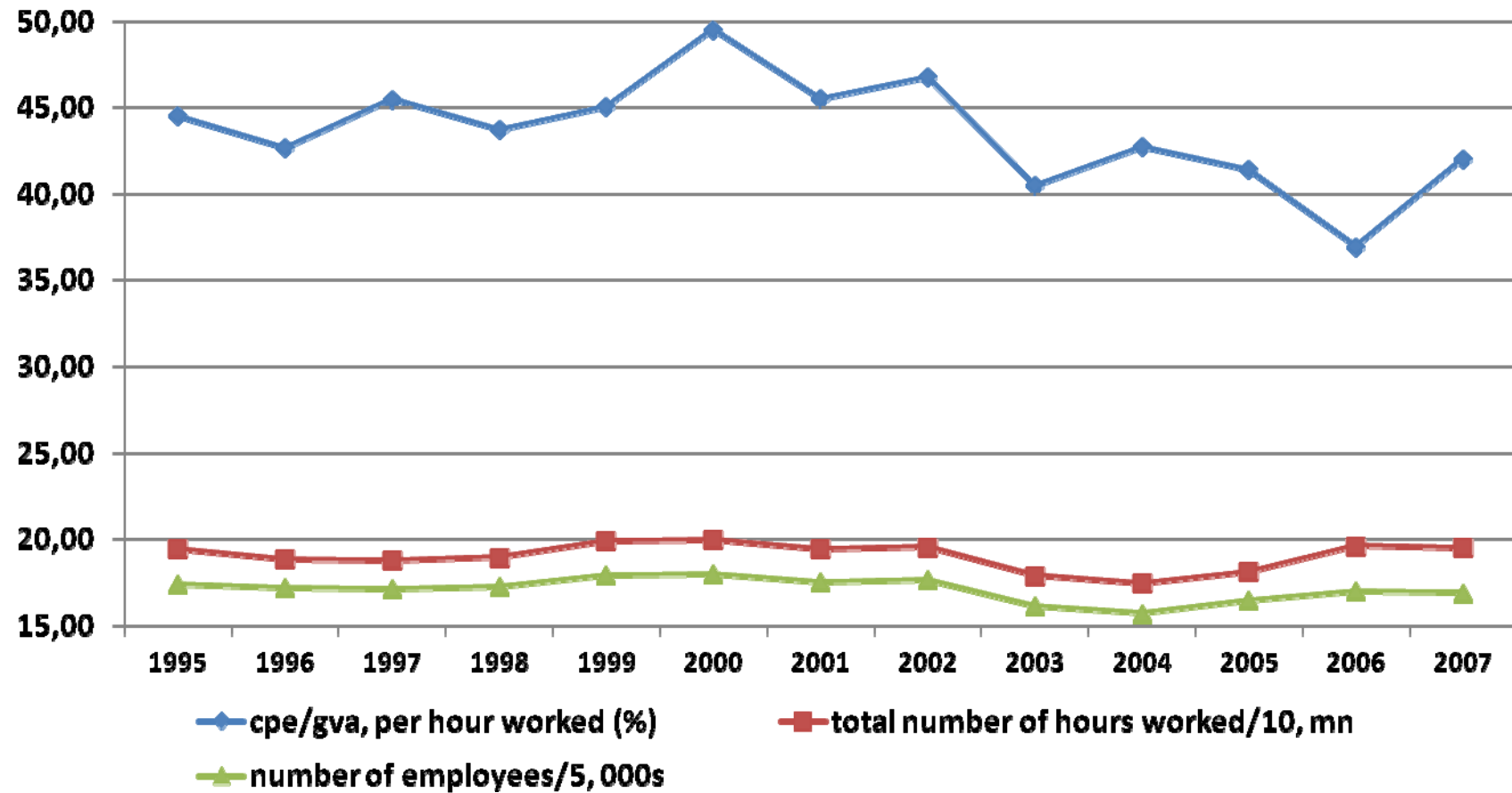

TEXTILES: hours, employment, and labour claims

Legend: cpe/gva per hour worked, % — total number of hours worked/10, mn — number of employees/5, 000s
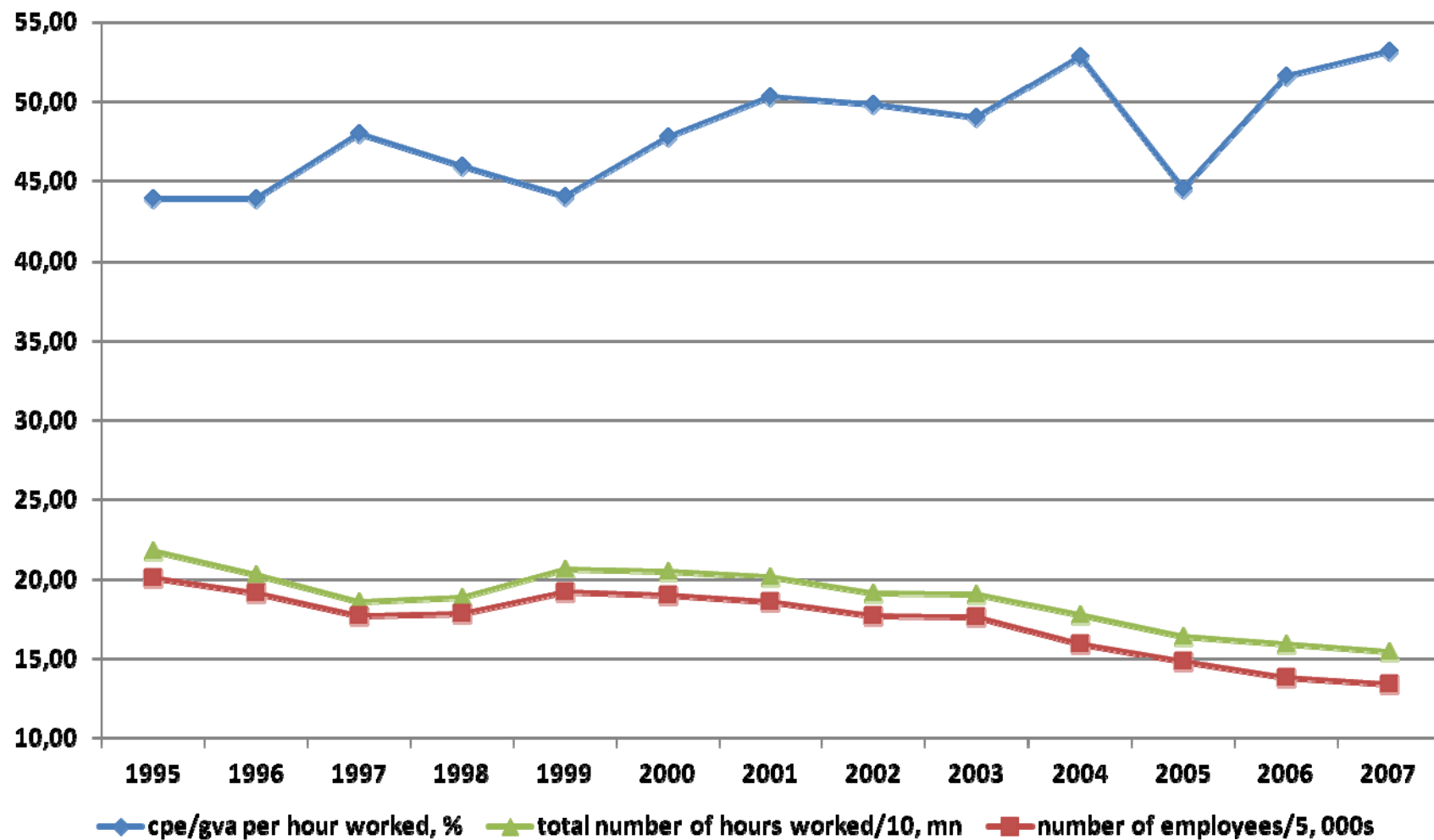
