

Economic Growth and Welfare Systems

Prof. PASQUALE TRIDICO

Università Roma Tre

tridico@uniroma3.it



Labour Market, inequality and poverty:
the need for minimum wage and minimum
income

Outline

- Why wages do not grow

(fragmentation, flexibility and atypical job pressure, ineffective CCNL)

- Why productivity does not grow

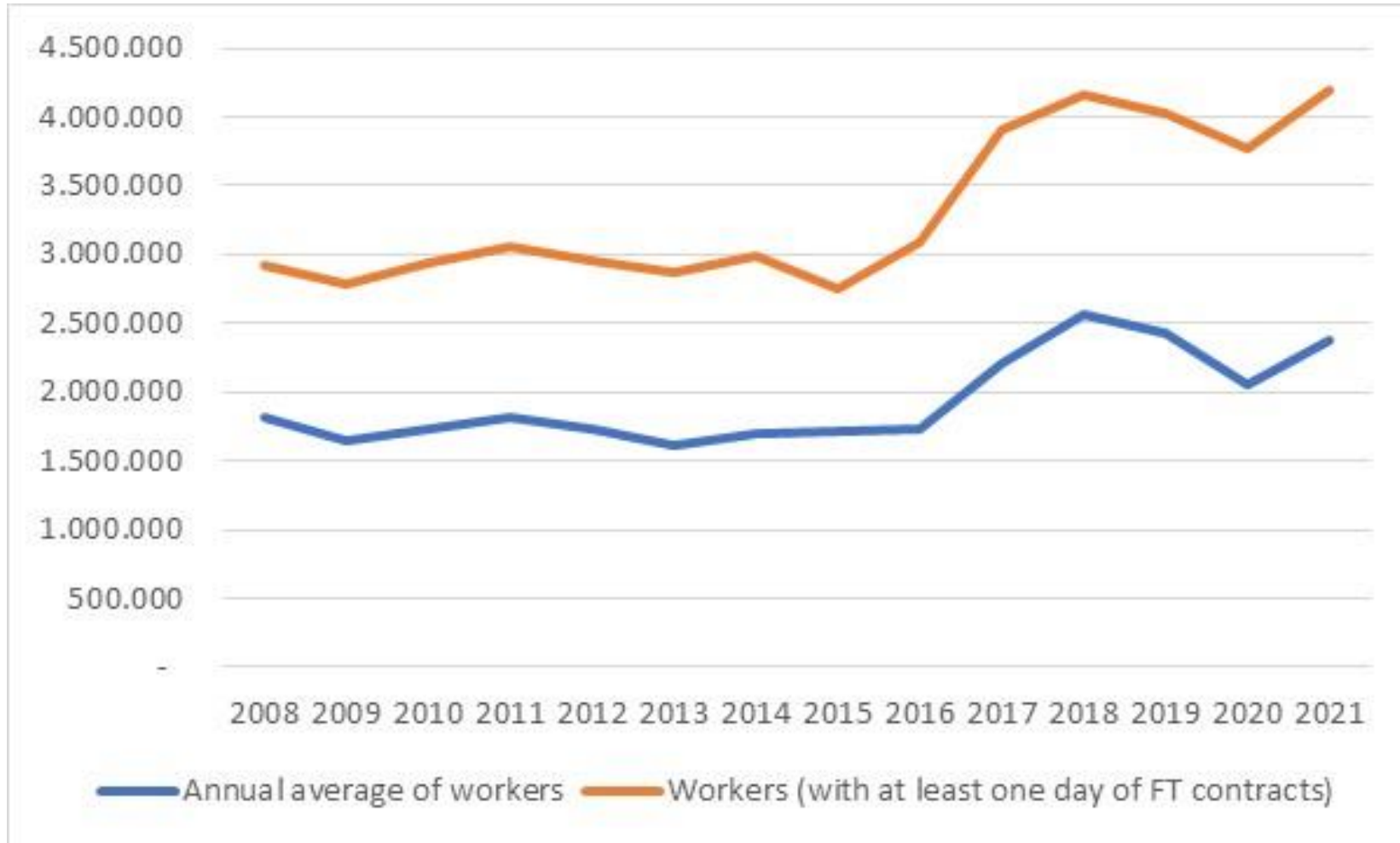
(structural changes, polarization and inequality)

- Minimum wage

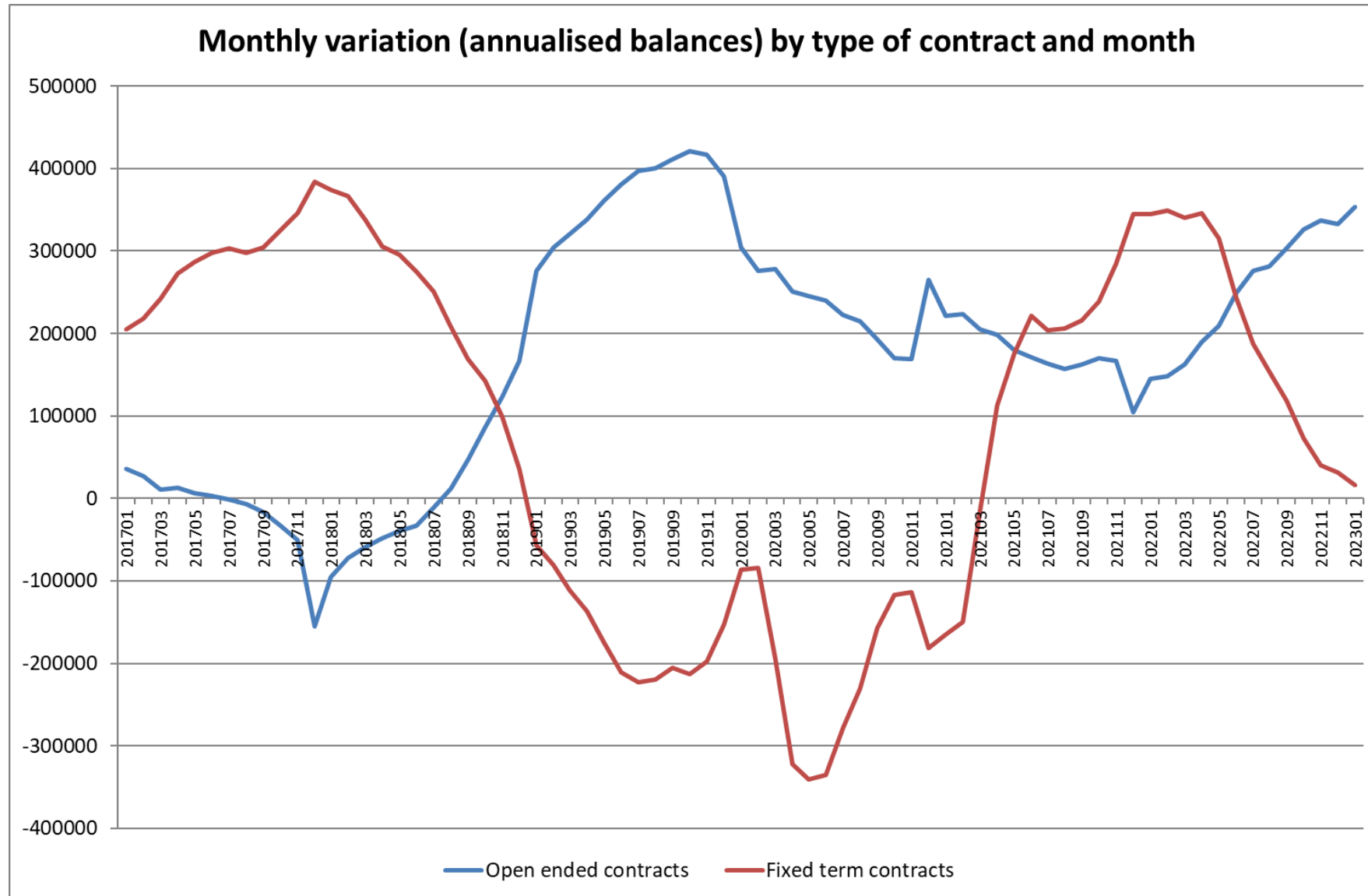
- Citizenship Income, against poverty, inequality, and undeclared work

Fixed term contracts 2008-2021

(seasonal contracts included; agriculture and domestic sectors not included)



Monthly variations by type of contract: permanent vs temporary



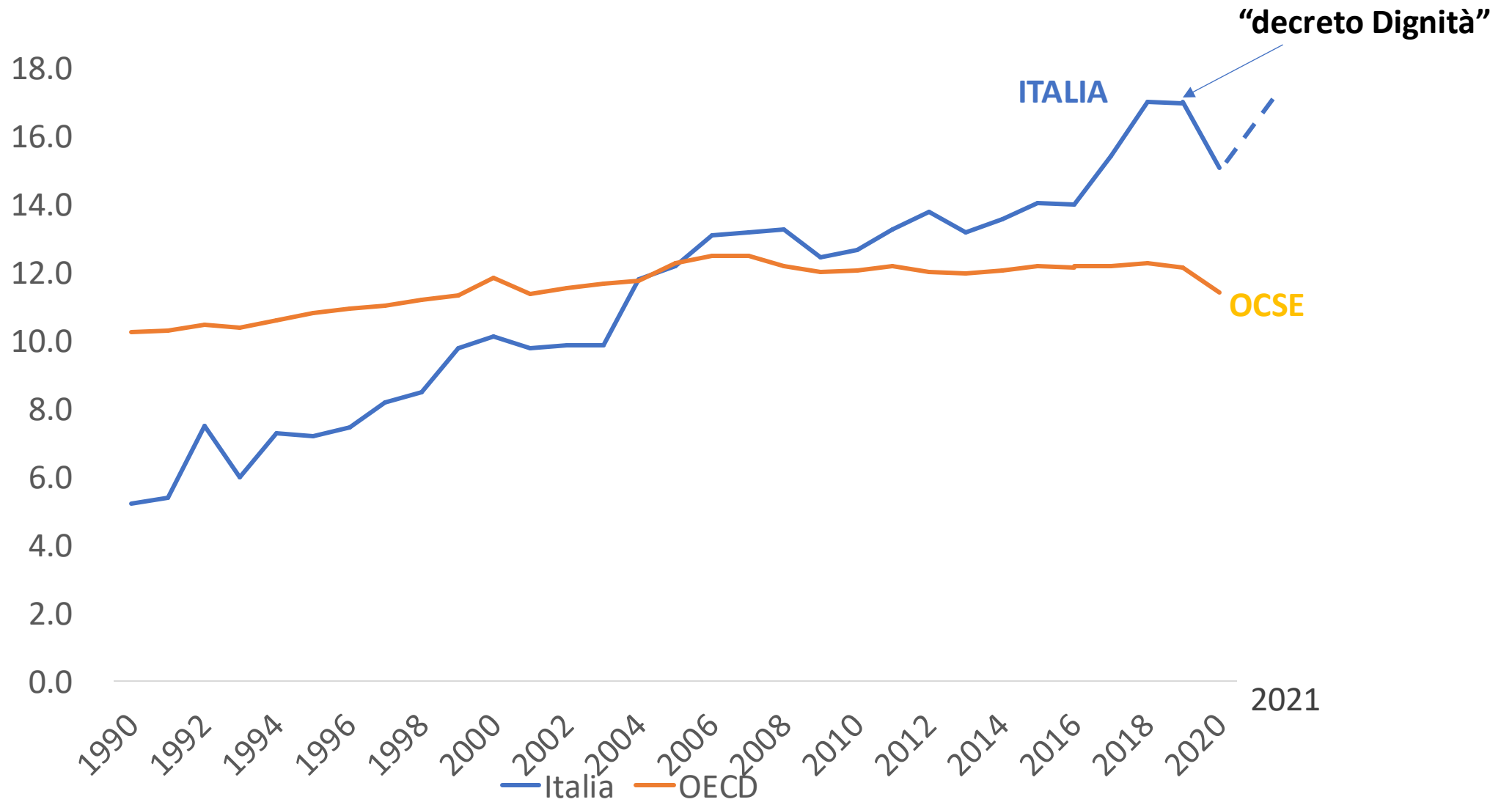
GREAT RESIGNATION

**TERMINATIONS OF PERMANENT EMPLOYMENT RELATIONSHIPS.
RELOCATION RATES AT 3 MONTHS: RESIGNATIONS, DISMISSALS (AGE UP TO 60 YEARS)**

