



Labour market change
**Spain's minimum wage hike:
Context and possible effects**

[Minimum wages in 2019 - Annual review](#)

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Introduction

The greatly increased Spanish statutory minimum wage (*salario mínimo interprofesional*) came into force on January 1st 2019, going from 14 monthly payments of €735.90 per year to €900 for those in full-time employment. This equates to a rise of 22%, the highest in more than four decades in the country, well above those adopted in 2018 (4%) and 2017 (8%), and after the minimum wage remained practically stable between 2009 (€624) and 2016 (€655.2). The new statutory minimum wage set at €900 can counterbalance the wage corrections suffered in recent years by the lowest-paid Spanish employees. But this change is not only potentially significant at a national level, it is also the [most significant net increase in minimum wage levels among EU countries in 2019](#). This working paper places this minimum wage hike against labour market trends in the Spanish labour market during the last decade and how it relates to the minimum wage policies of other European countries, while also providing a prospective analysis of its main possible effects.

Negative impact of the crisis on wages

The crisis had a very strong impact in Spain: economic activity levels only began to grow again in 2015, and pre-crisis levels were re-established in 2017. The [impact on the labour market has been even more intense and prolonged](#), as reflected by the still high rates of unemployment (13.8% in April 2019, as compared to 6.4% for the EU-28).

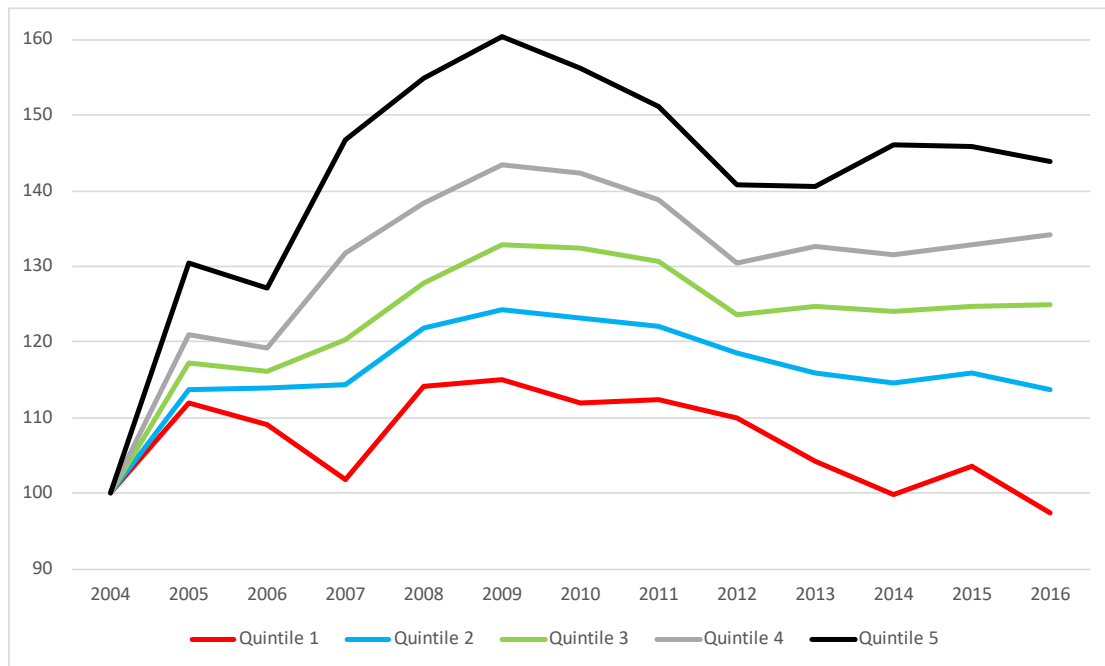
The evolution of wage levels during the last decade reflects the impact of the crisis. Figure 1 depicts real wage levels (which only progress if nominal wages grow above inflation) between 2004 and 2016 (the index has a value of 100 in 2004, the base year) for different groups of workers: employees are ranked according to their wages and then divided into 5 groups of equal size (wage quintiles, each of them including 20% of employees), from the group with the lowest wages (Quintile 1) to the group with the highest wages (Quintile 5).

