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1ST OECD/IZA WORLD OF LABOR SEMINAR:

MINIMUM WAGES

IMPACTS AND INSTITUTIONAL PROCESSES

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A broad range of policy objectives

- Labour standard, alongside others
- Complement to collective bargaining wage-setting institutions
E.g., balance bargaining power where union coverage low/declining
- Reduce inequality, poverty
- Strengthen work incentives
- Make existing redistribution more effective / less costly
- Boost tax collection / enforcement
- ...



Are minimum wages effective?

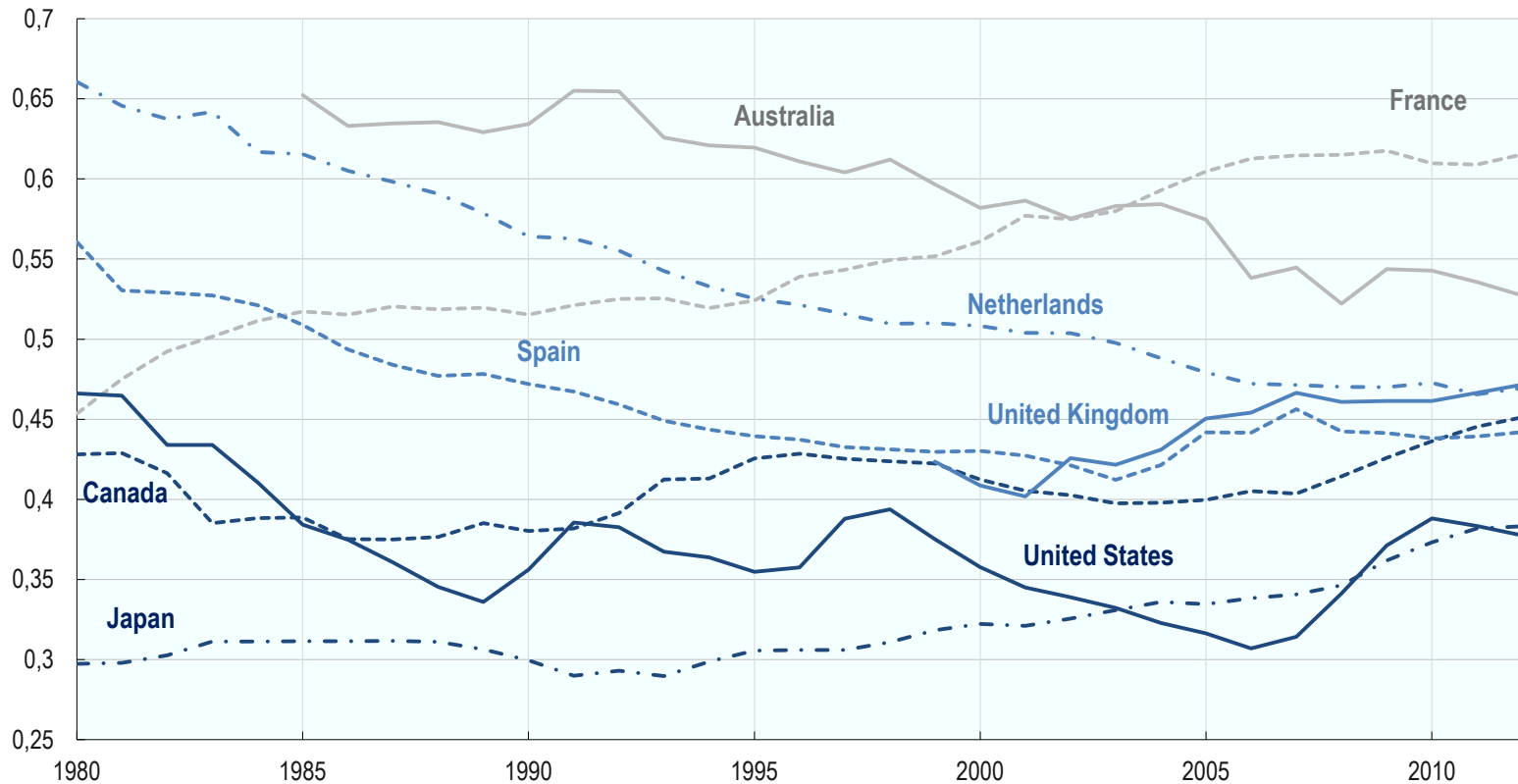
Assessments of policies and reform proposals need to:

- Focus on labour-market situation of most-affected groups
incl. youth, low-skilled, women
who is “most affected” also depends on point in cycle
- Avoid looking at one type of effect in isolation
e.g., only employment or only poverty
- Account for links: MW ↔ related policy areas
incl. tax-transfer system, non-wage related labour costs and regulations



