

HOST COUNTRY PRESENTATION

TOWARDS A NATIONAL MINIMUM WAGE?
(HIGHLIGHTS)

Louis N. Christofides

University of Cyprus and University of Guelph

Peer Review on "Minimum wages – extending coverage in an effective manner"
Limassol (Cyprus), 19-20 September 2019

Economic Situation in Cyprus

The International Crisis of 2008

- **Real GDP Growth** aver. 4.21% over 2001-2008; it was 3.7% in 2008.
- Fell to -2% in 2009.
- Recovered to 1.3% in 2010 and 0.4% in 2011.

- **LFS+ Unempl. Rate** aver. 4.19% over 2001-2008; it was 3.7% in 2008
- Rose to 5.4% in 2009.
- Continued to rise in 2010 (6.3%) and 2011 (7.9%).

- **International crisis did not affect Cyprus directly** as in other countries; banks did not hold foreign mortgage-based derivatives. 'Other developments' lead to Cyprus crisis and an MoU in 2013.

Economic Situation in Cyprus

The Cyprus Crisis 2012-2016 ('other developments')

- Inflows of capital into a banking sector not ready to cope, leading to bad management/investments, financial distress.
- Fiscal surplus (about 3% in 2007) replaced by deficits(-5.6% by 2012), debt/GDP ratio rising (about 50% in 2007 to 80% in 2012, 103% in 2013), government unable to help banks.
- Application for external aid in June 2012, delays in finalising MoU due to elections, new government 2013, MoU in April 2013.
- Bank distress, 'bail-in', closing of bank sector, capital controls, wage freezes and cuts, business failures, CB in doubt, role of unions diminished, peaking unemployment (16.1% in 2014, youth 38.9% in 2013, and long-term 47.7% in 2014).
- GDP growth positive by 2015, Cyprus exits MoU in April 2016.
- A National Minimum Wage in presidential electoral prog. 2017. Local political realities but also Pillar of Social Rights.

Economic Situation in Cyprus

The Cyprus Crisis 2012-2016 (*Supplementary*)

- Competition for funds through excessive lending rates and
 - (a) Allocation of funds into badly screened loans.
 - (b) Greek Sovereign Bonds.
 - (c) Expansion of banking sector in other countries.
- (A) Construction bubble, collapse of real estate demand, NPLs.
- (B) 'Private Sector Involvement' of Greek Sovereign Debt (25% of GDP).
- (C) Ventures in other countries had to be sold in a hurry at low prices.

Wage setting in Cyprus

Unionised Sector

- Post-crisis union density and coverage down to 45%.
- CB between employer organisations and unions determines pay, etc., in private, semi-private and local authority sectors.
- Indicative Minimum Starting Salaries by occupation.
- Collective bargaining agreements not legally binding; specific employers may not honour sectoral agreements.
- However, Employment Protection Legislation provides some safeguards to workers.
- In public sector, wages set by law following consultations between a large union and government.

A summary of “Indicative Starting Salaries” in Sectoral Collective Bargaining Agreements

Sector	Lowest Level/Highest Level	Lowest Paid/Highest Paid
Construction	General duty/Skilled	1 502/1 777
Brick Factories	Assistants/Skilled	1 489/1 700
Woodworking	Apprentices aged 16+/Skilled Sculptor	1 011/1 550
Metal Works	Unskilled/Specialised	1 308/1 534
Imp. Mech., Vehicles	Apprentice “A”/Specialised	1 203/1 880
Electrical Installations	Newly hired 16+/University Graduates	1 213/1 611
Clinics	Assistants/Nurse Level 1	897/1 205
Old Age Homes	Carer/Nurse	1 080/1 080
Agriculture/Animal Husbandry	Unskilled/Skilled	455/767
Printing	General duties/Printers	1 146/1 370
Hotels	Assistant Waiter/Head Cook	695/1 991
Hospitality	Kitchen Assistant/Chef	669/1 598

Indicative minimum starting salaries c/d

- Table summarises 180 occupations, so a large number of minima per sector in previous table are specified.
- Within sectors, considerable range, e.g. Hotels **EUR 695 pm** for Kitchen Assistant and **EUR 1 991 pm** for Head Cook.
- Across sectors, also considerable spread in indicative lowest starting salaries, e.g. Hospitality **EUR 669 pm** for Kitchen Assistant, and in Construction **EUR 1 502 pm** for General Duty Workers.
- Keep wide ranges in mind as we consider expanding the system of minimum wages.

Wage setting in Cyprus

Non-Unionised Sector

- Lack of union representation is counterbalanced by legally binding minimum wages.
- Determined by ministerial decree, following tripartite consultations. Covers specific occupations (monthly or hourly wage minima).
- For “shop assistants, clerks, child-care workers (assistant baby and child minders), [and] personal care workers (nursing assistants)” EUR 870 pm and EUR 924 pm after six months.
- For “security guards”, an hourly rate of EUR 4.90, and EUR 5.20 after six months with the same employer.
- For “cleaners”, an hourly rate of EUR 4.55, and EUR 4.84 after six months with the same employer.
- Important rationale for MW is redistribution to low-paid. But “a ‘risky’ but potentially ‘profitable’ investment in redistribution”. The social safety network context.

Redistributions from Minimum Wage increases

- Redistribution to low-paid main argument for MW.
- To those remaining employed.
- Some workers may lose employment, go on GMI.
- Possibly from the high-skilled to the low-skilled.
- From firm profits to workers, if demand for labour is rigid (inelastic) and from workers to firms if it is flexible (elastic).
- From consumers to the low-paid, if firms can increase prices (not the case if international trade fixes prices, e.g. tourism).
- From firms to government, if GMI supplementation.
- From government to workers, if MW increases lead to employment losses, unemployment and GMI.

The Guaranteed Minimum Income Scheme (GMI). The main mechanism for redistribution.

- Since 2014. Supplements household income for units that meet income and property criteria. Children to age 28 years are part of the household.
- EUR 480 pm for single individual.
- EUR 240 pm for each additional dependent over 14 years of age.
- EUR 144 pm for each child to the age of 14.
- Ex. Family of 2 adults and one child <14 is entitled to EUR 864.
- Plus modest housing allowance and provision for other needs.
- Generous retention rate for income earned while on the GMI for aged 18-28, *but* less generous for other members of household.
- A targeted and complete instrument for redistribution.
- Plus other programmes, e.g. for persons with disabilities.

A National Min Wage for all occupations

Based on Statutory Approach, at (say) EUR 870 pm

- A National MW: no occupation shall make less than EUR 870 pm!
An example based on the current system of impact on wage distr.
- Appendix tables from EU SILC are illustrative as we do not know who is actually on the MW.
- EUR 0-450 pm (or **21%** of obs.) 'Non-participants' assume no effect.
- EUR 451-900 pm (or **19%** of obs.) Contains those already on the MW (7-8%?), so extending the MW to all would add 11-12% to the MW recipients.
- EUR 901+ pm (or **60%** of obs.) No direct impact of National MW on right hand tail.
- Unionised workers in Agriculture and primary occupations, Hotels, and Hospitality could benefit if they remain employed.

A National Min Wage for all occupations

Incorporating indicative starting wages

- System more complex than previous case.
- Elements of past bargaining, which is an advantage.
- New bargaining carried out knowing that indicative starting minima may be legally binding.
- May make occupational wage structure too rigid.
- Policing along the entire wage distribution, rather than in the left tail only.
- **Agreement concerning a minimum wage in the Hotel industry reported in the press of August 28, 2019. Relationship to indicative starting minima? Details?**