Real wages progressed among all groups between 2004 and 2009, but much less among those employees with the lowest wages. Then the crisis came and wage levels fell across all groups of employees between 2009 and 2016, but especially so among lower-paid employees: the average wage dropped by 15% among the lowest earners.

The loss of purchasing power among the lowest-paid employees has been remarkable and also protracted. While real wages began to grow again timidly in 2013 among the three groups of employees with higher wage levels, available data show they continued to deteriorate among the two groups of workers with lower wages at least until 2016.

Against this background, the recent increases in the statutory minimum wage are a policy tool aimed at improving the wages of those employees who have suffered the worst consequences of the strong economic crisis. Although the increases adopted in 2017 and 2018 were already higher than in previous years, the boost of the minimum wage in 2019 is of a much higher magnitude.

Figure 1 Evolution of average real wages by wage quintiles (Index, 2004=100).



Source: EU-SILC. The figure is based on a measure of a full-time equivalent monthly wage constructed using the EU-SILC microdata (for further methodological details on its construction, see [here](#)).

The Spanish minimum wage in the EU context

Is the Spanish statutory minimum wage high? It does not seem so even considering its new rise. This is shown in Table 1 below, which compares its level with that of the other EU Member States. Spain appears in the eighth position among the 22 European countries that implement a statutory minimum wage (first column). The new Spanish minimum wage, which equates to €1050 per month over 12 months, is higher than those of eastern European Member States and other Mediterranean neighbours (Slovenia, Malta, Portugal and Greece), but much lower than those from the group of European countries with the highest minimum wages, around and above €1500 (namely Luxembourg, Ireland, Netherlands, Belgium, Germany, France and the United Kingdom). In addition, it should be taken into account that Spain would be ranked in a more intermediate position if Denmark, Finland, Sweden, Italy and Austria were also considered: these countries are not included because they do not have a statutory minimum wage, but they have relatively high wage floors negotiated by the social partners in various sectors.

Could it be that Spain's position was better if we took into account that the cost of living is lower than in European countries with higher minimum wages? No. The differences in the minimum wages between the different countries are narrower when differences in the cost of living between countries are considered, but Spain would continue to occupy the same relative position (second column of the table).

Table 1 Statutory minimum wage levels across EU countries.

| | € (2019) | Purchasing Power Parity € (2019) | Percentage of the average wage (2017) |
|--------------------|-------------|-------------------------------------|---|
| Luxembourg | 2071 | 1646 | 42.7 |
| Ireland | 1656 | 1302 | 38.3 |
| Netherlands | 1616 | 1442 | 39.3 |
| Belgium | 1594 | 1438 | 39.8 |
| Germany | 1557 | 1497 | 42.5 |
| France | 1521 | 1390 | 49.9 |
| UK | 1453 | 1274 | 44.2 |
| Spain | 1050 | 1136 | 33.9 |
| Slovenia | 887 | 1059 | 48.0 |
| Malta | 758 | 928 | 44.4 |
| Portugal | 700 | 814 | 43.5 |
| Greece | 684 | 800 | 32.8 |
| Lithuania | 555 | 860 | 43.4 |
| Estonia | 540 | 691 | 35.2 |
| Poland | 523 | 933 | 43.6 |
| Slovakia | 520 | 745 | 38.2 |
| Czechia | 519 | 743 | 35.4 |
| Croatia | 506 | 745 | 41.5 |
| Hungary | 464 | 765 | 40.2 |
| Romania | 446 | 865 | 43.6 |
| Latvia | 430 | 591 | 38.7 |
| Bulgaria | 286 | 577 | 43.4 |

Note: Minimum wages prorated over 12 monthly payments

Source: Eurostat and OECD

There is an indicator that gives a better idea about the level of the minimum wage in relation to the situation of the labour market in each country: the percentage that the minimum wage represents over the average wage earned by employees (the so-called Kaitz index, third column of the table). The latest available official data are from 2017 and show Spain at the bottom of European countries (only ahead of Greece), since the minimum wage represented then less than 34% of the average Spanish wage, far from almost 50% in the

French case. This indicator will be higher in 2019 due to the important increase of the minimum wage in 2019, but it will not place Spain among the European countries which are in the lead on this indicator, especially taking into account that other countries have also raised their minimum wage in recent years.