Impacts-Sectoral (3)

ELECTR. AND OPTICAL EQUIPM.: hours, employment, and labour claims

Legend:
- cpe/gva, per hour worked (%)
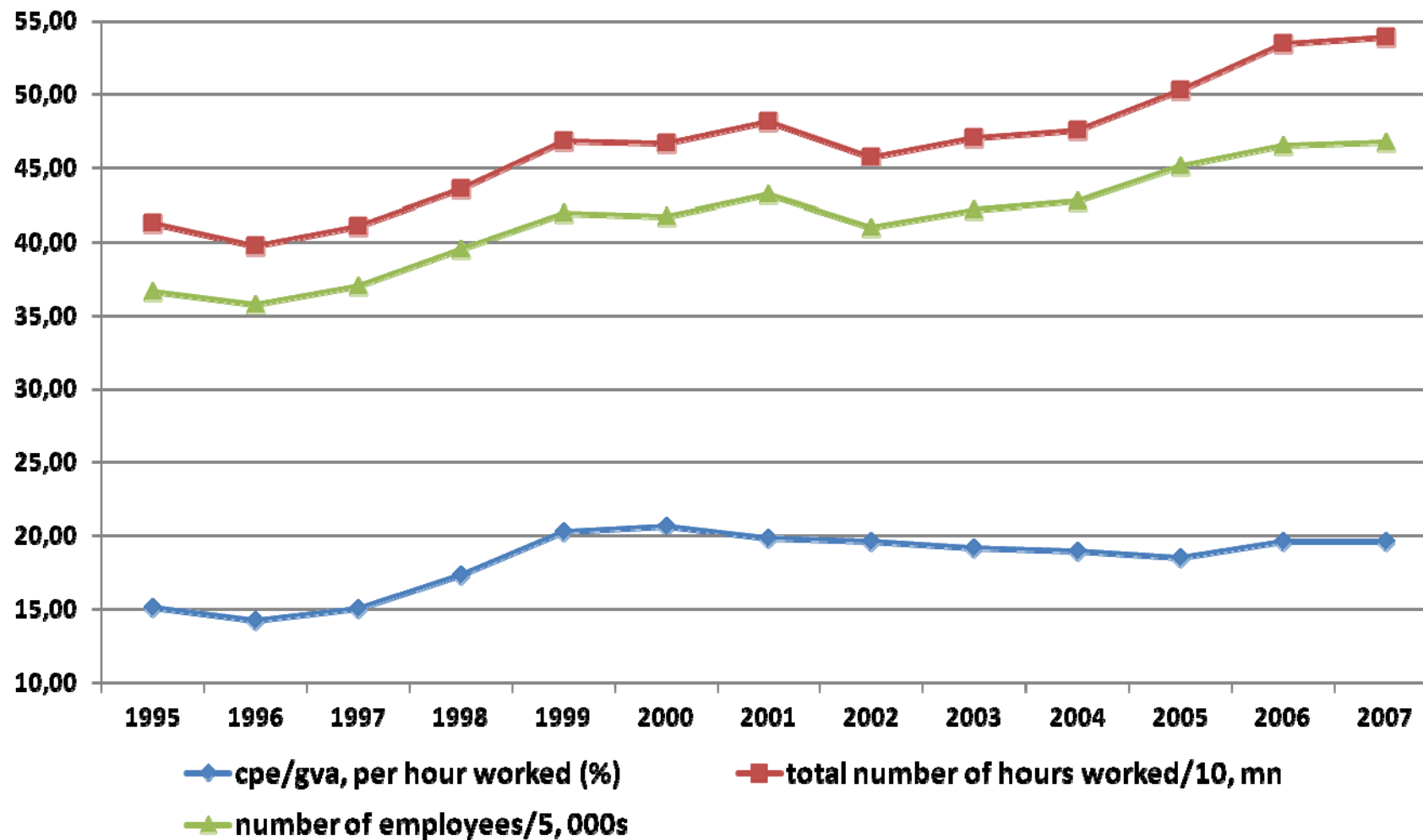- total hours worked (mn)
- number of employees, 000s