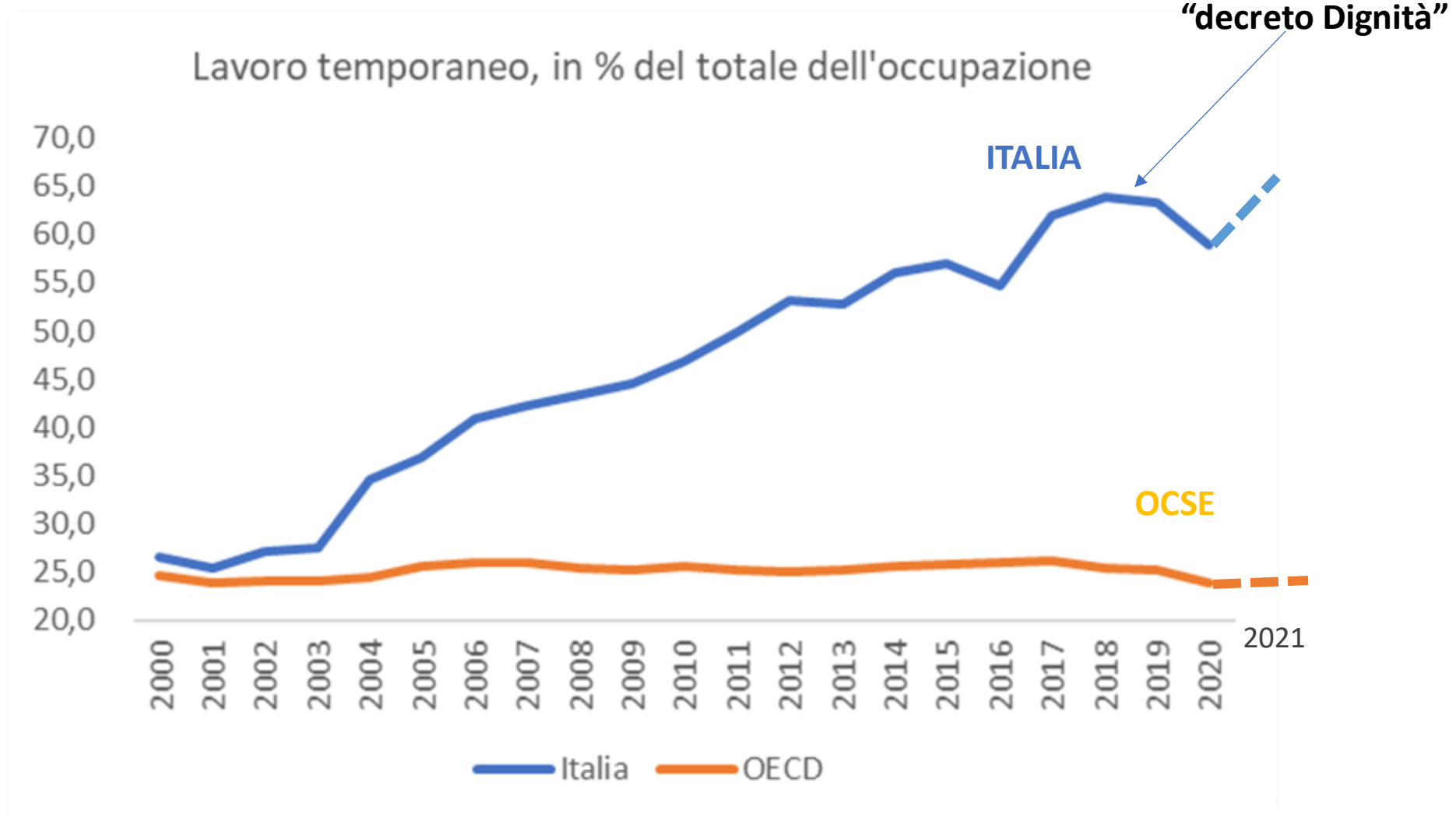


Fonte: Inps, Osservatorio Precariato

Increase temporary employment, flexible and precarious

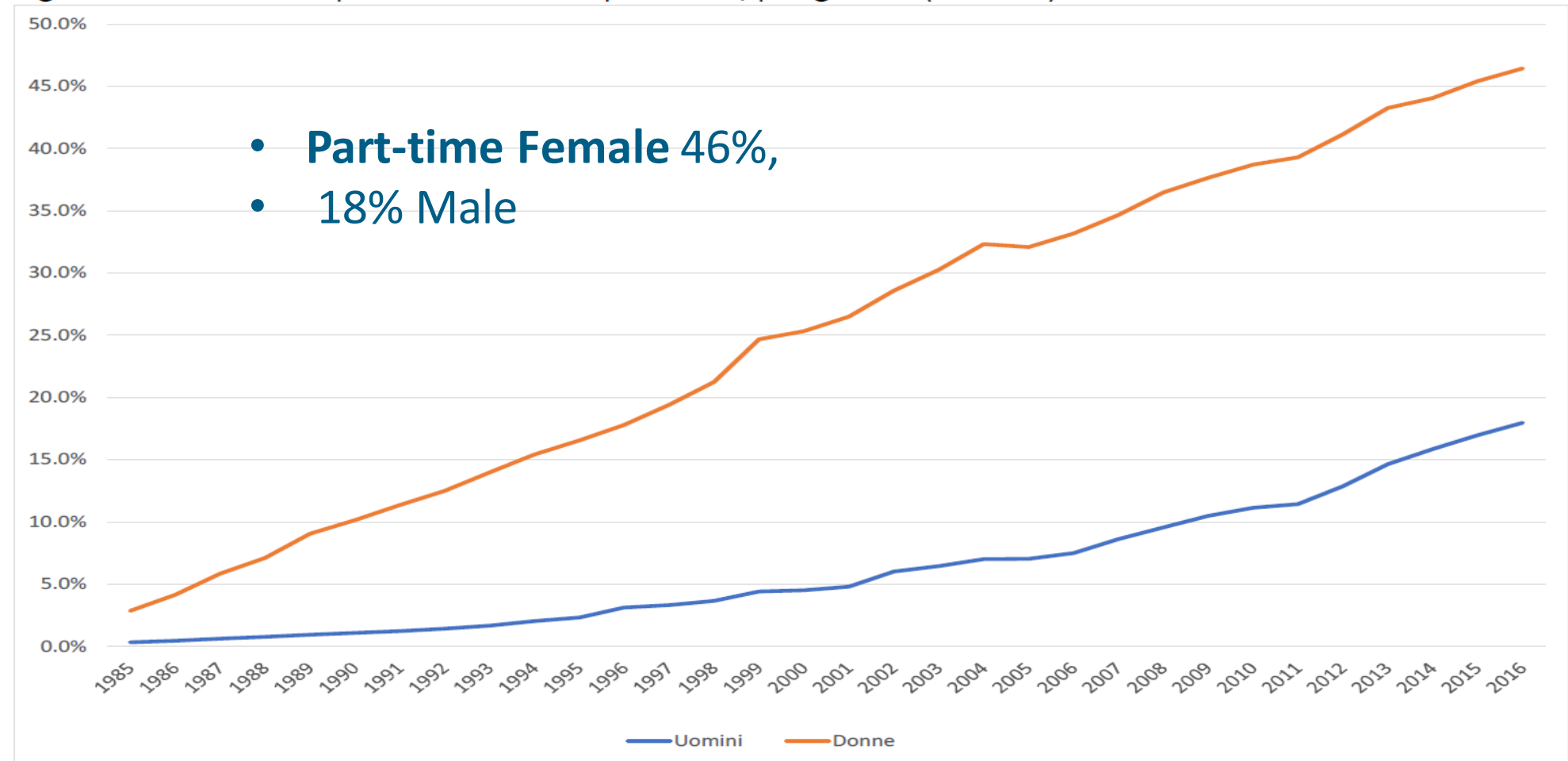


Temporary employment young 15-29: (60% temporary)



Part-time (in particular woman and non-voluntary)

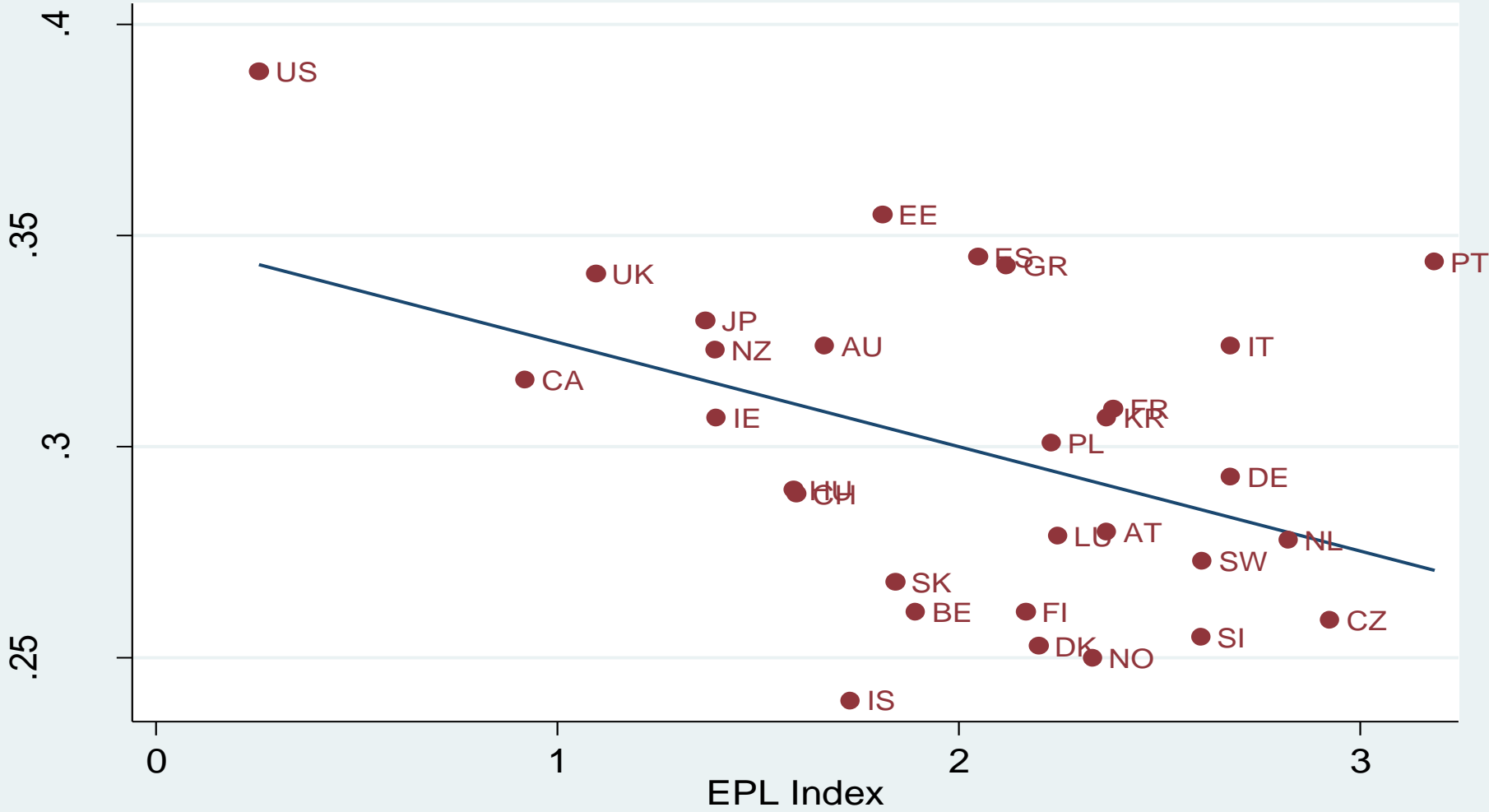
Fig. 2.3: Quota di occupati con contratto part-time, per genere (valori %)