There are several reasons to explain the relatively low minimum wage level when compared to the average wage in Spain. One, it may be that the minimum wage level is definitively not high, as shown when comparing it to that of other EU countries. Two, Spain is one of the EU countries with a smaller proportion of employees receiving wages around the level of the statutory minimum wage, since the social partners negotiate through collective bargaining wage floors in various sectors of the economy: these collectively-agreed minimum wages are set above the level of the statutory regulation, which is used as reference in the negotiations among trade unions and employer organisations.

This means that the recent increase of the statutory minimum wage will bring Spain more in line with other advanced European economies without significantly impacting large swathes of the workforce.

An estimate of the impact of the new minimum wage

There are not yet individual data to assess the impact of the new minimum wage on the wages of the different types of Spanish workers, but a roughly estimate of its main effects is possible using a prospective analysis based on the latest data available from pan-European statistical sources of microdata (specifically the 2017 wave of the EU-SILC survey, which refers to wage data from 2016).

Can it be expected that the new minimum wage affects a large proportion of Spanish workers? No. Among all EU countries, Spain is one of those with a smaller proportion of employees earning wages close to the statutory minimum wage. For example, in 2016 less than 5% of Spanish employees earned wages around the minimum wage level at that time, far from most EU countries (with proportions greater than 10% in countries such as Portugal, Poland, Hungary, Cyprus or Luxembourg).

EU-SILC data shows that in 2016 7% of Spanish employees earned wages that were in between the levels of the statutory minimum wages of 2018 and 2019. Since Spain had almost 16 million of employees, this means that approximately 1.13 million of them would have been directly affected by the recent rise in the minimum wage. This estimate is in fact quite close to that [made by the Independent Authority for Fiscal Responsibility \(AIReF\)](#), which, using more recent national statistical sources, estimated the new minimum wage would have a direct impact on 8% of the employees, approximately 1.2 million.

It has to be taken into account that there are also workers who receive wages below the one set by the statutory minimum wage. For example, based on Eurofound's analysis of EU-SILC data on wages in Spain in 2016, 9% of the employees earned wages below the statutory minimum wage level at the time. This may be due to different reasons, such as the fact that

the minimum wage does not apply to certain groups (such as trainees or seasonal workers) and the presence of an informal economy not bound by labour standards and characterised by more precariousness, or as well errors in the collection of survey data and limitations of the methodological analysis applied (see [here](#) for further methodological details).

