

Determining the minimum wage in the EU: To what extent ideology matters?

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Introduction - Minimum wage in policy debate

- Minimum wage is integrated into electoral programs (motivated by ideological components)
- In the practice it's not clear this policy is put into practice (lobbies or electoral cost)
- If only economic factors determine minimum wage → Policy debate is empty
- Objective: Estimate up to what point the political or ideological positions determine minimum wage



● **Effects of minimum wage over economy**

- Negative and positive effects on unemployment have been found (Boeri and Van Ours (2013), Rivera (2013), Krugman, Graddy, and Wells (2014), Hoffman (2016))
- The effect of minimum wages on income distribution inequality (Neumark, Salas, and Wascher (2014), David, Manning, and Smith (2016))
- Impact minimum wages have on poverty and collective welfare (Dube (2013), Card y Krueger (1995), Neumark y Wascher (2008))

● **Literature that studies the determinants of minimum wages**

- The existence of interest groups. (Boeri (2012), Seltzer (1995), Sobel (1999))
- The political position of the ruling party (Waltman and Pittman (2002), Green and Harrison (2006) Ford, Minor and Owens (2012), Xing and Xu (2016), Dickson and Myatt (2002))

● **There is no work that explains the determinants of minimum wages at EU level**



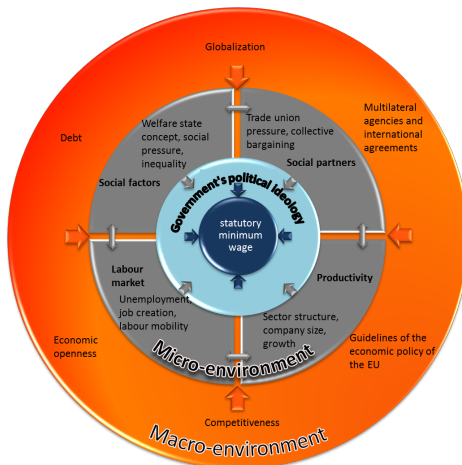
This Paper

- 1 Study scope EU: There is sufficient diversity of political positions, but with homogeneity among Member states, which allows control of the absence of other effects, such as monetary policy or migration restrictions between countries
- 2 We built a database where the political position and ideology of the ruling party is classified for each State and moment of time
- 3 Complementary way: Database of the Chapel Hill Expert Survey (CHES) (Bakker, Edwards et al. (2015))
- 4 Panel Data: based on a larger amount of data, with more degrees of freedom and getting more consistent results (fixed effects - specific factors from Member States)



Framework for decision-making on statutory minimum wages in EU Member States

Alignment of forces in EU Member States minimum wage systems



- Source: www.parties-and-elections.eu (1990-2015)

Political Ideology

Political Positions

Group 1	Group 2
Left	Left Center Left
Center	Center
Right	Center Right Right

Group 3	Classes
Social	Communist Socialist Social democrat
Liberal	Liberal Liberal-conservative Socio-liberal
Other	Conservative Christian Democrat Nationalist Independentist

- To Verify: Political and economic position in the political spectrum from the five waves of Chapel Hill Expert Survey (CHES) ((Bakker, Edwards et al. (2015)).
General Policy (LRGEN) and Economic Policy (LRCON)



Empirical model and econometric results - Benchmark Model

- **Dependent variable:** relative minimum wage (SMR)
- **Explanatory variables:** union affiliation ratio (AFS); unemployment rate (TDES); activity rate (TA); inflation (INFL); productivity increase (INCPROD); social benefits expenditure to GDP ratio (PRESTSOC); percentage of partial employment (PTFT) and percentage of temporary employment (EMPTM).
- **estimation**

$$SMR_{i,t} = 0,44 - 0,28 AFS_{i,t} + 0,16 INCPROD_{i,t} + U_{i,t} \quad (1)$$

(0,02) (0,07) (0,07)



Empirical model and econometric results - Policy

Estimation - Policy Effects on relative minimum wages

Variable	Model I		Model II	
	Estimation	SD	Estimation	SD
constant	0.458	0.01	0.458	0.01
Right	-0.014	0.004	—	—
Center-right	—	—	-0.015	0.004
Center	—	—	—	—
Center-left	—	—	—	—
Left	—	—	—	—
AFS	-0.292	0.039	-0.293	0.039
INCPROD	0.118	0.067	0.129	0.067
R2	0.852		0.852	

- Model I: The relative minimum wage is significantly lower in those countries ruled by a right-wing party (1.5 % lower)
- Model II: only significant variable is the Center-Right



Empirical model and econometric results - Ideology

Estimation - Ideology influence on relative minimum wages

Model III		
Variable	Estimation	SD
constant	0.454	0.01
Social	—	
Liberal	-0.013	0.005
Other	-0.014	0.005
AFS	-0.274	0.039
INCPROD	0.127	0.068
R2	0.85	

- Social ideology tends to have a relative minimum wage between 1.3% and 1.4% higher
- Among the governments without social ideology, it is not so much the ideological position the one that determines the minimum wage, but its political position.



Empirical model - Effects of General Policy and Economic Policy (CHES)

Estimation - Effects of General Policy and Economic Policy (CHES)

Variable	Model IV		Model V	
	Estimation	SD	Estimation	SD
constant	0.47	0.012	0.469	0.012
LRGEN	-0.004	0.001		
LRCON			-0.004	0.001
AFS	-0.287	0.039	-0.279	0.039
INCPROD	0.124	0.067	0.126	0.067
R2	0.85		0.851	

- For each point in the policy CHES index that a government leans to the right , the SMR is reduced by 0.4 %
- The same result is obtained when we consider the economic policy position



Concluding remarks

- 1 In this paper we study the effects on minimum wages of the political and the ideological position of the ruling party
- 2 we focus on the European Union since it constitutes an ideal framework for the study of the issue (Also novelty)
- 3 the increase in productivity and the union affiliation ratio have a significant effect on relative minimum wages.
- 4 It is estimated a significant effect of both politics and ideology in determining the statutory minimum wage (Negative if the government is center-right).
- 5 It is found that the relative minimum wage tends to be higher if the government has a social ideology.
- 6 When the Chapel Hill Expert Survey index is used, it is found that an increase in the index, that is to say a rightward shift, leads to a reduction in the minimum wage in relative terms.
- 7 To sum up, the above results show that in the EU, the minimum wage policy is partially determined by society through the political