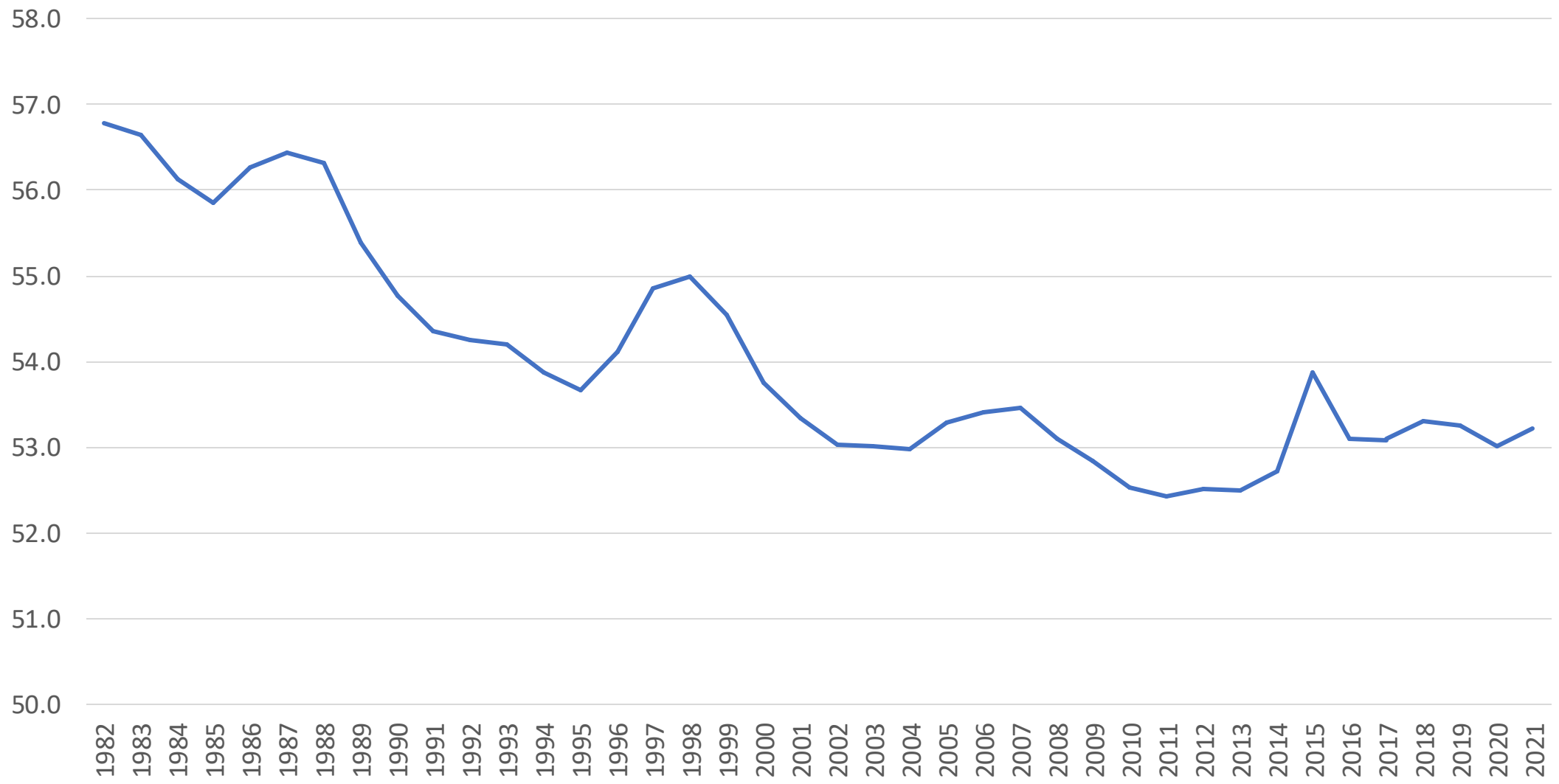
Fonte: elaborazioni su dati INPS-LOSAI

		1 day	2-7 days	8-30 days	31-60 days	61-180 days	181-365 days	+ 365 days
NON SEASONAL WORKERS	2021Q1	9,2	9,1	15,9	12,9	28,1	23,7	1,2
	2021Q2	14,2	9,8	16,2	12,7	30,1	16,3	0,8
	2021Q3	10,4	6,3	12,9	12,8	29,4	27,3	0,8
	2021Q4	13,2	10,0	14,9	16,0	29,3	15,5	1,1

Fonte: nota trimestrale Istat-INPS-ML, 2\2022



Fonte OCSE

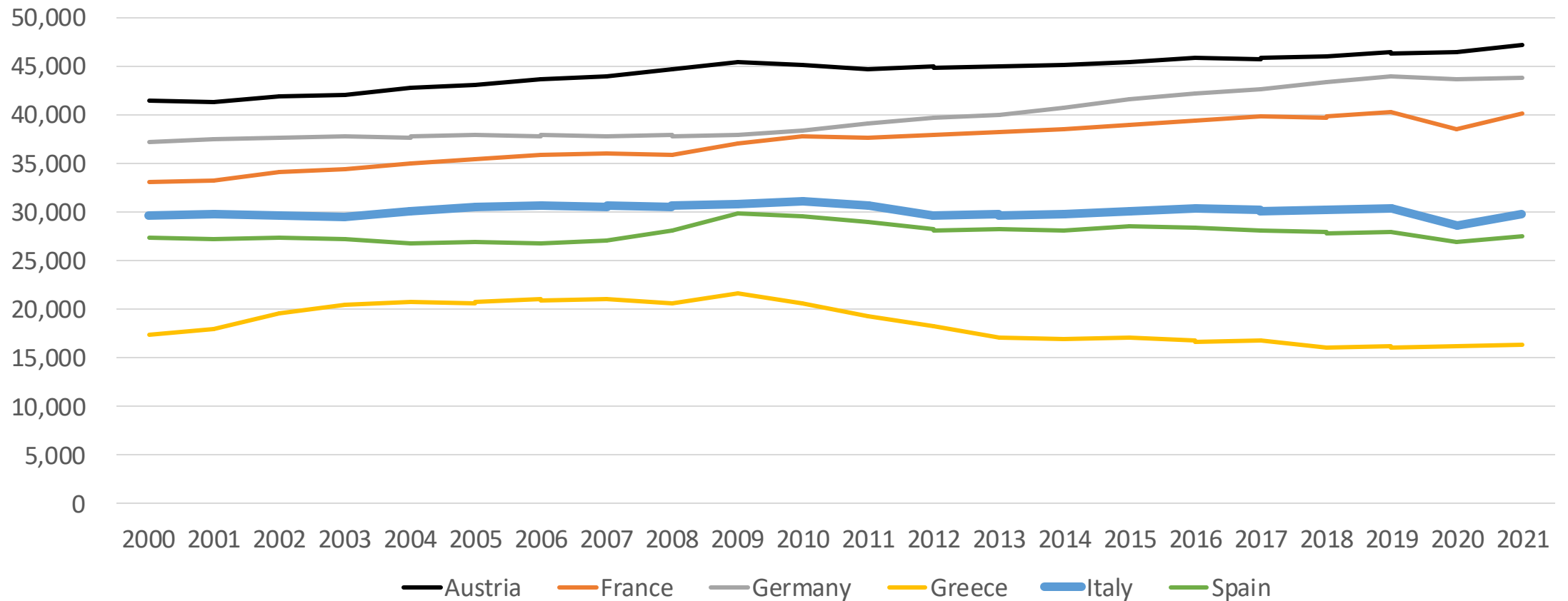


A photograph of a modern building facade. The facade is composed of large, rectangular panels in various shades of blue. Some panels are solid blue, while others feature vertical black and white stripes. The building is set against a clear, light blue sky. The perspective is from a low angle, looking up at the building's corner.