Trends in minimum wage in selected OECD countries

Ratio of minimum to median gross wage,^a 1980-2012



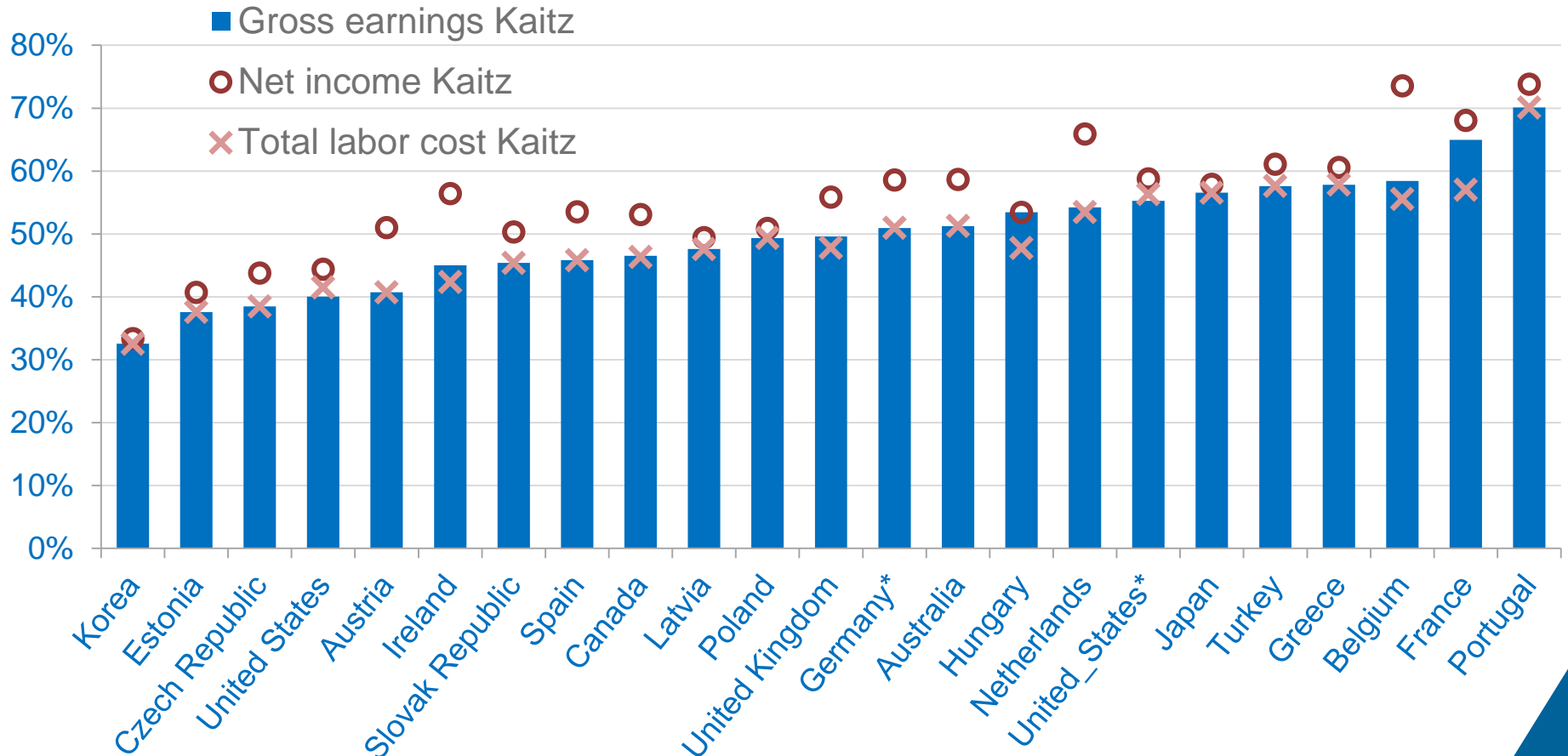
a) Median rather than mean earnings provide a better basis for international comparisons as it accounts for differences in earnings dispersion across countries. The median wage is calculated based on basic earnings of full-time workers, excluding overtime and bonus payments.

Source: OECD Earnings Database.



Some countries provide targeted reductions of non-wage labour costs

Minimum-wage earnings as % of median earnings, 2012
(single person earning the minimum wage and working usual full-time hours)



The uniform minimum wage in Austria is not statutory in the traditional sense but agreed between social partners

* Reform scenarios: planned MW values for 2015 (Germany) and 2016 (USA), converted to 2012 equivalents.

Source: OECD tax-benefit models, minimum-wage database and income distribution database.

