

Regional Analysis Spain

Is a higher minimum wage good or bad?

La Voz de Galicia

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As with many questions, the answer depends on the context. Few things are better for social progress and welfare than a sustainable rise in wages resulting from increases in productivity, and for growth to be equitable and reach all workers. In that situation, a high minimum wage is a symptom of productive and competitive firms, of skilled workers, and of an efficient and equitable labor market. Rising minimum wages due to productivity increases, job creation, competition in product markets, job quality, efficiency in active policies and higher worker qualification levels is not only welcome, but the more the better. If these same factors also allow the minimum wage to rise higher than the median wage, inequality will decrease thus boosting social welfare even further.

But the conditions outlined above must exist in order for wage increases to be sustainable and improve society without leaving anyone behind. History is littered with well-intentioned measures that had counterproductive results in their search for non-existent shortcuts. The recent rise in Spain's minimum wage may just be one of these measures, because it does not respond to the above causes. In these circumstances, many firms are not going to be able to assume the increase in minimum wage and in labor costs, and will be forced to lay off workers or reduce their working hours.

The circumstances surrounding SMI rises are so important that studies assessing their impact show rather disparate results depending on the period, countries, regions or cities analyzed. Approximately two thirds of studies revealed a negative impact on employment, while one third found no impact or a positive effect.

What might happen in Spain? There are reasons to hold off on the optimism. Unemployment still exceeds 14%. Productivity per hour worked and pricing margins have been in decline for several quarters. Inflation is well below 2%. The 22.3% increase in minimum wage in 2019 is unprecedented and, following on from increases in 2017 (8%) and 2018 (4%), totals an accumulated rise of 37.4%. And the percentage of workers on salaries below the new minimum wage is around 9%. In this environment, BBVA Research forecasts that between 75,000 and 195,000 fewer jobs will be created in 2019-2020 than without the rise in SMI. In the best of these scenarios, firms will absorb the minimum wage increase lowering their profits, and thus reducing their price markups. Alternatively, the impact on employment could be greater if firms offset the wage increase by raising prices in order to maintain their margins.

The minimum wage hike will have winners and losers. Those keeping their jobs with higher wages will be better off. But others will lose their jobs, primarily the most vulnerable groups of workers, women and young workers. This is why a proper evaluation of the 2017 and 2018 minimum wage increases was so essential before additional rises, and why the efficiency of active labor market policies should be improved to increase the productivity and employability of the most vulnerable workers.

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