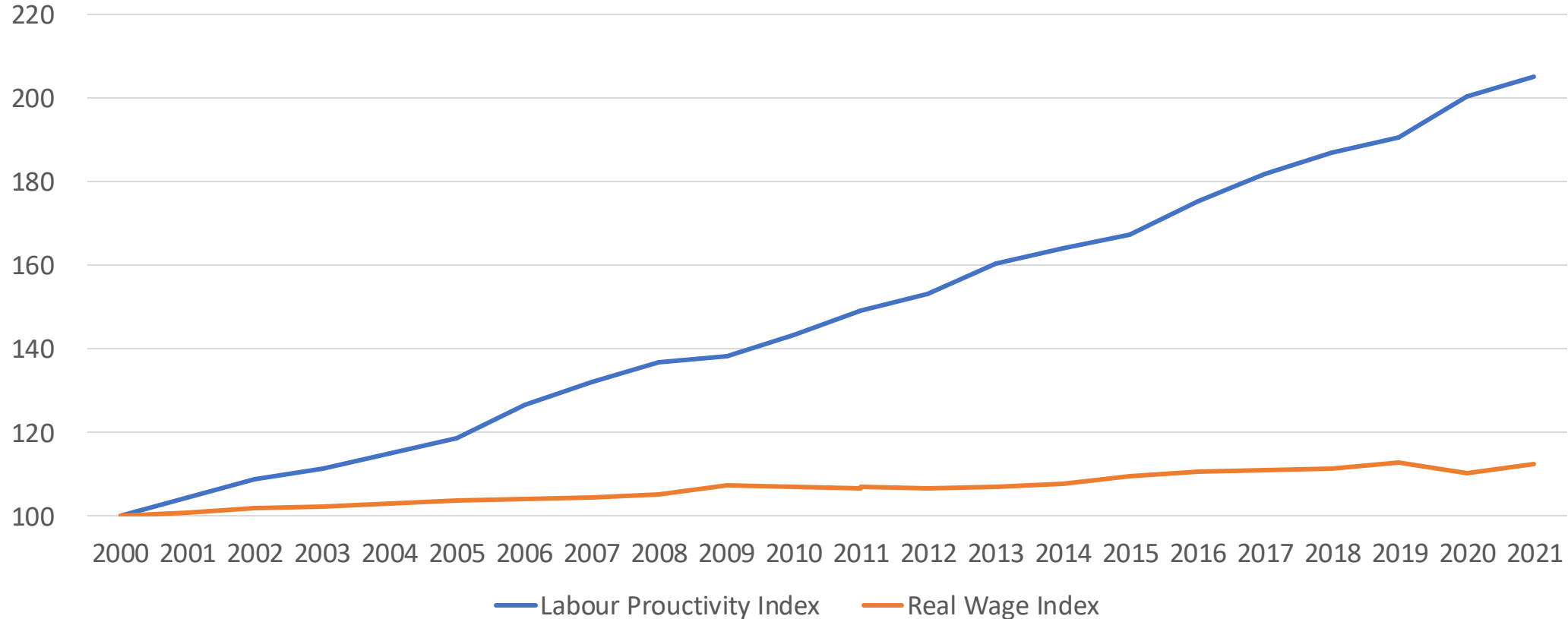
Wage developments and outlook

Real wages in euro, current prices. Source OCSE

2021 Constant prices and NCU

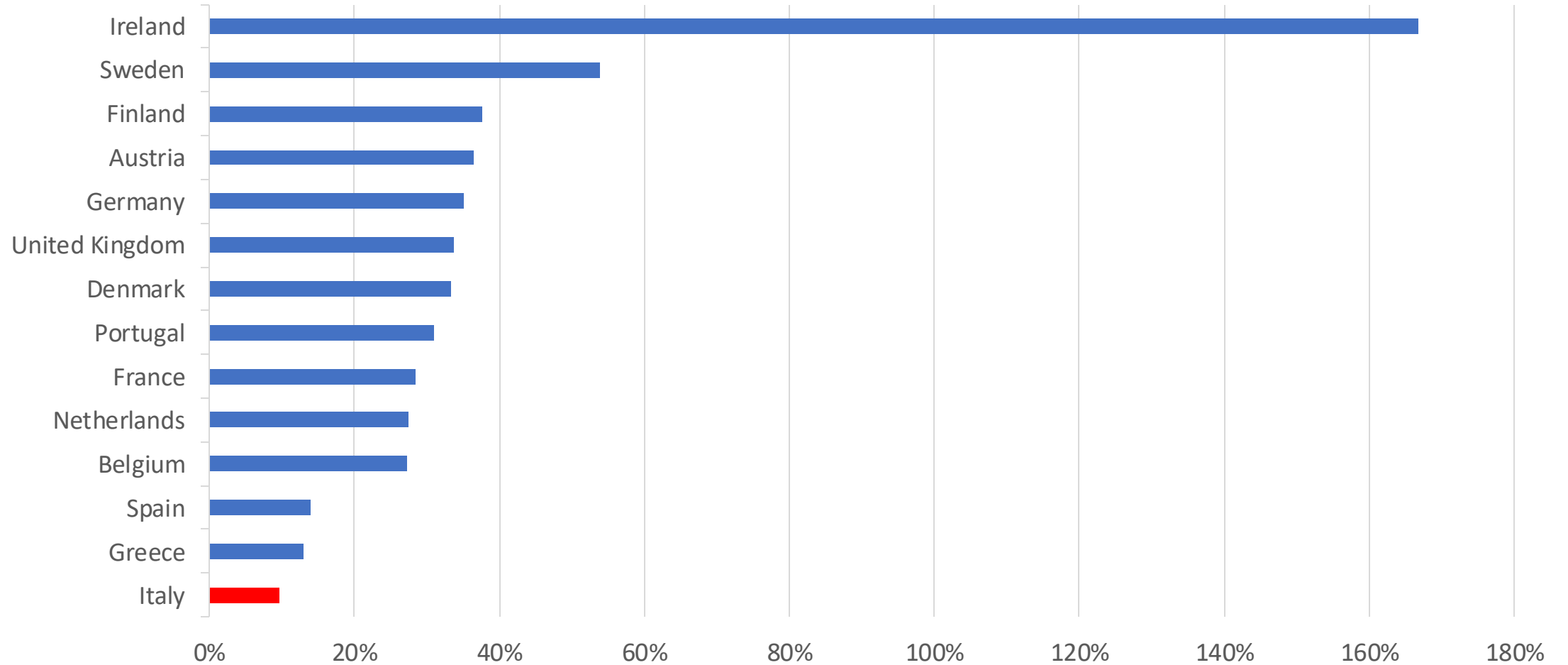


Wage compression (Eurozone average). Source OCSE



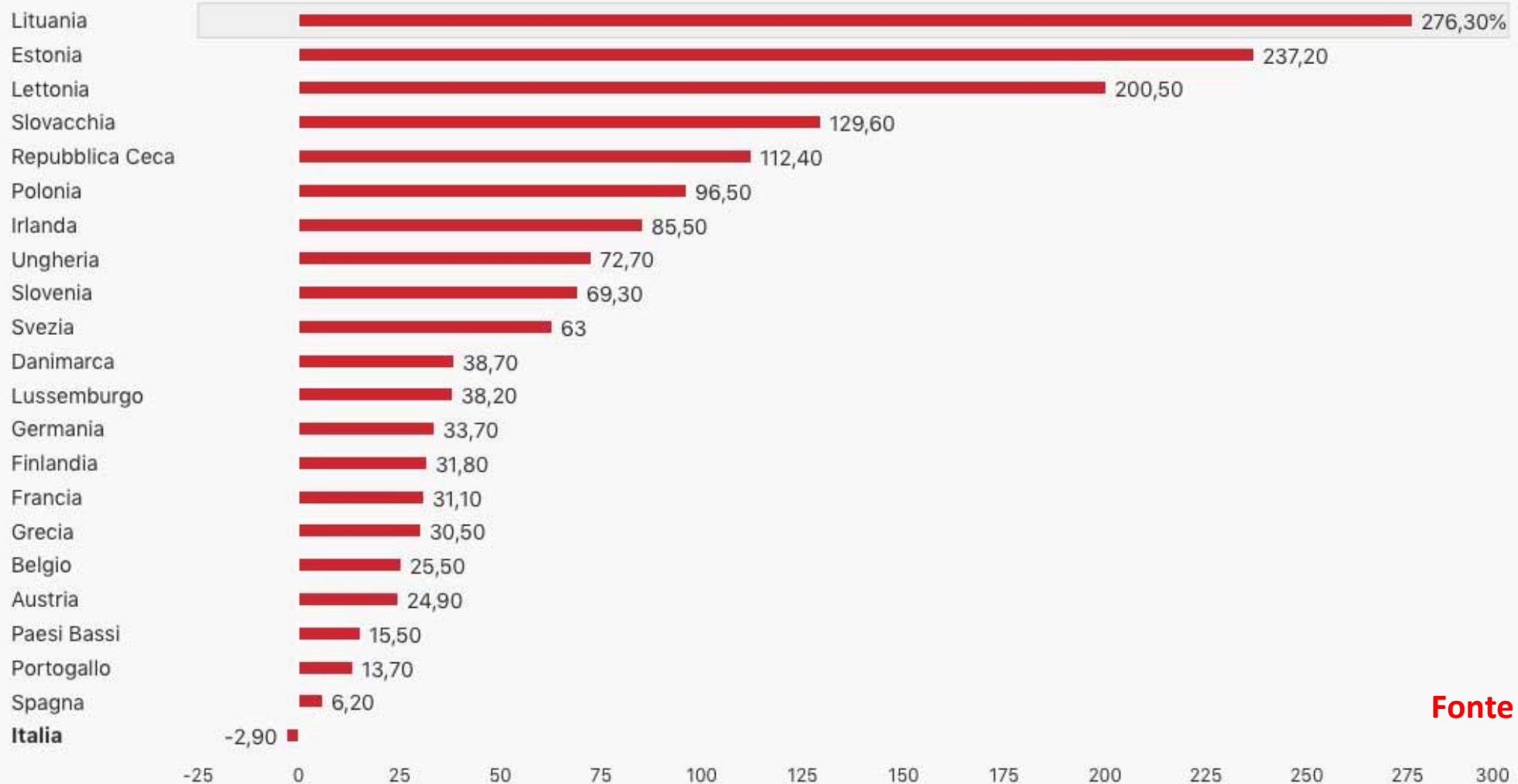
For the overall real wage index (2021 Constant prices and NCU), it is a weighted average (by population) of the national index of the following countries: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Slovenia, Spain.