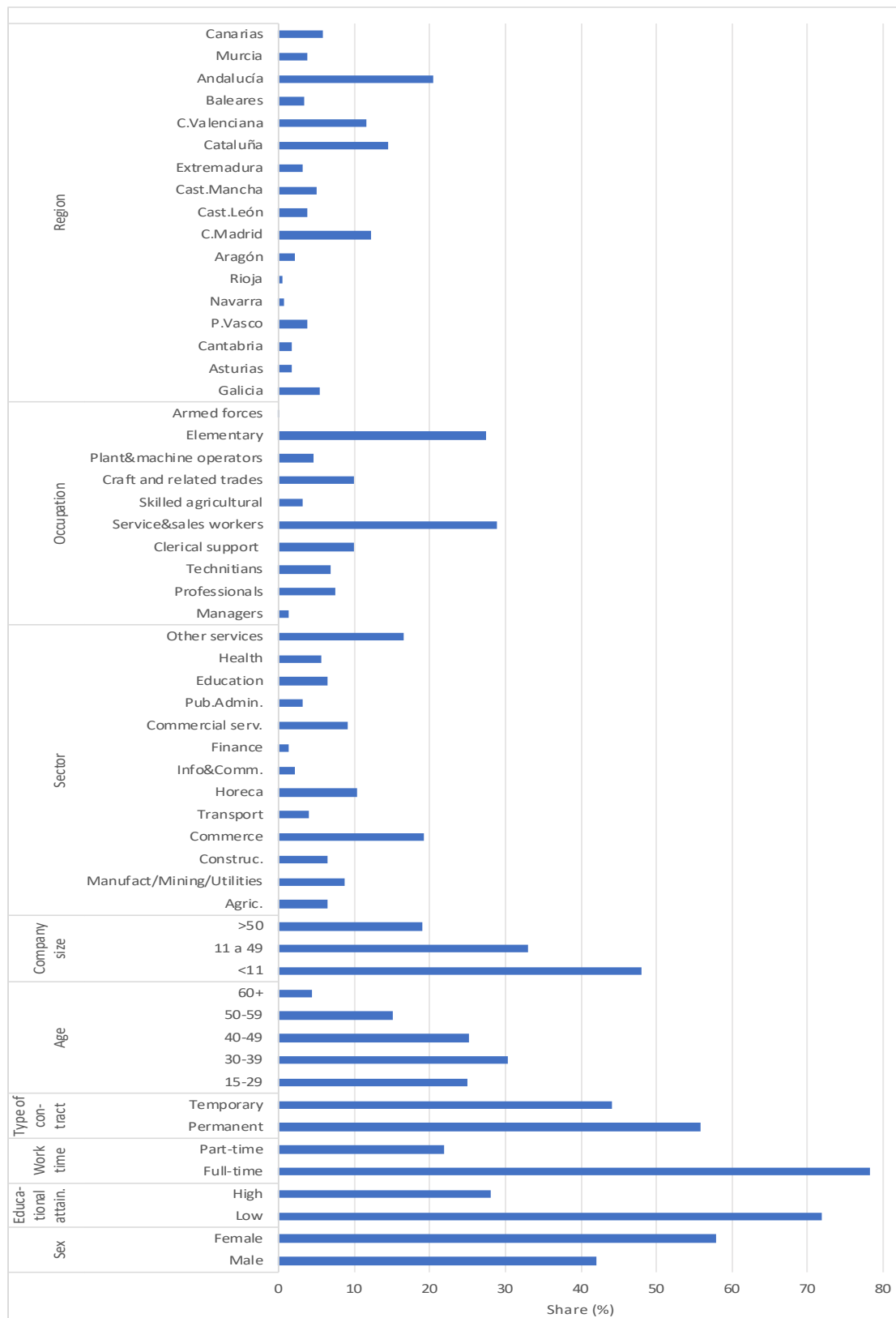
Eurofound's analysis estimates that in 2016 around 15-20% of Spanish workers earned below the new 2019 minimum wage rate (adding those whose wages were below the minimum wage levels in 2016 and those who had wages in between the minimum wage levels of 2018 and 2019). However, taking this figure at face value would probably overestimate the reach of the new minimum wage rate, even though it may benefit some of those employees with wages below statutory minimum wage levels. A more prudent estimate of the impact of the new minimum wage would be that less than 10% of Spanish employees are directly affected by such rise, as inferred by this analysis and other available national estimates.

Unequal impact across groups of workers

The new minimum wage will have an unequal impact on the workforce, since certain types of workers tend to earn lower wages. Figure 2 shows the characteristics of those employees that are below the level set by the 2019 minimum wage and that therefore are going to be the most directly benefited by this new policy. According to Eurofound's prospective estimate (based on EU-SILC data referring to wages in 2016), among these employees there are:

- More women (almost 60%) than men (and this should not be due to females working more part-time, since full-time equivalent wages are used in the analysis).
- A large majority of workers without university education (72%).
- Almost as many with temporary (44%) than with permanent contracts.
- A very significant presence of young people between 15 and 29 years old (25%) even though this group is much less present among the total of employees due to long years of study.
- Almost half of them work in small companies with up to 10 workers.
- Most of them work in sectors such as commerce, hospitality, commercial services and other service activities.
- The majority of them belong to the professional categories of service and sales workers, elementary occupations, craft and related trades workers and clerical support workers.
- A majority of employees are from Andalusia, Catalonia and the Communities of Madrid and Valencia.