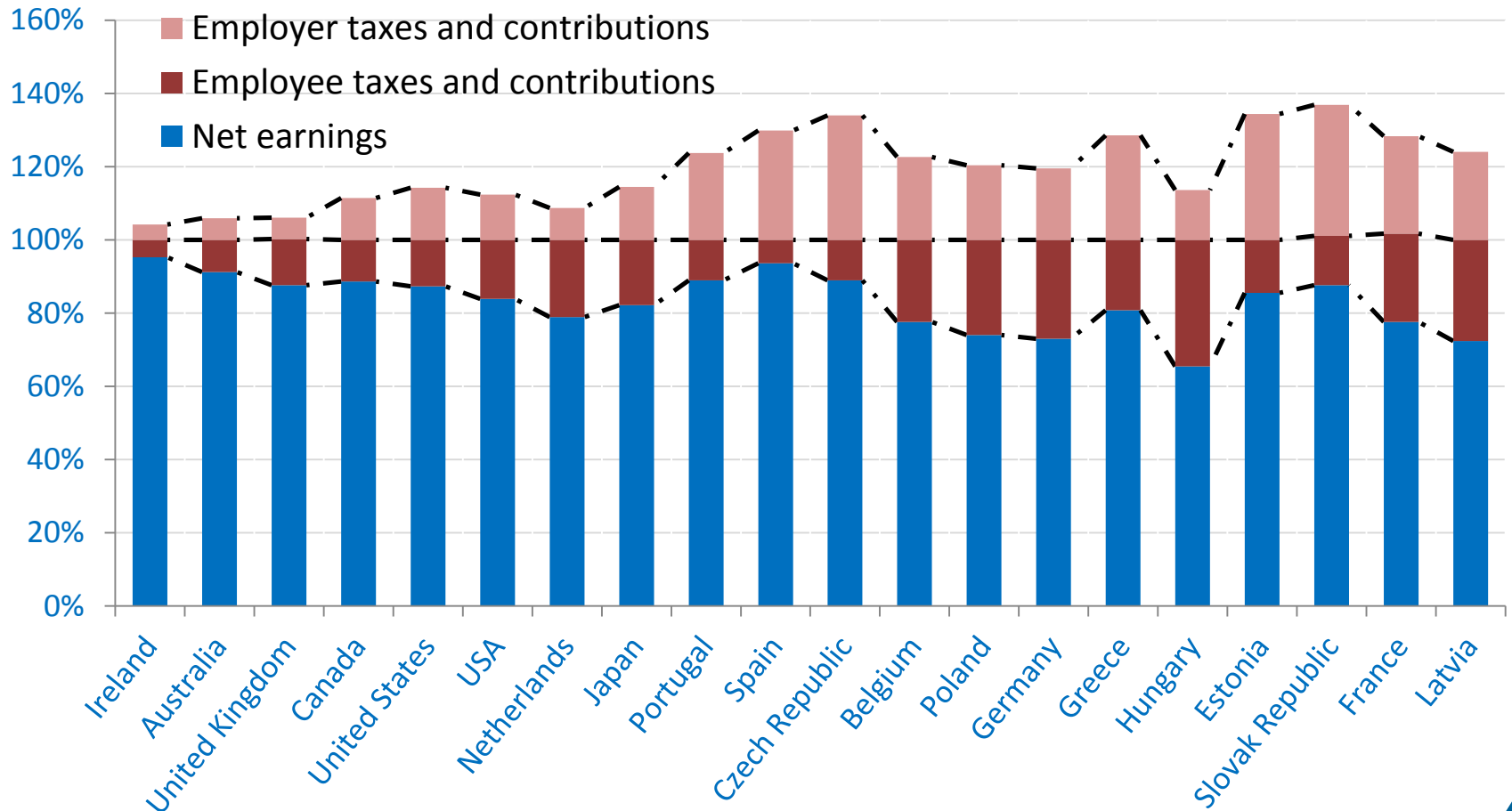


Significant tax wedges at the minimum wage

Scope for supporting take-home pay or reducing labour costs

% of gross earnings, 2012

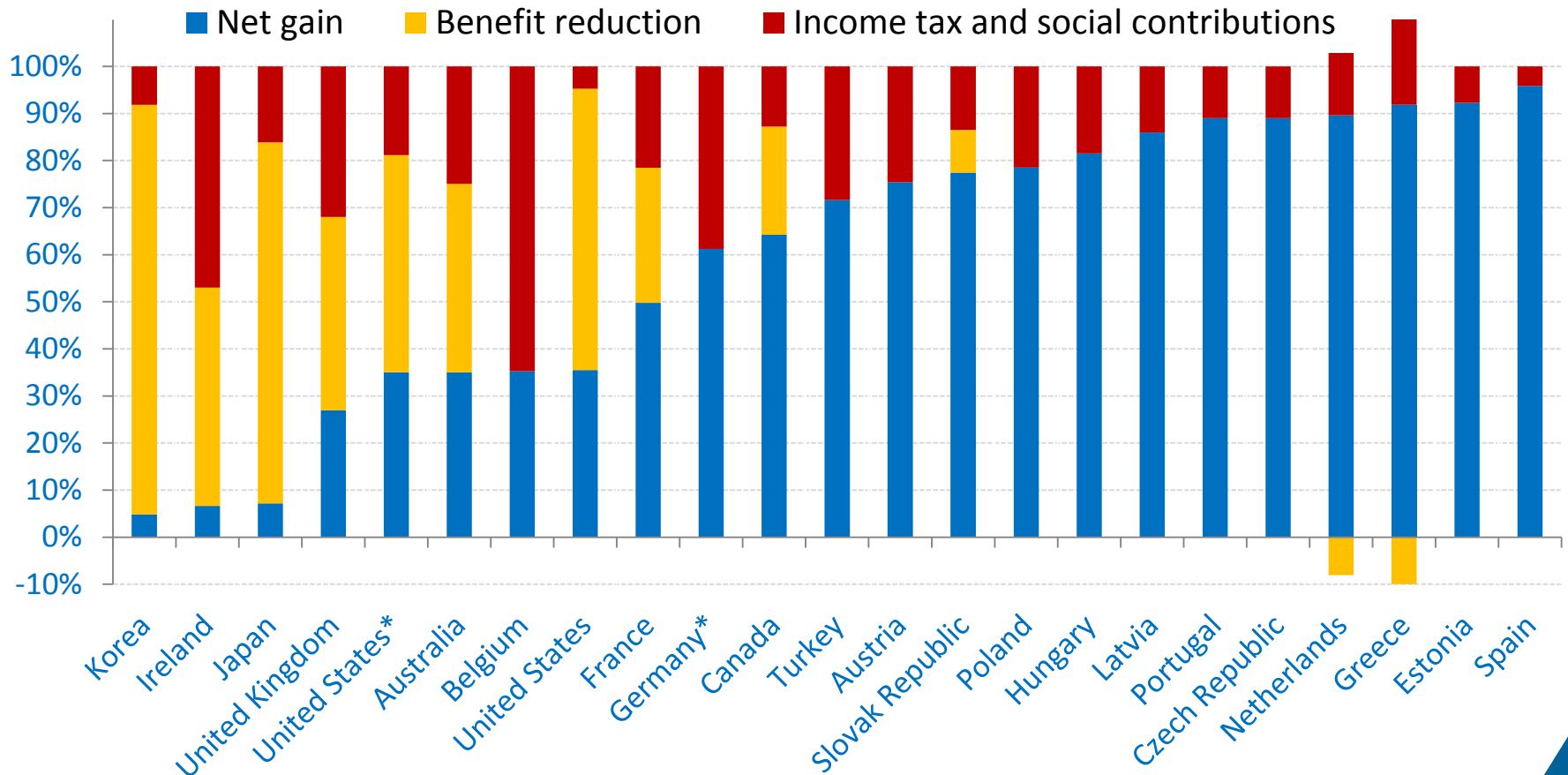
(single person earning the minimum wage and working usual full-time hours)





The impact of MW on poverty depends on interactions with other policy instruments

Share of MW increase that is left after taxes and benefit reductions, 2012
 (using a 5% increase, for a lone-parent minimum wage earner working usual full-time hours)



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Source: OECD tax-benefit models, minimum-wage database and income distribution database.



Implications for policy

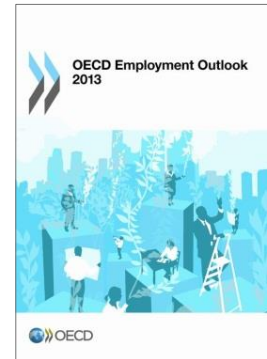
- Statutory minima have role in tackling wage inequality and “making work pay”
- Setting and adjusting MW requires careful balancing act
 - Place particular focus on most affected groups, notably youth
 - Change MW in small steps, institutionalise frequent reviews
 - Important role for independent minimum-wage commissions (e.g., AUS, BEL, FRA, GRC, IRL, NLD, GBR)
 - Coordinate with tax & transfer reforms
- But many important outstanding questions
 - Need to know more about their impact on training and education choices
 - How do they affect wage adjustments more generally in the face of negative economic shocks



Thank you

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