Productivity growth 1995-2021. Source: OCSE

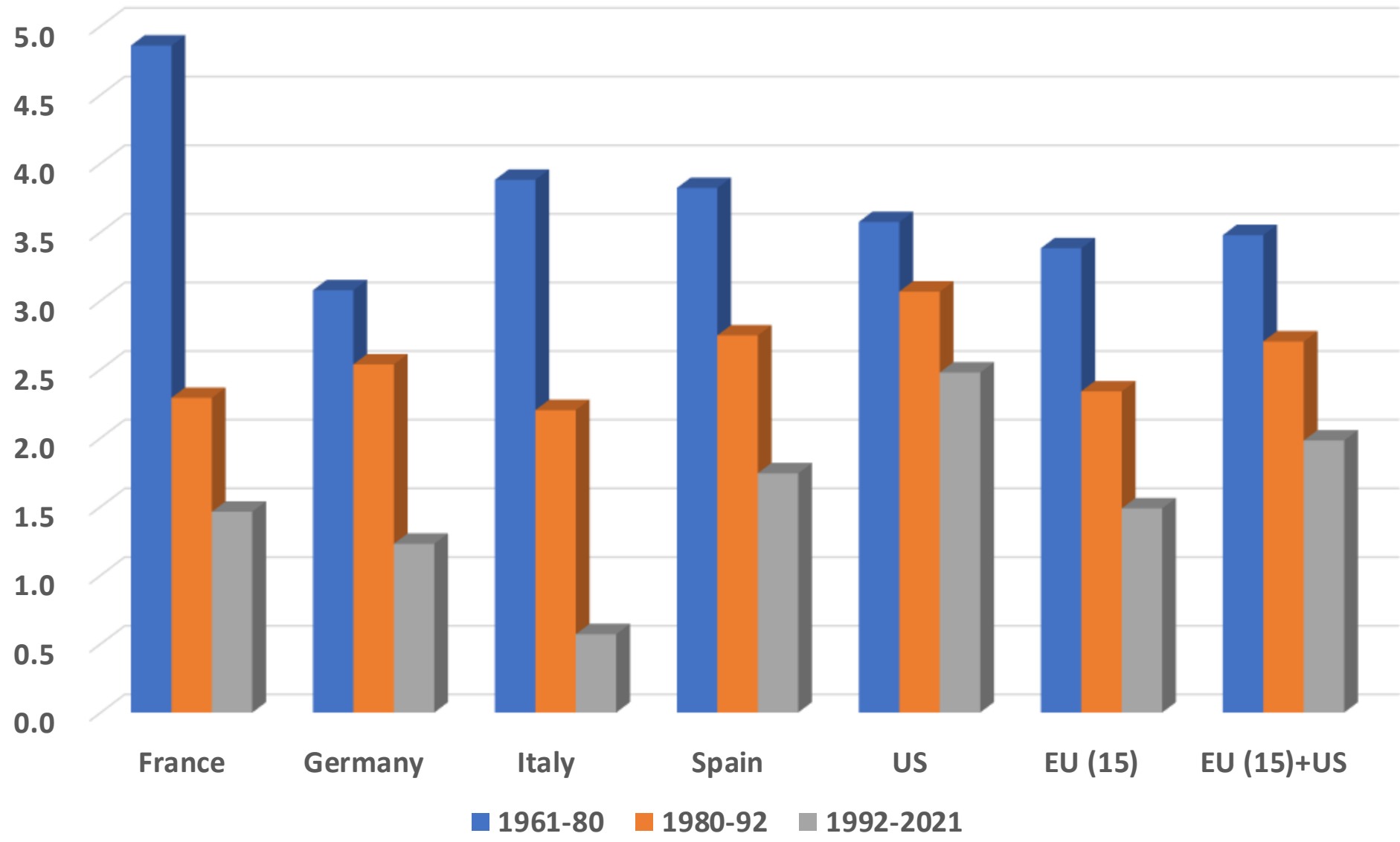


Average real change in Europe 1990-2020

■ variazione 1990-2020



Fonte OCSE

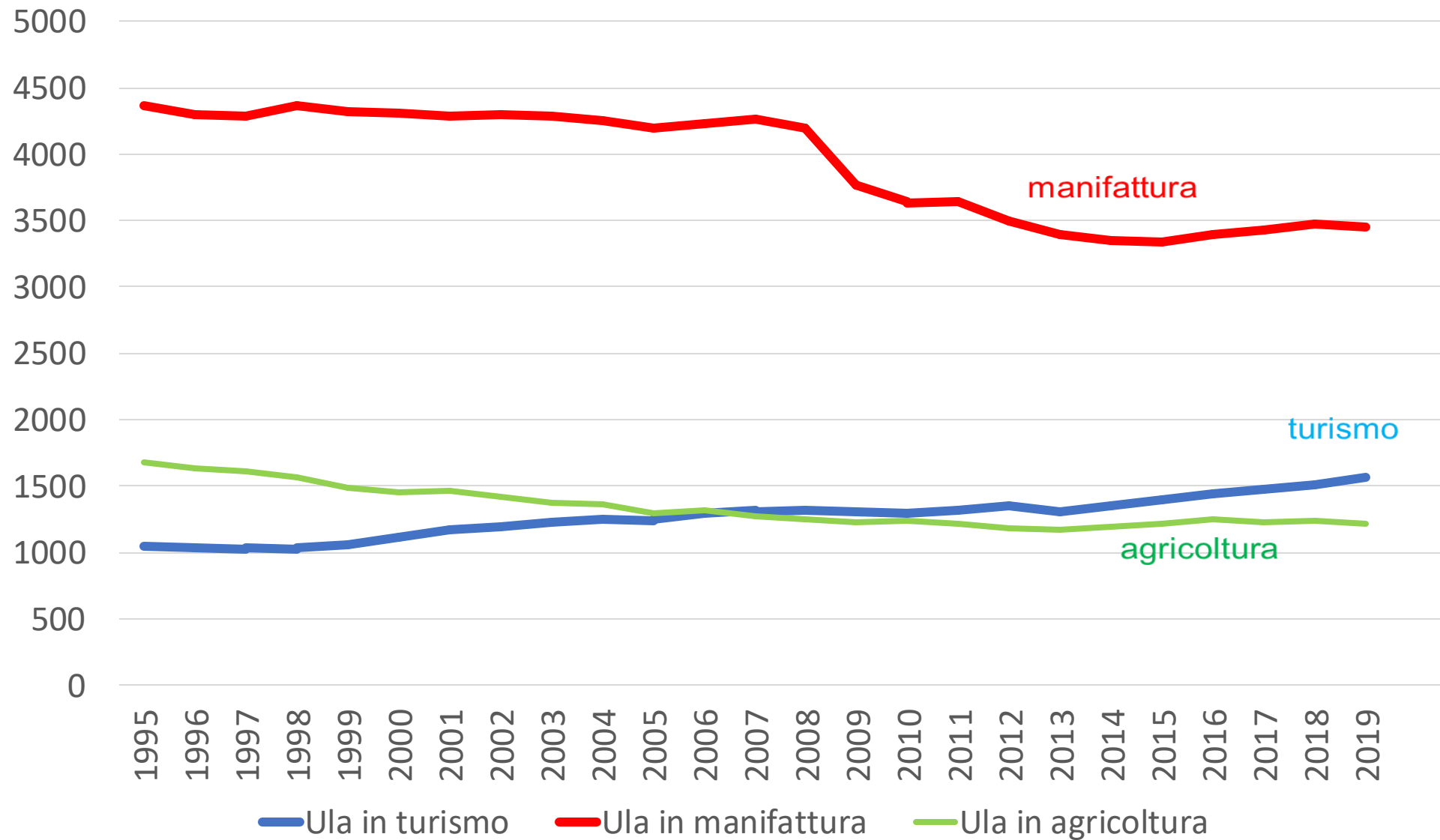


Why Italy does not grow

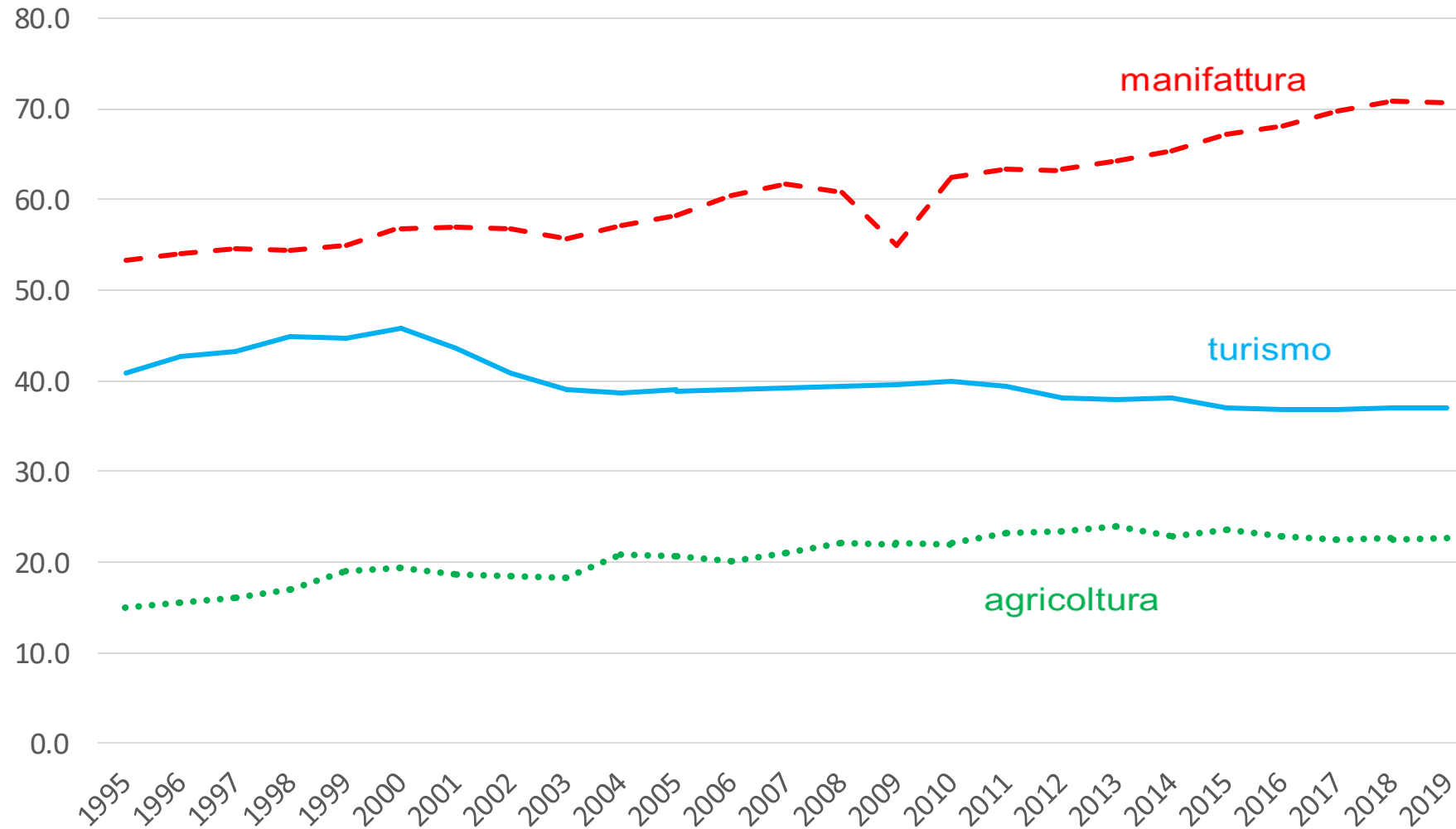


Because it looks like more and more an economy of bar

Occupazione in agricoltura, turismo e manifattura

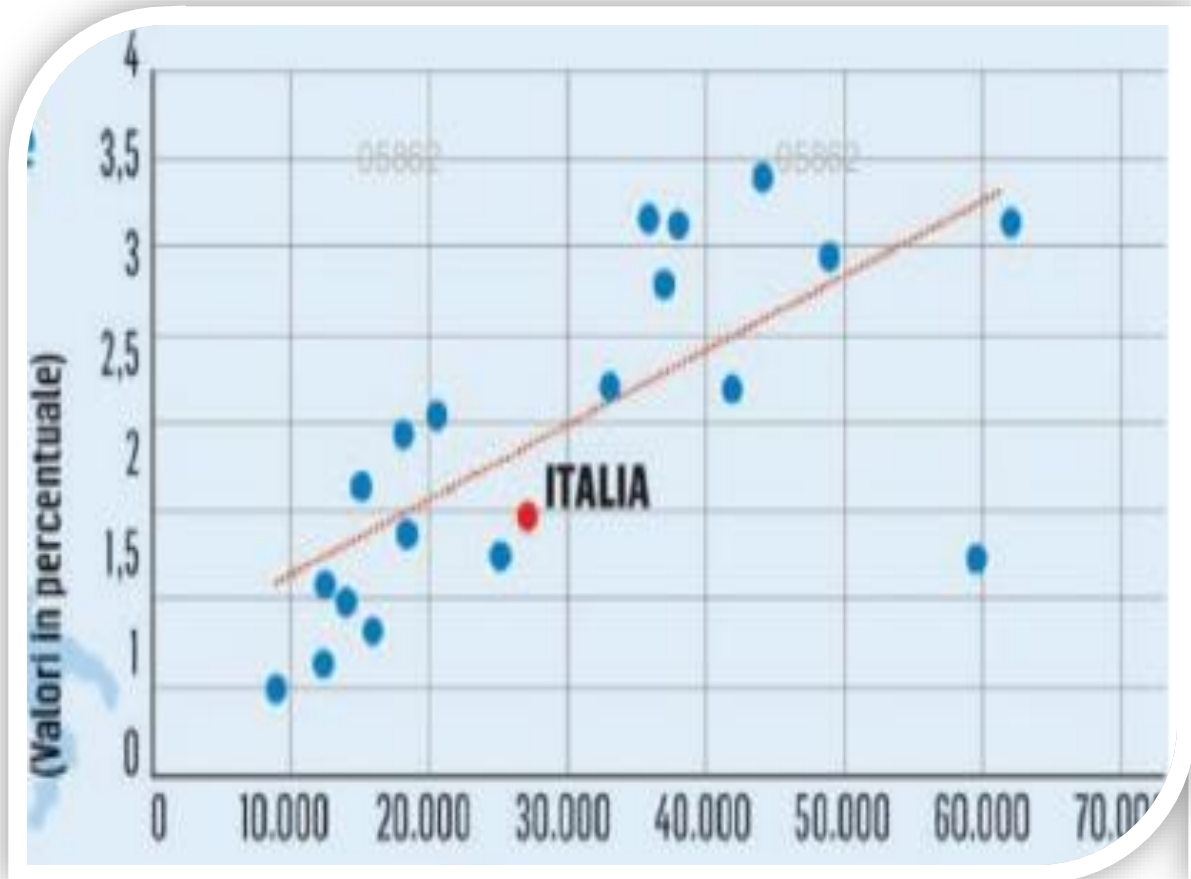


produttività del lavoro (000' €)