Impacts-Sectoral (3)

FOOD, BEVERAGES, & TOBACCO: hours, employment, and labour claims

Impacts-Sectoral (4)

WHOLESALE & RETAIL TRADE: hours, employment, and labour claims

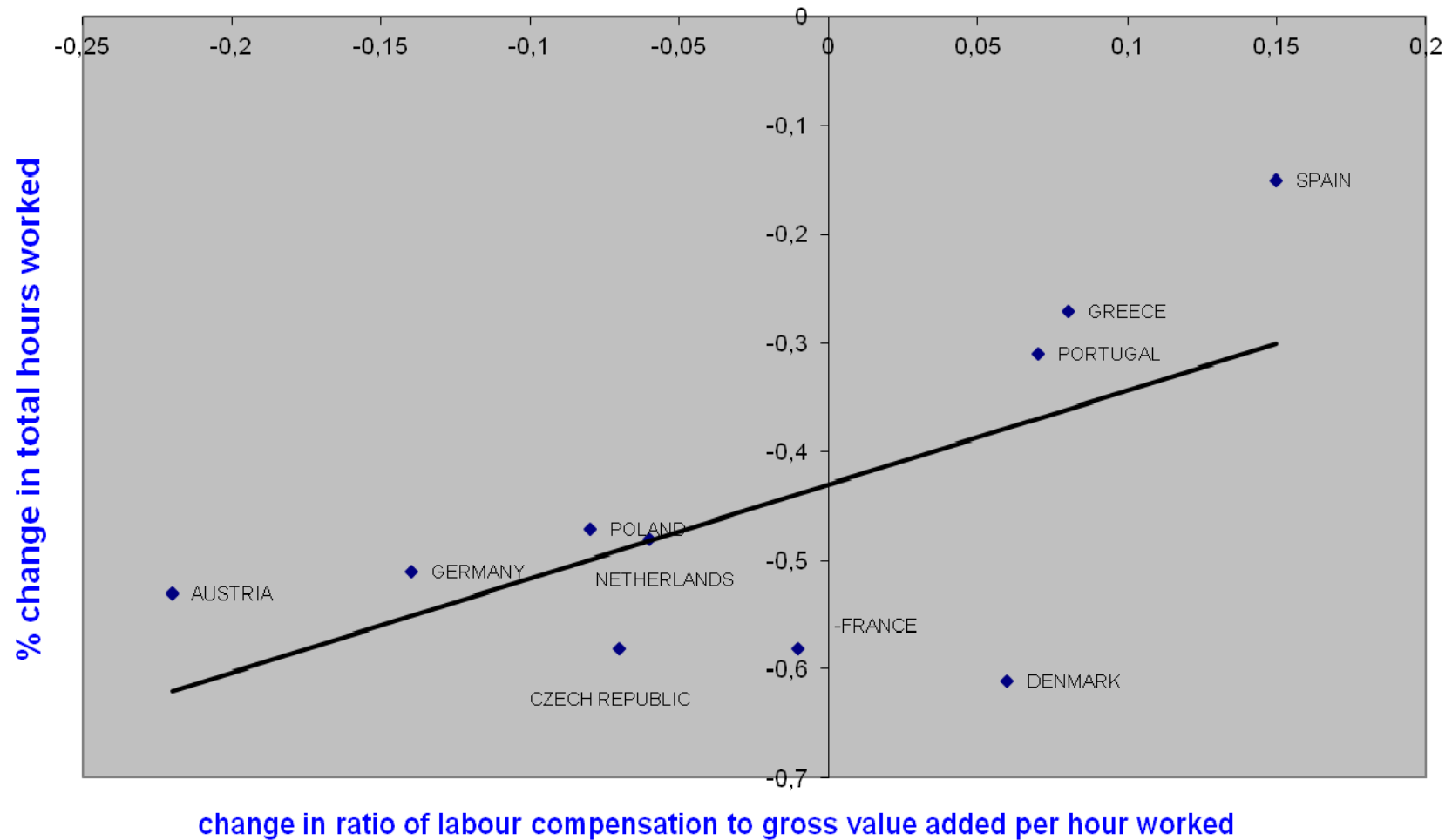- ◆ cpe/gva, per hour worked (%)
- ■ total number of hours worked/10, mn
- ▲ number of employees/5, 000s