Figure 2 Distribution of employees below the 2019 minimum wage by characteristics.



Note: Based on a measure of a full-time equivalent monthly wage constructed using the EU-SILC microdata (for further methodological details on its construction, see [here](#)).

Source: EU-SILC 2017

Wider consequences of the new minimum wage?

The significant increase in the minimum wage will improve the wages of those employees who need it most and will reduce the relatively high levels of wage inequality in Spain (which was ranked ninth among EU-28 countries regarding wage inequality levels as measured by the Gini index in 2016). Moreover, the improvement of wage levels does not have to be limited to those employees being directly benefited by the new minimum wage, since spill-over effects may be felt as well by those employees earning higher wages: the new minimum wage is used as a reference in the collective bargaining and therefore has the potential to positively affect the negotiated wages of employees earning above the legal minimum.

In addition, there are other arguments in favour of the measure adopted: its positive effect on consumption and aggregate demand which can boost economic growth; the incentive that it may bring to increase the productivity of the lowest paid jobs (so that they are profitable in response to the higher wages) and to promote the creation of economic activities of greater added value.

Why have so many voices emerged criticising the increase of the statutory minimum wage then? The reason is the possibility of job losses emerging as a result. Classical economic theory warns that if minimum wages are set at too high levels (above the marginal productivity of the worker), it would not be profitable for employers to hire the less qualified and productive workers, precisely those in principle the minimum wage tries to help.

Empirically, the existence or not of possible negative effects of minimum wages on employment is one of the most controversial academic subjects studied and on which it is considered that there is no conclusive evidence. However, the [most recent empirical studies](#) tend to agree that increases in minimum wages have not led to falls in the overall employment levels of the economy. Nevertheless, some studies have identified small negative effects on the job prospects of certain workers (such as the lower-skilled or the younger ones), while some of the smallest companies may have more difficulties absorbing the increased staff costs resulting from higher minimum wages.

What is known about the impact of the most recent examples of minimum wage hikes in EU countries? Germany and the United Kingdom have recently adopted important increases in their minimum wages that do not seem to have had the negative employment effects that many people also announced in these countries. In 2015, the German government carried out an ambitious [introduction of a statutory minimum rate](#) for the first time in its history, and the German unemployment rate continued to fall despite the concerns raised around impacts on employment. The UK has been increasing its minimum wage remarkably since 2016 and this also [does not seem to have resulted in unemployment either](#).

Nevertheless, it must be noted that the hike of the Spanish minimum wage is of a magnitude with few precedents across EU countries in recent years. It also differs from the German and UK examples in that in these two countries minimum wages are set in a predictable and

transparent manner, with the full involvement of social partners and with a systematic monitoring of its potential employment impacts by specific independent bodies mandated to carry this out and provide recommendations.

Can a negative employment impact of the new Spanish statutory minimum wage be expected? It would be difficult to imagine a very significant effect, due to the fact that the proportion of workers who are going to be directly affected by this measure is small, as was shown above. However, some voices have already attributed the fall in the number of [affiliations to the social security system](#) in January 2019 to the new minimum wage. Nevertheless, January is an historically bad month for employment, and the fall that occurred in January 2019 with respect to December 2018 (-1.1%) was not very different from the one that occurred in previous years (-1% in January 2018 and 2017; -1.2% in January 2016 and 2015). Moreover, the levels of affiliation have grown again in the following months of 2019, even though at a slightly lower growth rates in year-on-year terms against a background of slowing economic activity levels in Europe (comparing the affiliation of employees in a month of 2019 with the same month of 2018, the affiliation is growing at a range of 2.8%-2.9% between January and May 2019, compared to 3.1%-3.5% during the same months of 2018).

Nevertheless, caution is needed when assessing the possible effects of this minimum wage increase. A robust empirical assessment of its impact on employment will only become possible once detailed individual data become available and allows to properly scrutinise the effects of the new minimum wage, especially on the employment prospects of certain groups of workers, such as those with lower productivity whose jobs may be at a higher risk.

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All Eurofound publications are available at www.eurofound.europa.eu

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