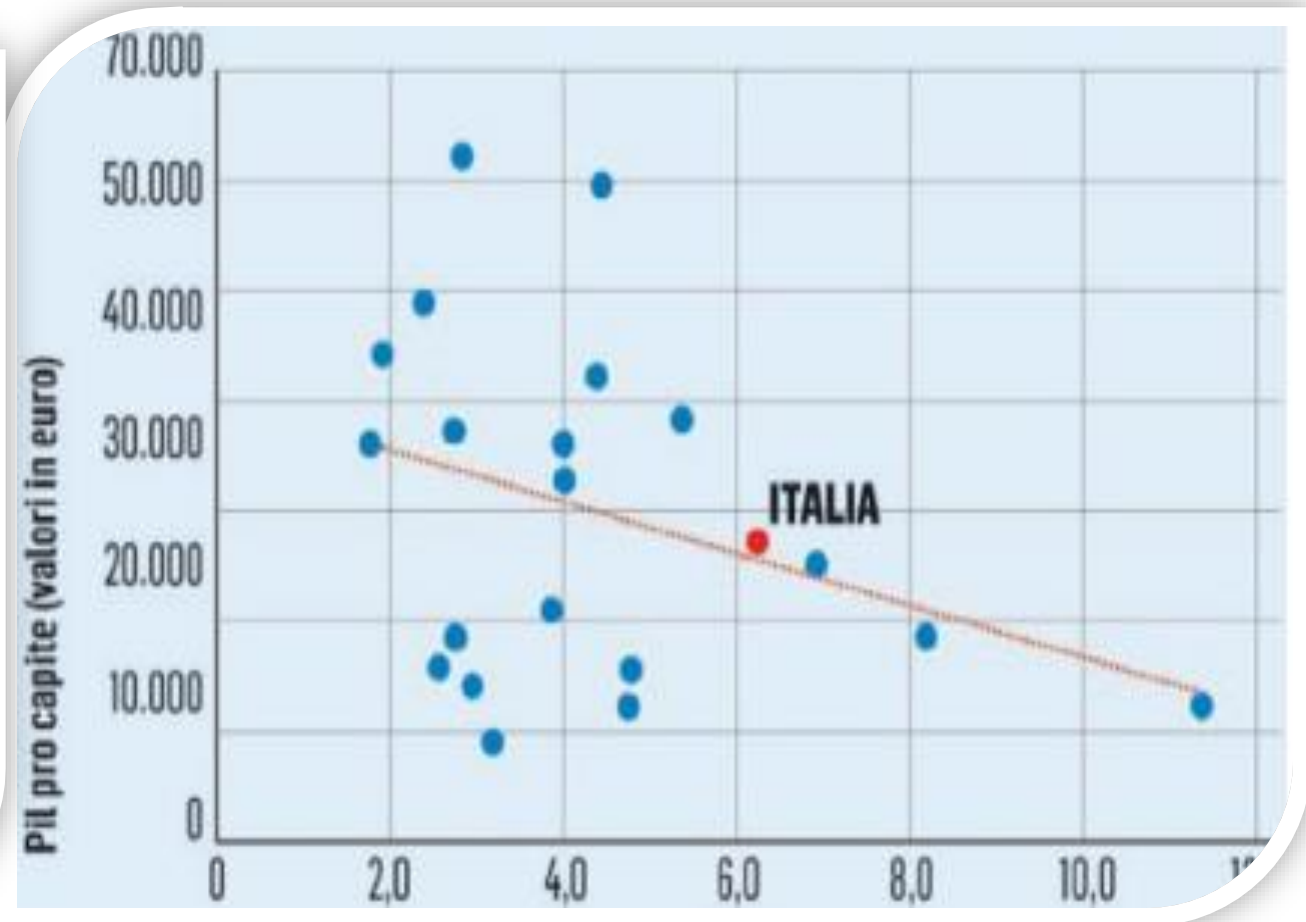


R&D and GDP – and Tourism

share of R&D on GDP (% on Y), EU and Italy



Share of Tourism on Value added (% on X), EU and Italy



Wage dynamics in recent years: differences by sector

Average wages in the year of employees with at least one paid day

Dynamics 2016-2021 by sector

SECTOR*	2016	2017	2018	2019	2020	2021	Δ%2016-21
MINING AND QUARRYING	43.717	43.963	45.549	46.832	45.289	46.764	7,0
MANUFACTURING	27.788	28.000	28.353	28.811	27.020	28.954	4,2
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	46.787	47.026	46.893	47.472	46.811	47.638	1,8
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	28.292	28.307	28.300	28.463	27.999	28.691	1,4
CONSTRUCTION	17.966	18.159	18.412	18.952	17.521	19.231	7,0
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	20.875	20.875	21.117	21.421	19.725	21.058	0,9
TRANSPORTATION AND STORAGE	24.246	24.223	24.588	24.398	23.081	24.210	- 0,1
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	10.277	9.660	9.729	9.837	6.870	7.997	- 22,2
INFORMATION AND COMMUNICATION	29.653	29.841	29.873	29.800	29.755	31.166	5,1
FINANCIAL AND INSURANCE ACTIVITIES	47.198	47.513	48.261	48.917	49.255	50.297	6,6
REAL ESTATE ACTIVITIES	22.229	22.135	22.238	22.915	21.040	22.522	1,3
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	22.549	22.935	23.406	24.038	23.475	24.817	10,1
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	13.754	13.652	13.871	14.195	13.358	14.267	3,7
EDUCATION	13.587	13.733	14.523	14.231	12.982	13.651	0,5
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	17.098	17.049	17.028	17.148	16.215	17.432	2,0
ARTS, ENTERTAINMENT AND RECREATION	14.290	14.063	13.526	13.615	12.366	12.993	- 9,1
OTHER SERVICE ACTIVITIES	16.062	15.805	15.806	15.900	14.488	15.579	- 3,0
ACTIVITIES OF HOUSEHOLDS AS EMPLOYERS	14.631	14.551	14.559	14.758	14.975	15.403	5,3
PRIVATE SECTOR	21.800	21.548	21.725	21.945	20.613	21.868	0,3
PUBLIC SECTOR	32.043	31.981	32.968	32.696	32.222	32.128	0,3

The potential bite of the minimum wage

	threshold = 9 euro\hour	
	number	%
private sector employees	3.593.369	26.2
agricultural workers	369.194	35.1
Domestic workers	615.972	90.2
Overall	4.578.535	29.7

Source: INPS

The background of the slide is a photograph of a modern building's exterior. The facade is composed of large, rectangular panels. Some panels are a solid, vibrant blue, while others feature a pattern of vertical black and white stripes. The panels are arranged in a grid-like fashion, with some panels missing or replaced by the striped pattern. The building is set against a clear, light blue sky. The overall aesthetic is clean, geometric, and contemporary.

Minimum wage

Why can a MINIMUM WAGE be useful in Italy?

- Historically in Italy the need for a legal minimum wage has been negligible, thanks to strong collective bargaining.
- In the last twenty years, however, not only **the "anti-competitive" function of bargaining has weakened**, but in the worst cases **the 'pirate bargaining', a harbinger of social dumping and law shopping, has increased**, helping to increase the incidence of workers low-wage.
- Furthermore, **at the moment it is impossible to carry out a verification of the compatibility of wages paid with the levels of collective bargaining** (identification of representative contracts, lack of appropriate data)
- And having a single reference minimum wage, easily identifiable, would allow market actors (companies, workers, consultants) to verify the consistency of the wages received, especially for workers with very low wages.

MINIMUM WAGE: What does the economic literature say?



United States: Several studies show that employment impacts are zero or very low (Dube, 2019). A crucial parameter for predicting the impact on employment is the Kaitz index (minimum wage over median wage).

As the Kaitz impact increases (from 40 to 60%), the displacement of employment increases. The 'displaced' jobs are not destroyed but transformed into jobs that pay higher wages (upgraded). Even in the presence of Kaitz indices around 60%, and 80% using county data, the employment impacts are still limited (Cengiz, Dube, Lindner and Zipperer, 2019, Godøy and Reich 2019).

In the **United Kingdom**, as well, the impact on employment levels is very limited: wages for low-skilled workers have increased but their employment shares have not decreased (both after the introduction of the minimum wage in 1999 and after the introduction of the National Living Wage in 2016).



MINIMUM WAGE: What does the economic literature say?



Germany: introduction of the minimum wage in 2015, which adds to the collective bargaining system. 15% of the workers were involved. Estimates prior to the introduction predicted job losses of 800,000 jobs.

Dustmann et al. (2019): Wages increased for workers involved, negligible employment impacts. Reallocation of previously paid workers with wages below the minimum wage to high-wage firms: jobs are not destroyed but **upgraded**.

In **China**, introduction in 2004. Mayneris et al (2018): the cost of labor of enterprises has significantly increased but at the same time it has raised their **productivity**, with decidedly limited negative employment effects.



Hungary: in 2002, the minimum wage increased from 35% to around 60% of the median wage. Harasztosi and Lindner (2019): minimal effects on employment; an increase in prices (in sectors not open to international trade); limited reduction in profits.

Transmission channels as an explanation of the zero or limited employment impact

Pass-on to consumers (redistributive effect)

- Aaronson (2001), Allegretto and Reich (2018), Renkin et al. (2017); Leung (2018): company prices are one of the margins for adjustment, especially in catering and commerce. Harasztosi and Lindner (2019): about 80% of the increase in the minimum wage was absorbed by an **increase in consumer prices**.
- **Consistency with the EU Directive:** about **75%** of the economic costs of introducing the minimum wage will be passed on to **consumers**. The increase in the minimum wage is supported by consumers, improving the situation of low-wage workers (redistributive effect)

Impact on productivity dynamics

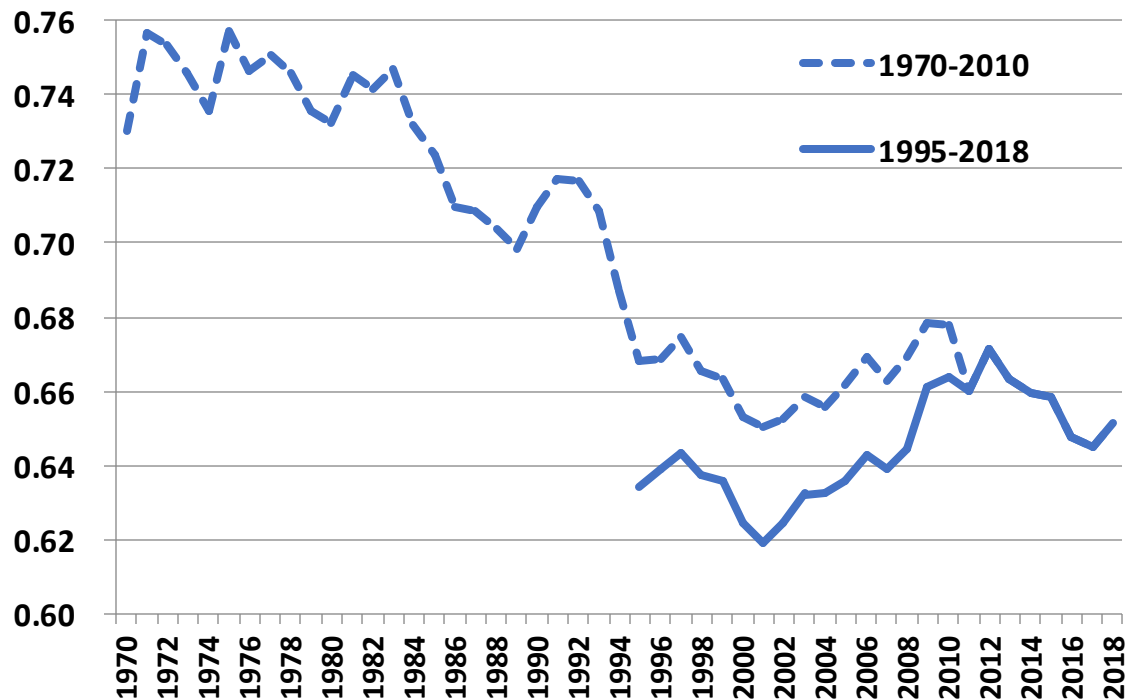
- Coviello, Deserranno and Persico (2019), Riley and Bondibene (2017): increase in hourly sales, with effects concentrated on the contribution of low-productivity workers, and increase in total factor productivity.
- Dustmann et al. (2019); Aaronson, Sorkin and French (2018): Increased reallocation of workers to large, high-wage firms.

A macroeconomic impact of the Minimum wage

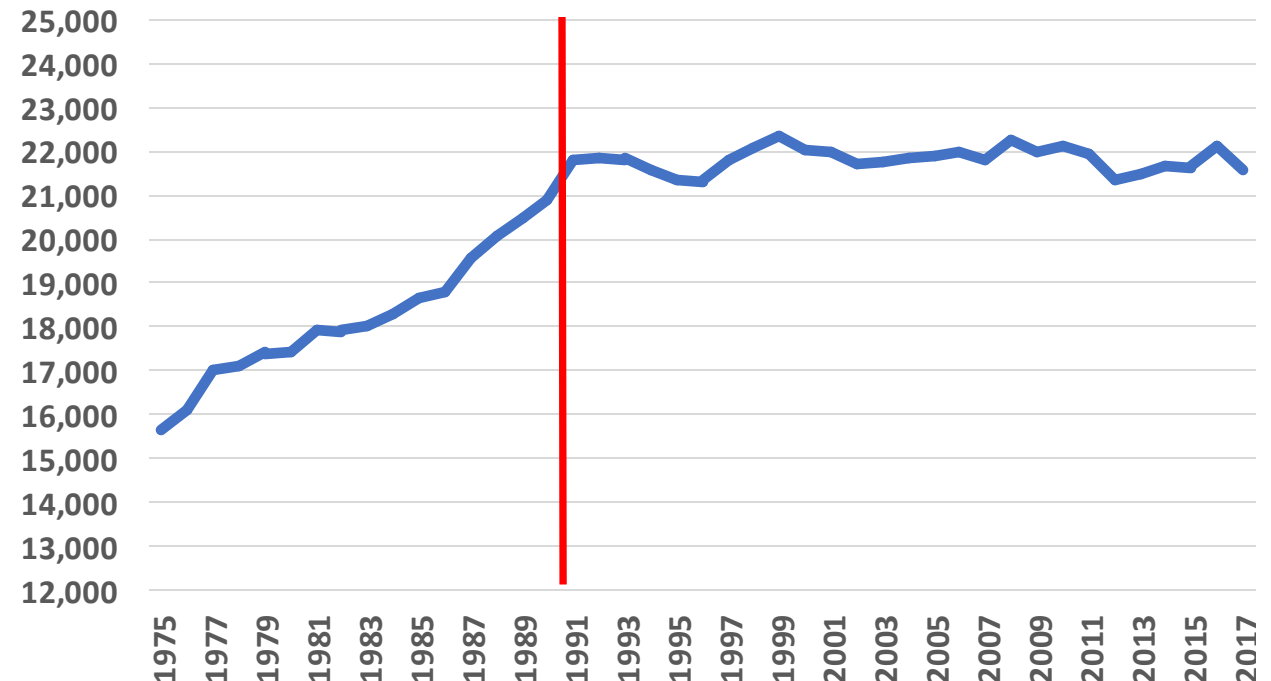
In recent decades from a macroeconomic point of view in Italy there has been, in addition to a substantial stagnation of productivity:

1. a reduction in the labor share of GDP, as in other advanced economies
2. a substantial stability of annual wages, unlike our competitor Countries

Italy: Share of work on GDP



Italy: Annual salary trend



A macroeconomic impact of the minimum wage

In this macroeconomic context, and following a line of Keynesian economic research, higher wages, and not lower wages, could increase productivity in advanced economies, because:

- they would act as a **stimulus** for capital intensive investments
- they would trigger the distributional **levers** of growth through the expansion of aggregate demand
- would increase the commitment and **efficiency** of workers in the workplace since, according to the theory of efficiency wages, low wages are often accompanied by insecurity and poor incentives for employees

The introduction of a minimum wage in Italy, which would move approximately **4-5 billion euros** (depending on the choice of amount) to the workforce in aggregate, could therefore generate a positive macroeconomic impact.