Impacts-Sectoral (5)

FINANCE & BUSIN. SERVICES: hours, employment, and labour claims

Legend:
- cpe/gva, per hour worked (%)
- total number of hours worked/10, mn
- number of employees/10, 000s
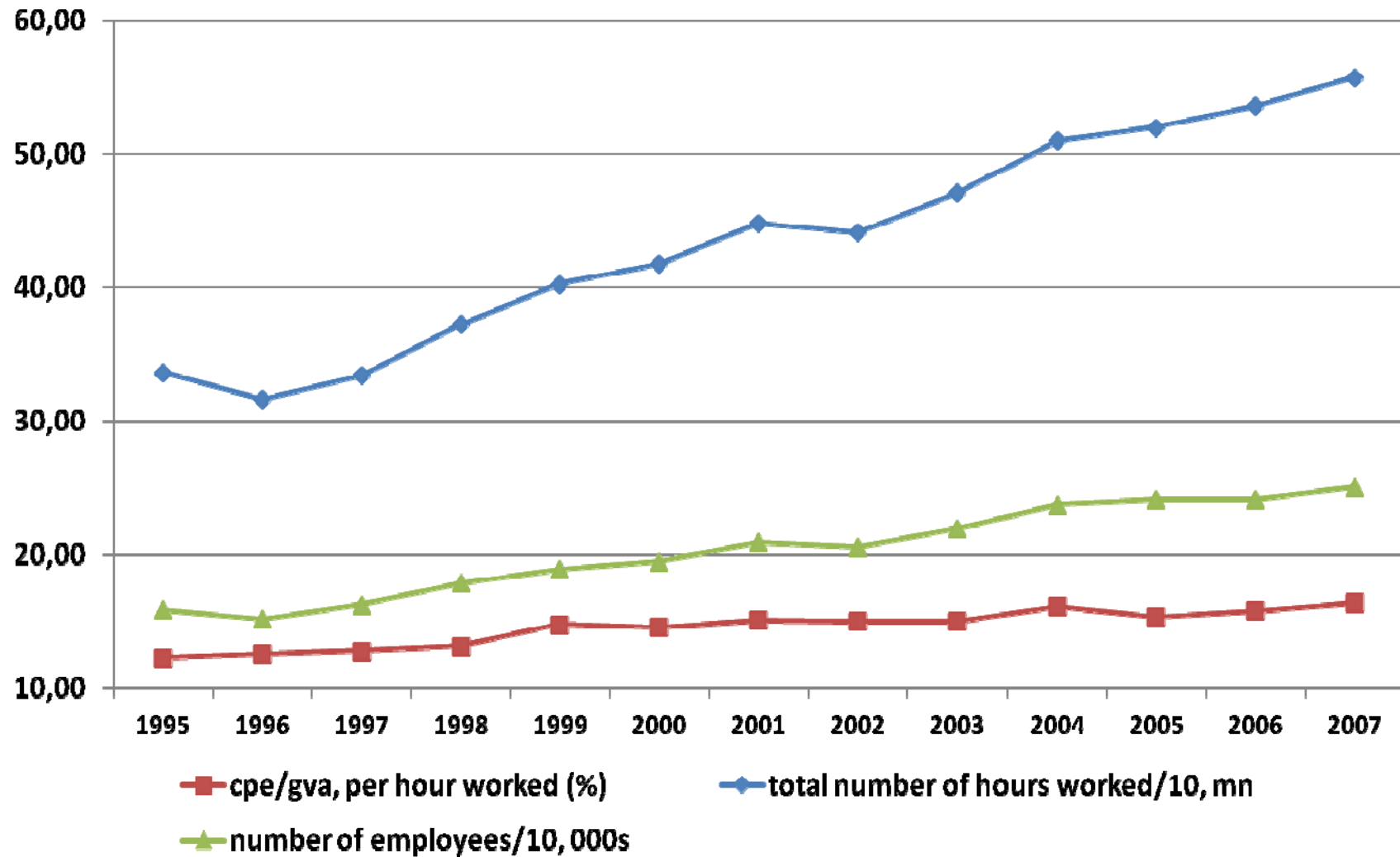
Impacts: Cross-country comparisons (1)

