

On the determination of the statutory minimum wage

The primary objective of the country at this juncture should be the fast and significant reduction in unemployment through maintaining and improving competitiveness and labor productivity. The labor market reform in Greece, particularly in 2012, contributed both to the recovery of competitiveness, the significant increase in exports and the coverage of the country's external deficit, and to a significant increase in employment by 371,500 and the reduction of unemployment by 448,800 (from 27.2% to 18.2%) between October 2013 and October 2018, while real GDP remained stagnant.

According to analysis by INSETE (Institute SETE), the average weighted gross wage (AWGW) for full-time employees amounted to € 1,268 in 2017 - from € 1,253 in 2015 (+ 1,2%) - so the current statutory minimum wage equaled in 2017 to 46,2% of the AWGW.

In the sectors where the average full-time salary is low - hence the proportion of the minimum to average wage is high - the extent of flexible forms of work is considerably wider as well as the importance of micro and small enterprises in employment. This structure of the Greek private economy, where the very small and small company is the dominant element, implies that excessive increases in the minimum wage may lead to the failure of individual sectors and businesses to cope, leading either to a reduction in employment or - most likely - shifting to flexible forms (real or fictitious) and under-declared or undeclared work. Therefore, in the current economic situation, any policy contributing to the deterioration of the competitiveness of the economy and thus limiting the growth rate of GDP and the rate of decline in unemployment will work to the detriment of workers and the unemployed.

Against this background, raising the minimum wage will be constructive, sustainable and relatively trouble-free for the economy and employment if it does not have a negative impact on the efficient functioning of the labor market, on employment growth and on productivity and competitiveness of the economy. This can be greatly assured if a specific, consistent and, above all, stable framework is defined for changes in the minimum wage of full-time employment, which can be determined by taking into account:

- ▶ the increase in the weighted average of full-time wage in the economy, in the sense that the increase in average wage generally reflects the average increase in labor productivity in enterprises,

- ▶ the increase in the wage index in the economy as a whole, as estimated by ELSTAT's Wage Cost Index, and
- ▶ the improvement of the competitiveness of the Greek economy compared to the average of the Eurozone countries, as determined by the Real Exchange Rate of the Euro for Greece based on the Unit Labour Cost (REERULC),

provided, that:

- ▶ the minimum wage in the medium term will gradually converge to 50% of the weighted average full-time wage, with the ultimate goal of not diverging significantly from this level over the long-term, that is minimum wage increase should follow the increase in average wage.
- ▶ In determining and enforcing the Minimum Wage, provisions should be established for those sectors in which the average wage is currently at very low levels, as well as for enterprises facing problems due to the great crisis in the country, provided that that income policy actually helps firms to overcome the crisis, especially if their business plans denote that they have the opportunity to return to competitive activity.

A possible reduction in non-wage labour cost and social security contributions should not be decided solely in the context of the determination of the Minimum Wage, but in the context of the correction of the insurance and anti-development provisions of the country's Insurance System. A planned and gradual reduction in social security contributions will be possible, especially since in 2022 the country's pension expenditure is projected to have fallen to a financially viable level below 13.5% of GDP, i.e. with significantly lower requirements for government funding of the social security system. Within this framework, however, larger and faster reductions -with a specific duration and conditions- may be envisaged for groups of workers facing particular labor market integration problems, such as young people and the long-term unemployed.

Following the adoption of the 2012 measures, the unemployment rate for the young 15-24 years remains high (38.8% in the 2nd quarter of 2018) but has fallen significantly from 59.2% of the corresponding workforce in the 2nd quarter of 2013 and the employment of young people aged 15-24 in the country has increased by 17.9% over the period. On the basis of the characteristics of youth employment -with proportionately much greater representation in small businesses and flexible forms of work than older people- excessive and direct increases in the minimum wage of young workers are extremely likely to result either in a reduction or - most likely - shifting to

flexible forms, underdeclared or undeclared work, and may possibly be a very negative development contrary to the immediate and urgent priority that is the increase of the employment of young people.

To the extent that the "sub-minimum" wage for young people is abolished, an approach that could offset the potential - but very likely - negative impact on their employment while at the same time strengthening employment opportunities for the long-term unemployed irrespective of age, would be to introduce lower labor costs - either with a lower minimum wage or with significantly reduced non-wage costs - for new entrants to the labor market - for example, with fewer than two years work experience in the last 5 or 10 years - until they reach two years of work experience.

Committed to its role as a National Social Partner, **SETE actively strives to secure the conditions required for the increase of sustainable employment in Greece, the right of the employed to decent working conditions, terms and wages, and the improvement of the earnings of all parties involved in the production process. This, however, should be pursued on the basis of productivity, the increase of internationally competitive production and the need to enhance domestic savings.**

To sum up, the following parameters are important for the establishment of the minimum wage:

- it should be defined by the growth of the economy and the improvement of the productivity and international competitiveness levels. Preferably, this should be done through an agreed and publicly available formula/mechanism, which will provide long term security to market players regarding competitiveness;
- its establishment should be preceded by effective consultation with the national social partners, who are well aware of the actual strength and resilience of businesses and the market;
- its redefinition should be combined with measures for the sustainable reduction of non-wage labour costs, including a reduction of the taxation of labour income, whose rate ranks among the highest in the European area and which results in the shrinkage of the actually attained competitiveness and of the disposable income of the employed, as well as in a great increase of the difficulty in finding employment for the highly vulnerable population groups, such as new entrants to the labour market and the long-term unemployed.