Economic literature on the impact of the introduction of the minimum wage on non-economic outcomes

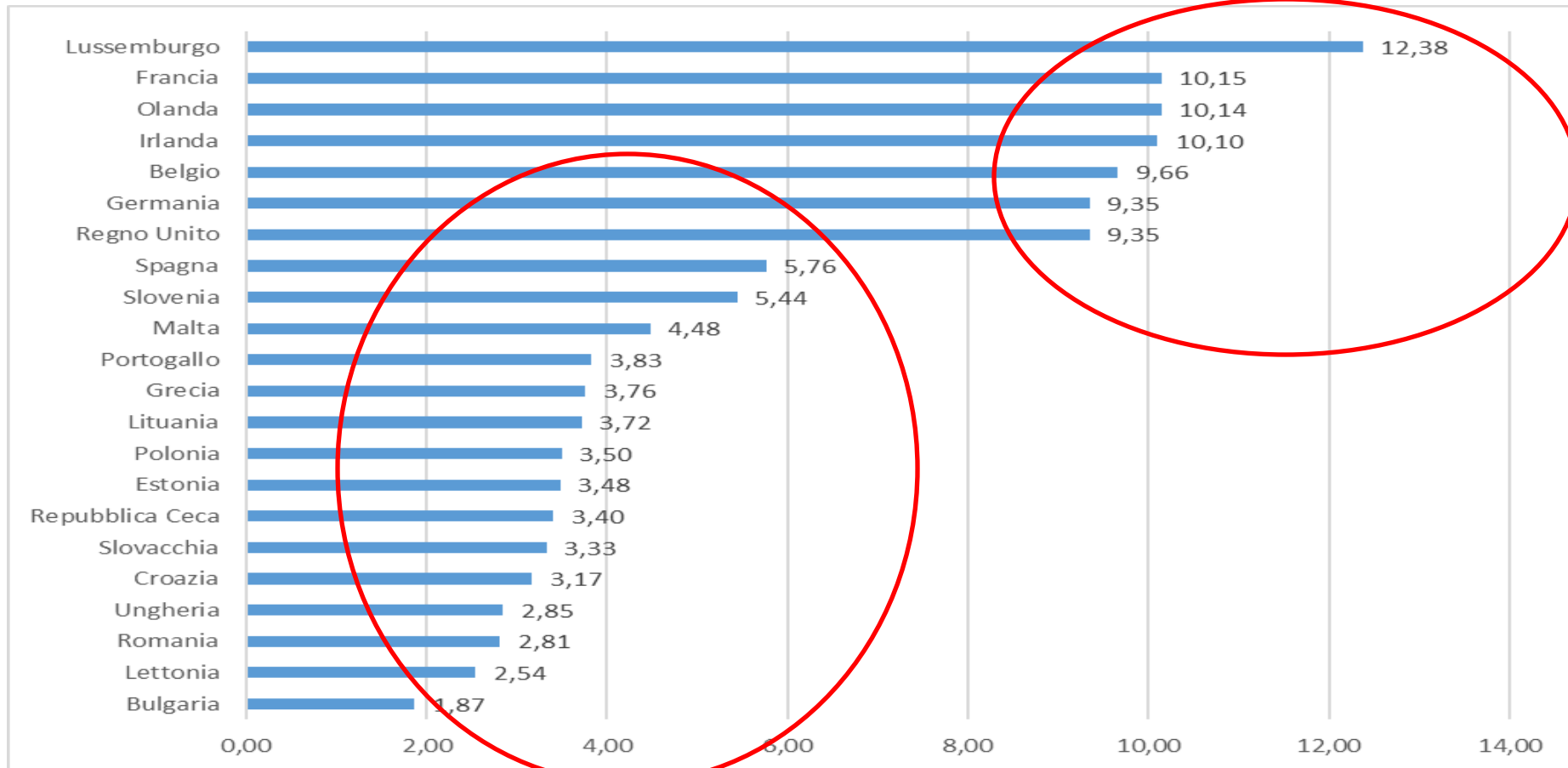


Wehby et al. (2020a): the increase in the minimum wage causes an increase in **birth weight**, and this effect is greater for young mothers

Wehby et al. (2020b): \$ 1 increase in minimum wage increases a child's likelihood of being in **excellent health** by 10% and decreases the likelihood of missing school due to health problems by 25-40%.



Legal minimum wages in Europe: strong heterogeneity



TWO GROUPS OF COUNTRIES ARE EMERGING: on the one hand, countries with amounts exceeding € 10 (France, Holland, Ireland, Belgium, Germany and the United Kingdom, and Luxembourg, the only one to exceed € 12).

On the other hand, countries with very low amounts, close to or below € 5, such as Spain, Greece, and the countries of Eastern Europe.

Legal minimum wages in Italy: amounts and definition

Community directive identifies two reference parameters for setting the minimum wage: 60% of the median wage and / or 50% of the average wages.



- From Uniemens archive: 50% of average hourly wages amount to € 10.59 while 60% of median wages are € 7.65 and represents a possible underestimate given that the public sector is not considered.
- This interval between 7.65 and 10.59 is consistent with the proposed legal minimum wage values in Italy between **€ 8 and € 9**.

Another crucial question: **definition** of what is included in the minimum wage.

- for some, the hourly rate should refer to the gross nominal value, without including additional components of labor costs (thirteen month pay, severance allowance, employer contributions)
- for others it should contain such components which represent the actual cost of labor

Legal minimum wages in Italy:

For the incidence the definition counts more than the amount!

Three reference amounts: € 8, € 8.50 and € 9, and three possible definitions:

- 1) threshold value without over-monthly payments and severance allowance (TFR);
- 2) threshold value including ultra-monthly payments (thirteen and fourteen month pay);
- 3) threshold value including over-monthly payments and severance allowance (TFR).

Numero e quota di lavoratori coinvolti al <u>variare della soglia</u>						
Tipo lavoratore	Sotto soglia 9 euro		Sotto soglia 8,50 euro		Sotto soglia 8 euro	
	Numero	in %	Numero	in %	Numero	in %
Dipendenti Privati	3,593,369	26.2%	2,760,117	20.1%	1,886,382	13.8%
Operai agricoli	369,194	35.1%	290,933	27.7%	195,715	18.6%
Lavoratori domestici	615,972	90.2%	566,475	83.0%	514,104	75.3%
Totale	4,578,535	29.7%	3,617,525	23.4%	2,596,201	16.8%

Numero e quota di lavoratori coinvolti al <u>variare della definizione</u> (€9)						
Tipo lavoratore	9 euro		Soglia € 9 comp. 13ma		€ 9 compr.13ma e TFR	
	Numero	in %	Numero	in %	Numero	in %
Dipendenti Privati	3,593,369	26.2%	2,026,185	14.8%	1,328,155	9.7%
Operai agricoli	369,194	35.1%	262,411	24.9%	167,520	15.9%
Lavoratori domestici	615,972	90.2%	552,297	80.9%	489,829	71.8%
Totale	4,578,535	29.7%	2,840,893	18.4%	1,985,504	12.9%

Minimum wage in Italy - sectors, gender, part-time / full-time, macro-regions (€ 9 threshold with additional monthly payments)

- **Sector Differences:** from low incidences of 1.8% in "financial" and 4.4% in "information and communication", to very high values such as 34.9% in "business services, rental, travel agencies", 35.5% for "other activities" (mainly services), 24.3% for "accommodation and catering".
- **Gender differences:** among private employees 13.2% for men and 17% for women;
- **full-time and part-time:** 12.7% respectively against 19.7%.
- **Differences between macro-regions:** the incidence for employees is much higher in the South and in the Islands (17.5%) than in other macro-regions (14.8%), while in absolute value the number of employees involved is significantly higher in the North .

Minimum wage in Italy: Public finance impacts

Variation of aggregates with minimum hourly wages of € 8	Amounts (MLN€)
Change in net costs for the companies affected by the reform	+4'632
Revenue reduction from direct corporate taxes for increasing Labor Cost	-1'544
Change in Labor Cost due to the reform	+6'176
Increase of social contributions paid by companies affected by the reform	+1'613
Increase of severance allowance to be paid by the companies affected by the reform	+351
Increase in gross wages - contr. minimum hourly for € 8	+4'212
Change in social contributions paid by employees	+436
Change of net income tax change (tax authorities)	+925
Change of local additional to Income Tax	+130
Change of benefits for employees	+131
Change of allowances to the household	-69
Change of Citizenship Basic Income	-2
Variation of interested individuals' available income	+3'300
Change in public finance resources – Public Administrations' budget	+1'499

- **for employees:** net disposable income benefit of € 3.3 billion (balance between higher gross salaries and higher taxes / social contributions / reductions in benefits);
- **for employers:** increase in gross wages of € 4.6 billion
- **for public finance:** greater resources (more contributions, personal income tax, additional taxes and fewer allowances for households; more contributions and less taxes (IRES-IRPEF) for companies) for **1.5 billion**.
- **The increased revenue could finance fiscal reliefs for companies in the transition phase** (for example, tax exemption for part/all of the unemployment allowance to be paid by the company)

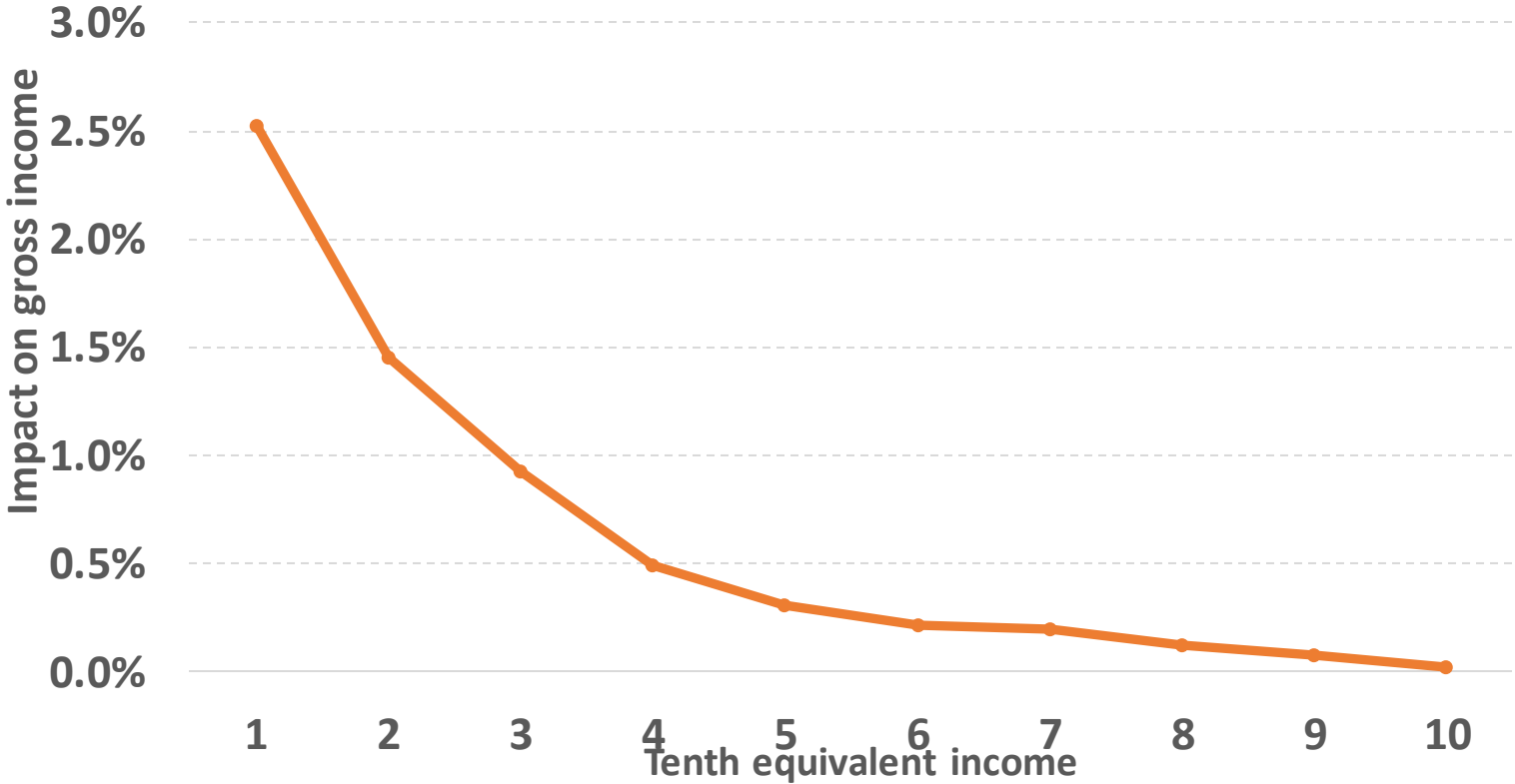
Minimum wage in Italy: redistributive impacts