Textiles, 1995 - 2006

% change in total hours worked

change in ratio of labour compensation to gross value added per hour worked

- SPAIN
- GREECE
- PORTUGAL
- POLAND
- NETHERLANDS
- GERMANY
- AUSTRIA
- FRANCE
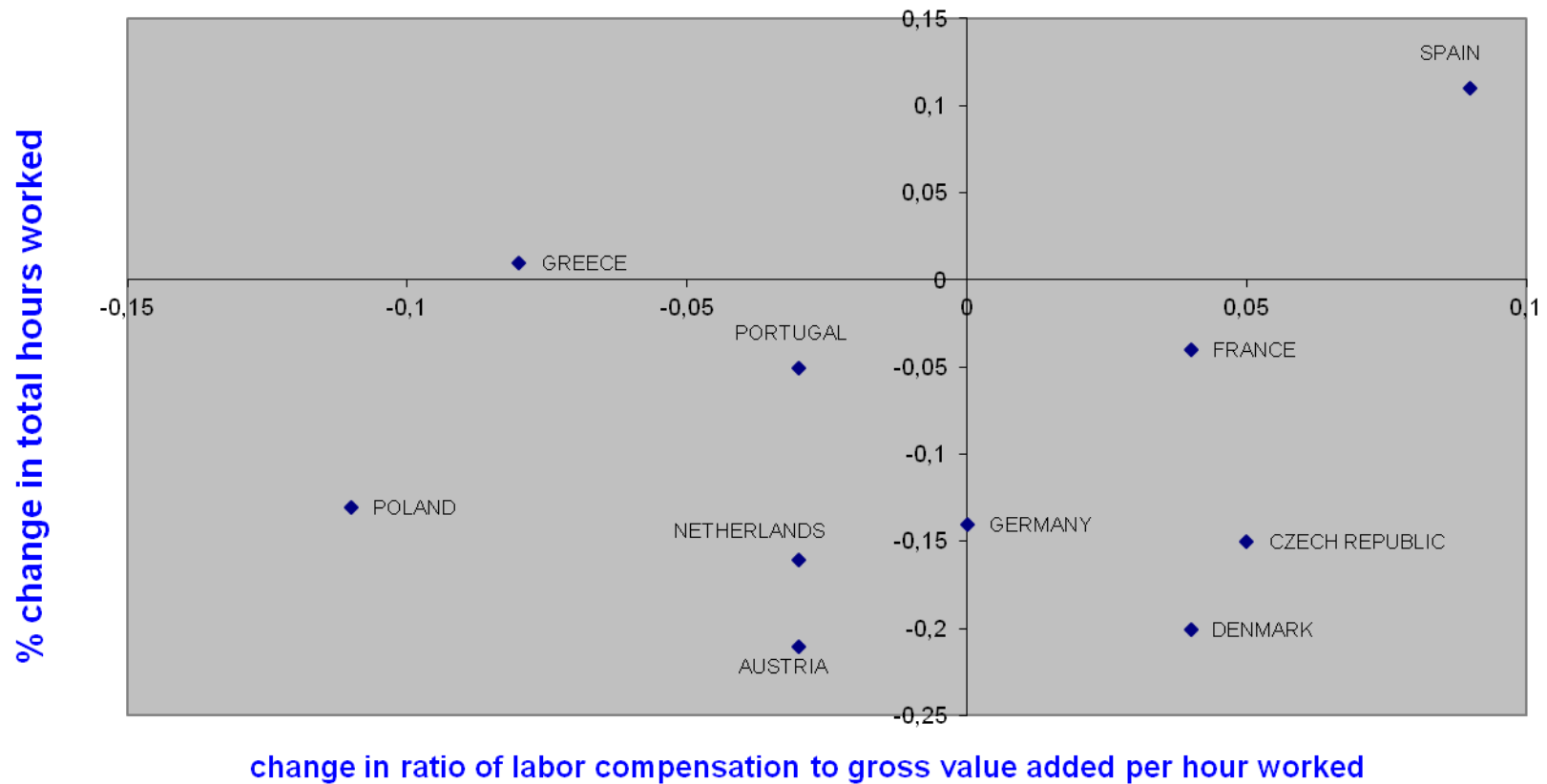- CZECH REPUBLIC
- DENMARK

Impacts: Cross-country comparisons (2)

