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Editorial

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Editorial: Minimum Wages – Experiences of European Countries

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The minimum wage is one of the most frequently discussed topics in the field of labour market policy. There is ample research pertaining the United States and the UK (Belman and Wolfson 2014; Dube 2019). In Europe, 22 of the 27 EU member states have a national minimum wage that defines a basic wage floor¹ and many of them already have a long historical tradition of minimum wages (Eurofound 2024). As a more recent development, in 2022, an EU Directive has provided benchmarks and goals for common standards of minimum wages in the EU (European Parliament 2022).

This issue is devoted to the experiences of European countries with minimum wages. It deals with two aspects of minimum wage research in Europe that have received little attention in the past. The *first* one concerns the institutional context. Minimum wage regimes and adjustment mechanisms differ considerably across countries (Arpaia et al. 2017; Boeri 2012; Eurofound 2024). Some European countries have also adjusted their minimum wage policies over time. Hence, the level and progression of minimum wages differ depending on the constellation of actors in minimum wage setting (government, social partners, expert commission), adjustment

1 Only Denmark, Finland, Italy, Sweden and Austria do not have a statutory minimum wage.

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processes (indexation, target), regulations on sub-minimum rates, and exemptions for specific groups of employees (young workers, trainees etc.). For example, the purchasing power of national minimum wages was relatively high in Germany, the Netherlands and Luxembourg whereas it was low in Latvia, Bulgaria and Slovakia. *Second*, in many EU countries, existing minimum wage research has not yet been systematically reviewed in country surveys, which allows a clear picture of the extent of evaluation studies, research gaps as well as potential and limitations in the available data. This applied, among others, to Poland, Romania, Greece, Spain, and the Netherlands. While evidence on the UK is included in systematic reviews on minimum wages (Belman and Wolfson 2014; Dube 2019), previous reviews of the growing body of research on the German minimum wage have only considered short-term effects of its introduction in 2015. Furthermore, even in countries with a great amount of minimum wage research, such as the UK or Germany, there are still gaps in our knowledge regarding the manifold (potential) repercussions of minimum wages as well as new developments regarding data and methodologies (Low Pay Commission 2024; Mindestlohnkommission 2023).

Against this backdrop, this special edition, titled “Minimum Wages: The Experience of European Countries”, addresses the aforementioned issues and contributes to advancing minimum wage research in Europe. It includes six articles that provide country surveys and new empirical evidence by examining national minimum wages and their effects from different perspectives.

In his article “What explains differences in minimum wage growth between EU member states?”, *Arne Baumann* starts from the observation that there are significant differences in minimum wage growth rates between EU member states. He studies discrepancies in economic fundamentals and institutional characteristics, which play a role in the adjustment of minimum wages and could thus be causes of different growth rates in minimum wages. His results show that minimum wage growth across the entire observation period and independently of the actors involved followed consumer price inflation. Above-average minimum wage growth rates in EU member states can be traced back to overshooting inflation during the period of EU accession, which entailed a reduction in wage inequality and an increase of the Kaitz index. He finds that the involved actors were also important for minimum wage growth. Adjustments by social partners led to higher minimum wage growth than indexation of minimum wages.

Wiemer Salverda, in his article “The Netherlands’ Minimum Wage 1969–2022: Can We Learn from Decline?”, investigates the evolution of the Dutch minimum wage over a long period since its introduction in 1969. His findings indicate that the real level of the minimum wage fell sharply after 1979 and is currently back at the level of the early 1970s. The decline can be attributed to the statutory uprating procedure and to government interferences therein. There has been a sharp decline

in the minimum-wage employment share after 1979, a largely stable employment below the real minimum wage of 1979, and a largely unchanged employment in the ranges slightly above this real 1979 level. Furthermore, composition shifts in minimum-wage employment are significant towards larger companies on the demand side and towards part-time employees on the supply side. He argues, that nationally and internationally, virtually all available minimum-wage analyses of employment effects focus on rises of the minimum wage and ignore drops. However, the effects of declines may differ from those of increases, and their analysis will require the examination of heterogeneous behaviour of both companies and employees.

Daphne Nicolitsas, in her article “The minimum wage in Greece: a review of institutional features, developments and effects between 1975 and 2023”, examines the institutional features of the minimum wage in Greece and assesses developments regarding the minimum wage level, its bite and its alignment with productivity. She reveals a complementarity between the minimum wage and other institutions, such as regulations on dismissals. Furthermore, the minimum wage setting mechanism has changed over time with the economic environment. The minimum wage did not always follow productivity developments in the short term, but it did so in the longer term. The bite of the minimum wage appeared to be greater when government intervention in setting the minimum wage was stronger. Her estimates show a high elasticity of average to minimum wages. Her review of the literature on the employment effects of the Greek minimum wage points to mixed results with modest negative or no effects.

Matthias Dütsch, Clemens Ohlert, and Arne Baumann, in their article “The Minimum Wage in Germany: Institutional Setting and a Systematic Review of Key Findings”, provide a comprehensive survey of results from the evaluation of the German minimum wage by compiling recent descriptive evidence and a systematic literature review on causal effects through 2022. They show that the minimum wage thus far had the strongest causal effects directly after its introduction. Hourly wages increased due to the introduction of the minimum wage and working hours decreased. Accordingly, the findings on the effects on monthly wages were smaller than on hourly wages and remained ambiguous. Due to strong economic growth in the years following its introduction, the minimum wage only caused a slight reduction in total employment, with a decline in marginal employment in particular. Companies’ wage costs increased, and as productivity did not change, profits declined due to the minimum wage.

Toralf Pusch, in his article “Effects of the German Minimum Wage on Wages and Household Income”, examines the effects of the introduction of the national minimum wage on the distribution of individual income from wages, as well as on gross and net means-weighted household income of workers in Germany. For the first

time, data was used that contains detailed information on the income situation of households. Both descriptive findings and the results of unconditional quantile regressions indicate that the incomes of workers in regions with a high level of minimum wage intervention experienced significant increases after the introduction of the minimum wage, ranging into the middle of the income distribution. Accordingly, the minimum wage has positively influenced the incomes of a large number of employee households.

Clemens Ohlert, in his article “Effects of the German Minimum Wage on Earnings and Working Time Using Establishment Data”, exploits a novel panel dataset on German establishments. He examines the short-term effects of the introduction of the national minimum wage in Germany on hourly wages, monthly wages and paid working hours. The results indicate an effect of the introduction of the national minimum wage on the average hourly wages of employees in minimum wage establishments of up to 5.9 %. The effects on monthly wages were smaller (up to 2.7 %) than the effects on hourly wages because of reductions in working hours. Further results on heterogeneous minimum wage effects suggest that the impact on earnings was greater for low-wage employees than on average, and larger in eastern Germany than in western Germany. Moreover, the hourly pay of low-wage part-time employees and marginal employees caught up compared to those of low-wage full-time employees.

We hope that this special issue of the *Journal of Economics and Statistics* will inspire readers to initiate systematic reviews on further countries, to conduct comparative cross-country studies on minimum wages, to identify and overcome limitations in available data and to close remaining gaps in minimum wage evaluation. This would contribute greatly to informing current debates on social policy, industrial relations and inequality in Europe.

Basel, Berlin und Lüneburg, September 2024

Matthias Dütsch, Clemens Ohlert, Christian Pfeifer & Conny Wunsch

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