Electrical & Optical Equipment, 1995 - 2006
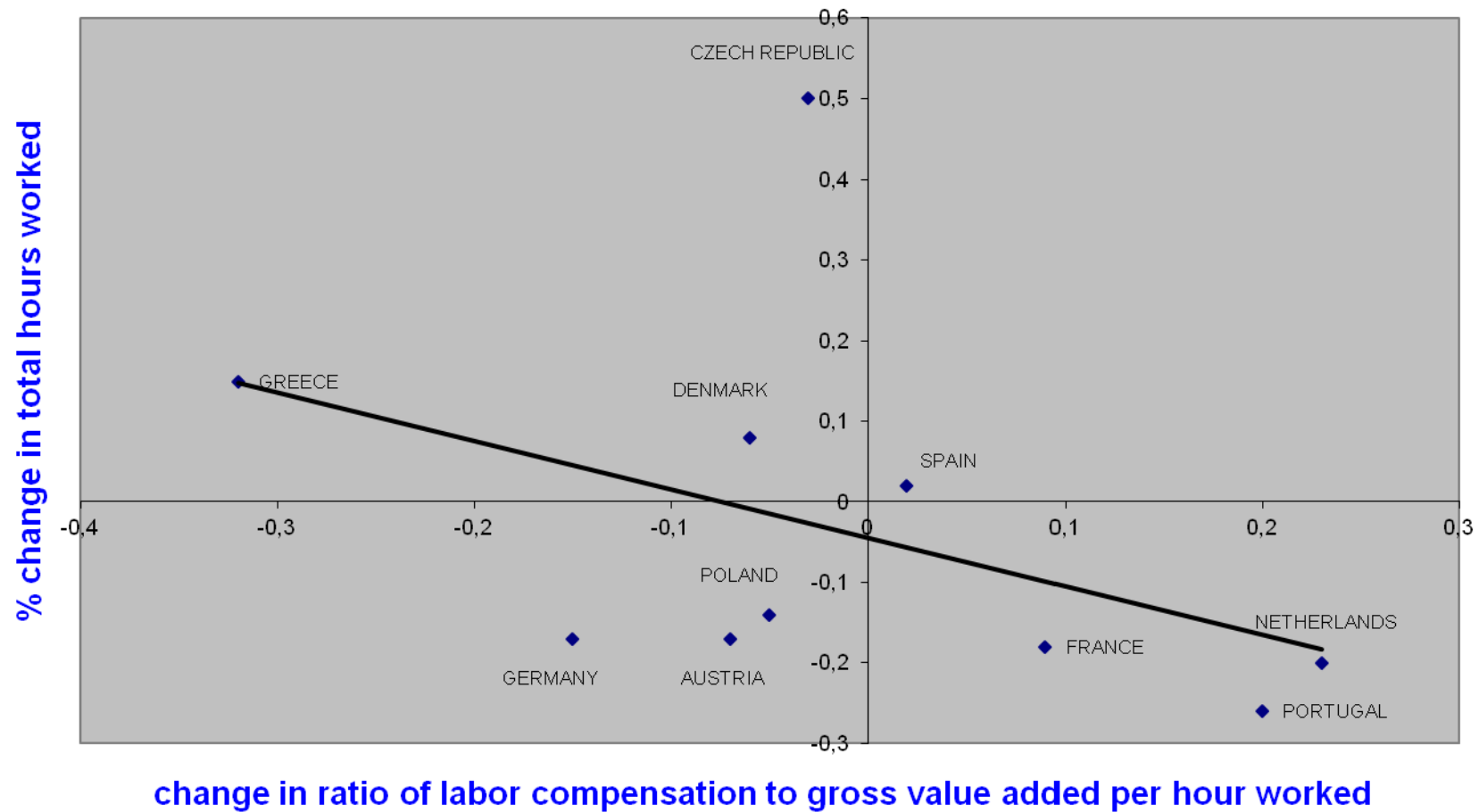
Impacts: Cross-country comparisons (3)
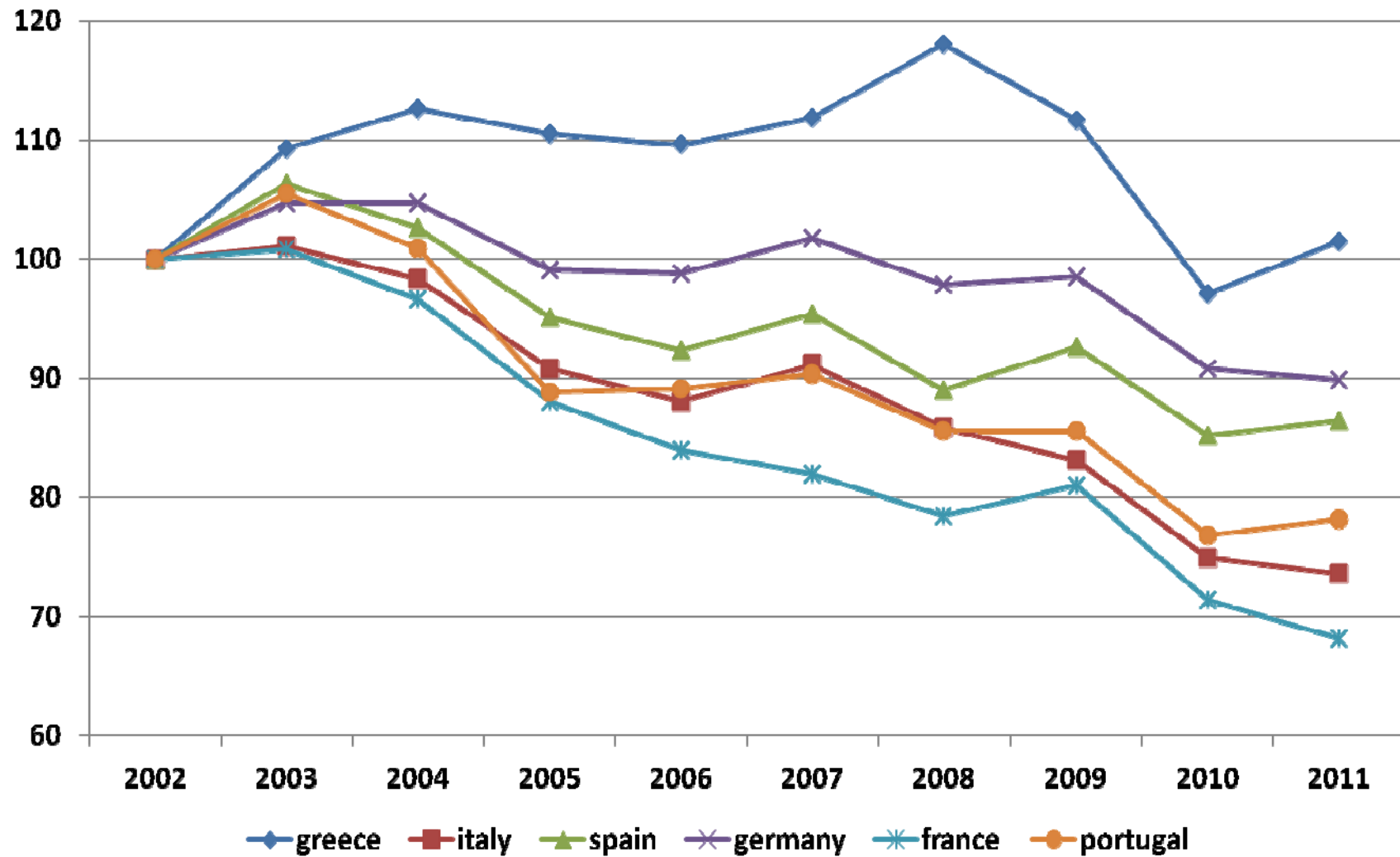

Food - Beverages - Tobacco , 1995 - 2006

% change in total hours worked

change in ratio of labor compensation to gross value added per hour worked

Impacts: International (1)

Evolution of shares of world exports (goods and services) , 1994=100

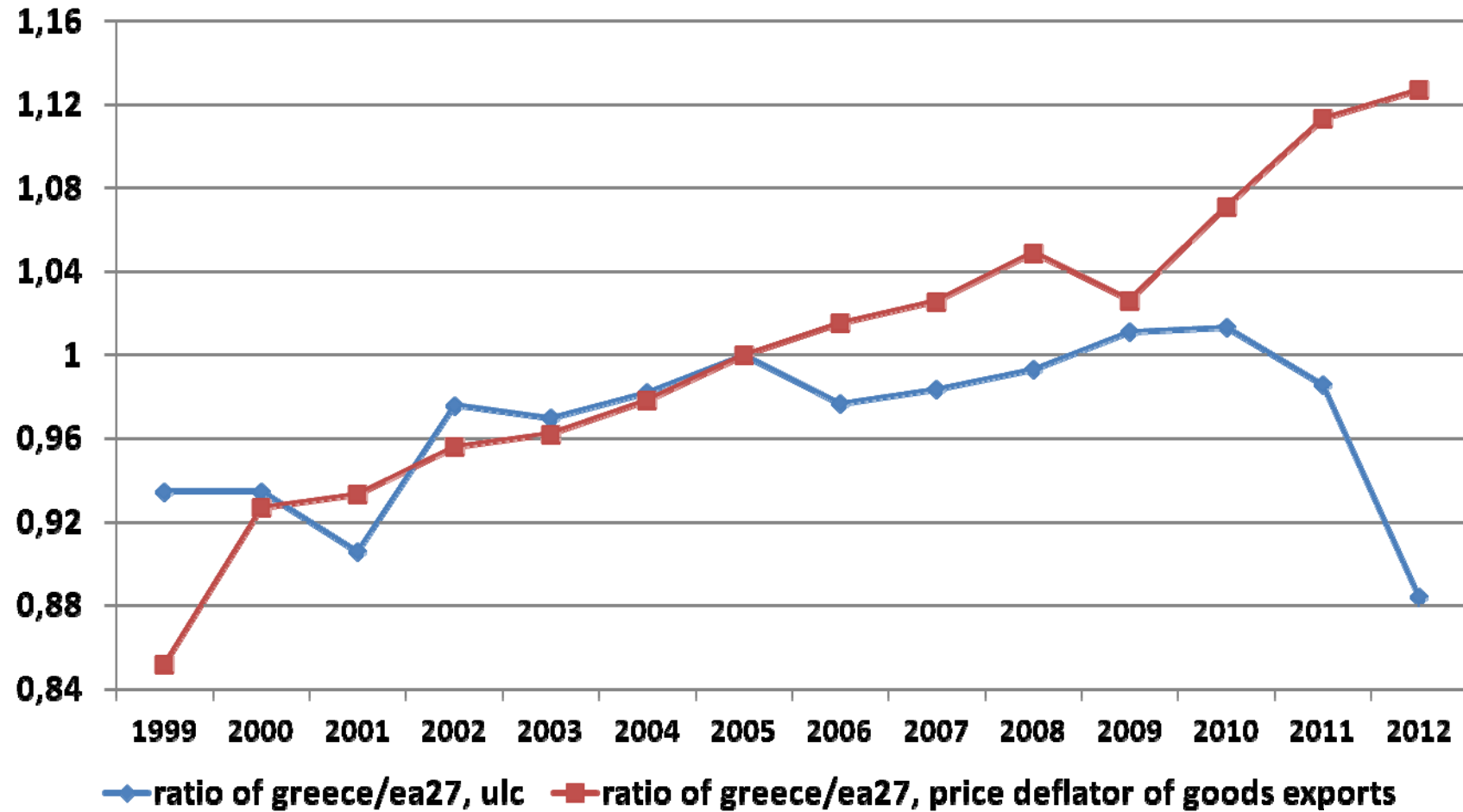Legend: greece, italy, spain, germany, france, portugal
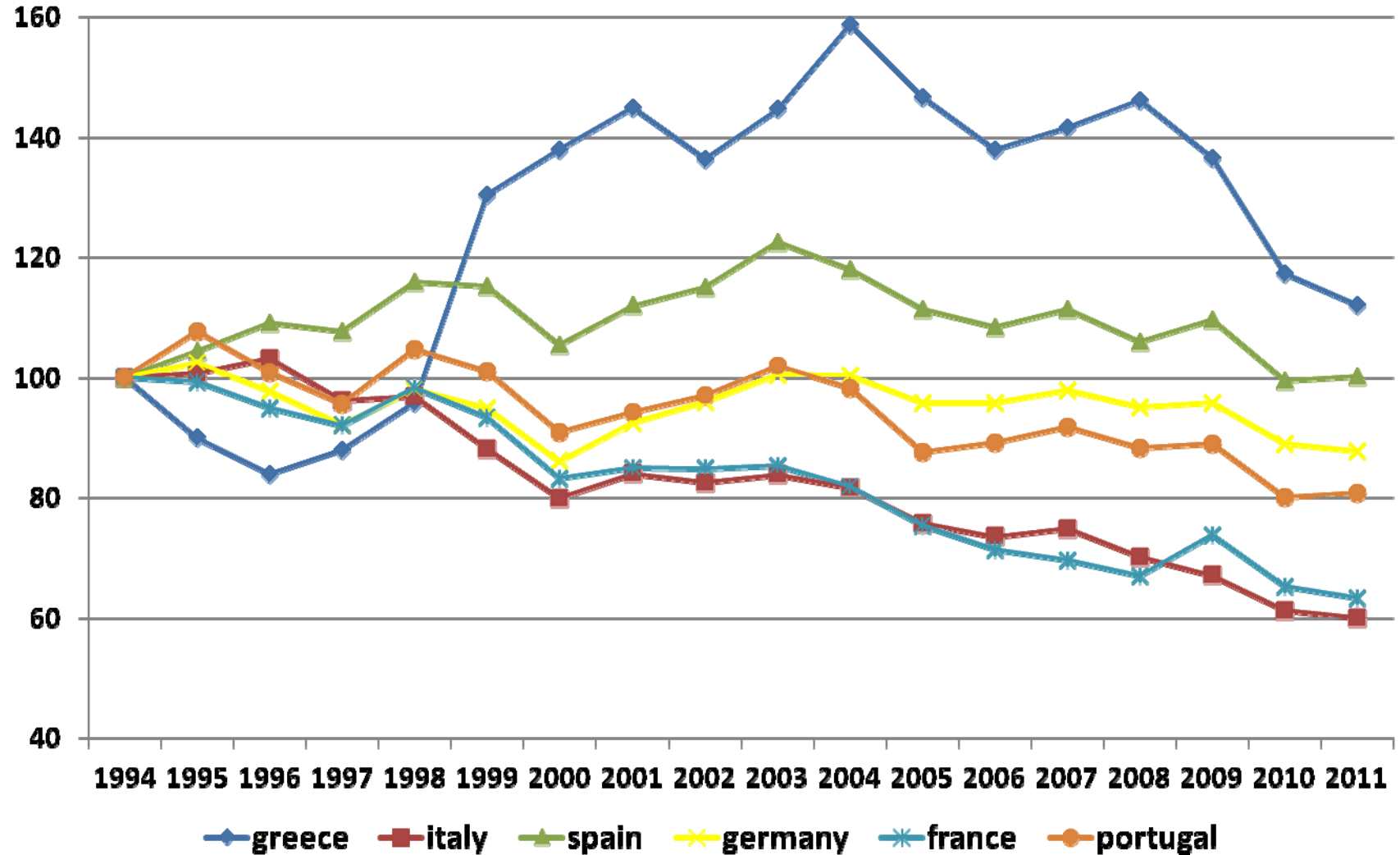
Impacts: International (2)

Evolution of shares of world exports (goods only), 2002=100

Impacts: International (3)

Relative unit labour costs and relative export prices, 2005=1

Legend: ◆ ratio of greece/ea27, ulc ■ ratio of greece/ea27, price deflator of goods exports

Concluding Remarks

- It is not evident that the evolution of MWs is responsible for the deterioration in the "competitiveness" of the Greek economy until 2008

- The unsustainable current account deficits since the mid-1990s have been the result of growth-on-(credit) steroids , which was due to large government budget deficits and bank-mediated excessive credit creation through foreign borrowing