Redistributive impacts for households due to the introduction of the minimum wage (€ 8 without thirteen month pay and severance pay = (+/-) 9 with thirteen month): reduction of the Gini inequality index, lower frequency (poverty head count ratio) and incidence of poverty (income gap ratio).

Income concentration indices	GINI
Equivalent Gross Income	39.3%
Equivalent disposable income without reform	33.8%
Equivalent disposable income with reform	33.6%

Indices of poverty	current	With reform
Poverty head count ratio (frequency of poverty)	15.3%	15.0%
Income Gap Ratio (intensity: distance of the poor from the threshold)	35.2%	33.8%

Minimum wage: Income increases per decile of distribution



The reform would further increase disposable income by the **lowest tenths**, especially under the simplifying hypothesis of invariance of corporate behavior and performance

Conclusions I: A LEGAL MINIMUM GUARANTEE WAGE?

Proposals for laws in Parliament provide for a "statutory minimum wage guarantee":

- a) only for cases not covered by collective bargaining
- b) as a minimum limit fixed by law also applicable to the collective agreement-parameter

Hypothesis A): the binding "adequacy" criteria established by the European Proposal, Chapter II (Minimum legal wages) must be respected

Hypothesis B): fewer constraints deriving from the European source because the minimum wage remains within the competence of collective bargaining

The salary "floor" fixed by law distinguishes the principles of art. 36 of the Constitution: "sufficiency" (legal hourly minimum) and "proportionality" (level set by the leading contract in the category and job).

CONCLUSION II

Advantages of the minimum wage in terms of social anti-dumping, against 'pirate bargaining', and law shopping

impossible to carry out a verification of the compatibility of wages paid with the levels of collective bargaining (identification of representative contracts, lack of appropriate data, absence of a law on unions representation)

Minimum wage 9 euros (over 4 million workers)

Distributional effects of 7/8 billion towards the wage share/GDP (reduction of working poor and Gini coefficient)

Positive effects for public finance with an increase in revenue that could serve to exempt part of the cost of unemployment allowances for businesses (1.61% = 4 billion)

Reduction of expenses for family allowances and citizenship basic income

Market discipline, competition

Incentives and incentives towards upgrades (as in other Countries) and towards labor intensive investments with productivity advantages

Null employment effects (if Minimum Wage 50% average-60% median)

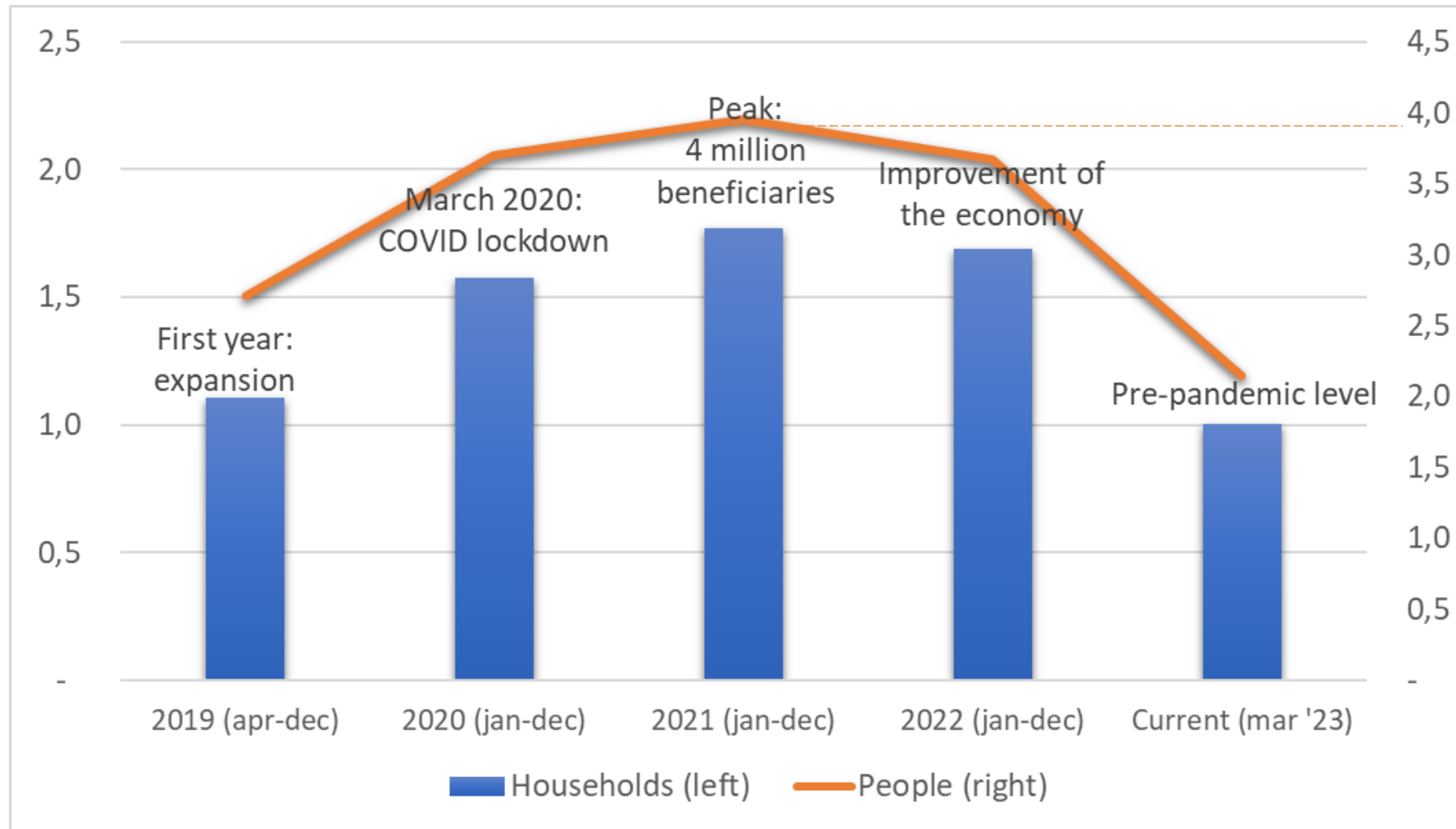
Benefits on quality of life, efficiency in the workplace and well-being

Upward convergence and reduction of the gender gap (women are more interested in the minimum wage)

The background of the slide is a photograph of a modern building's exterior. It features a grid of blue panels, some of which are decorated with vertical black and white stripes. The lighting creates strong shadows, suggesting a bright, sunny day.

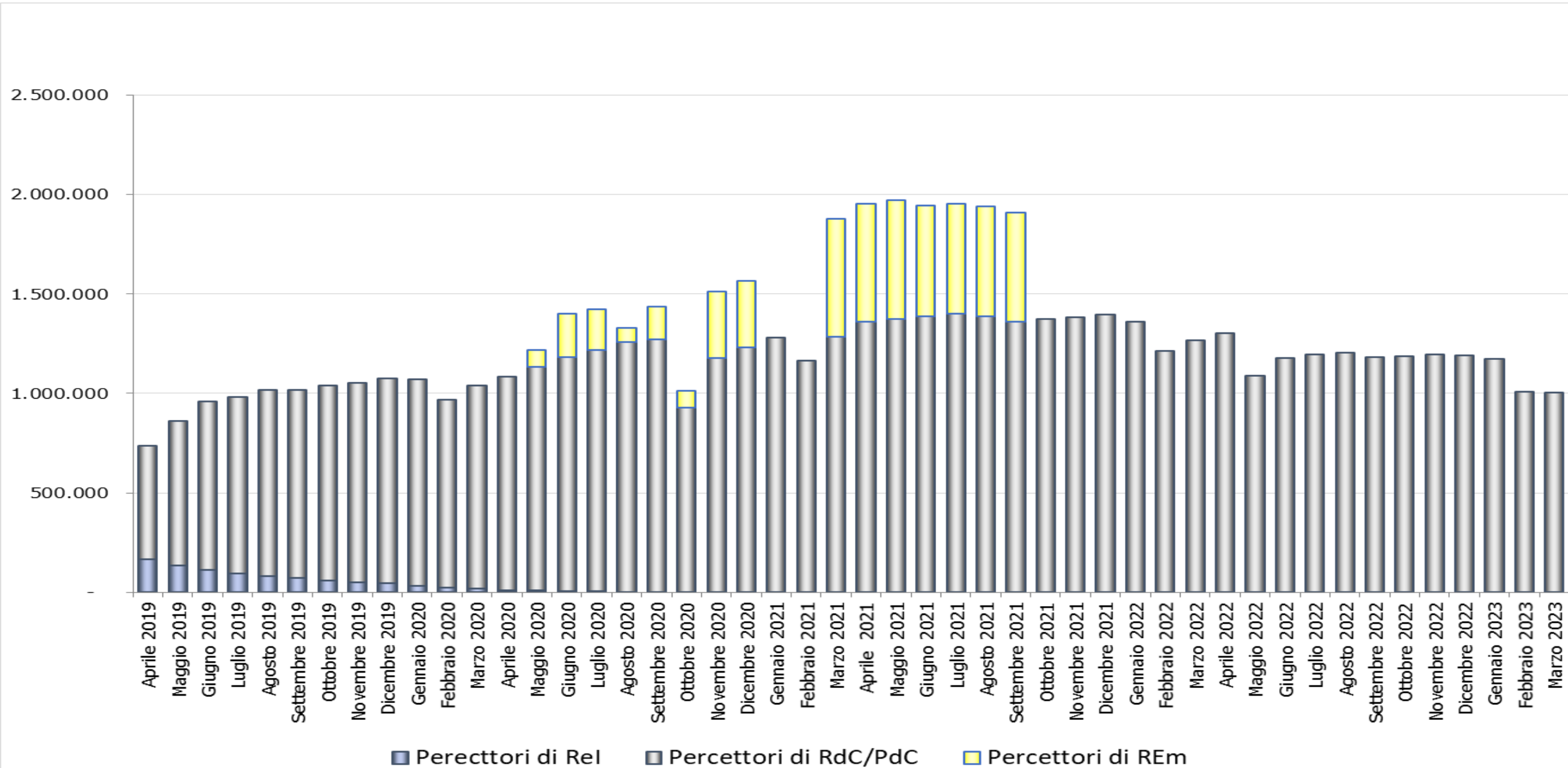
Citizenship Income, poverty and inequality, undeclared work

CITIZENSHIP INCOME: time dynamics



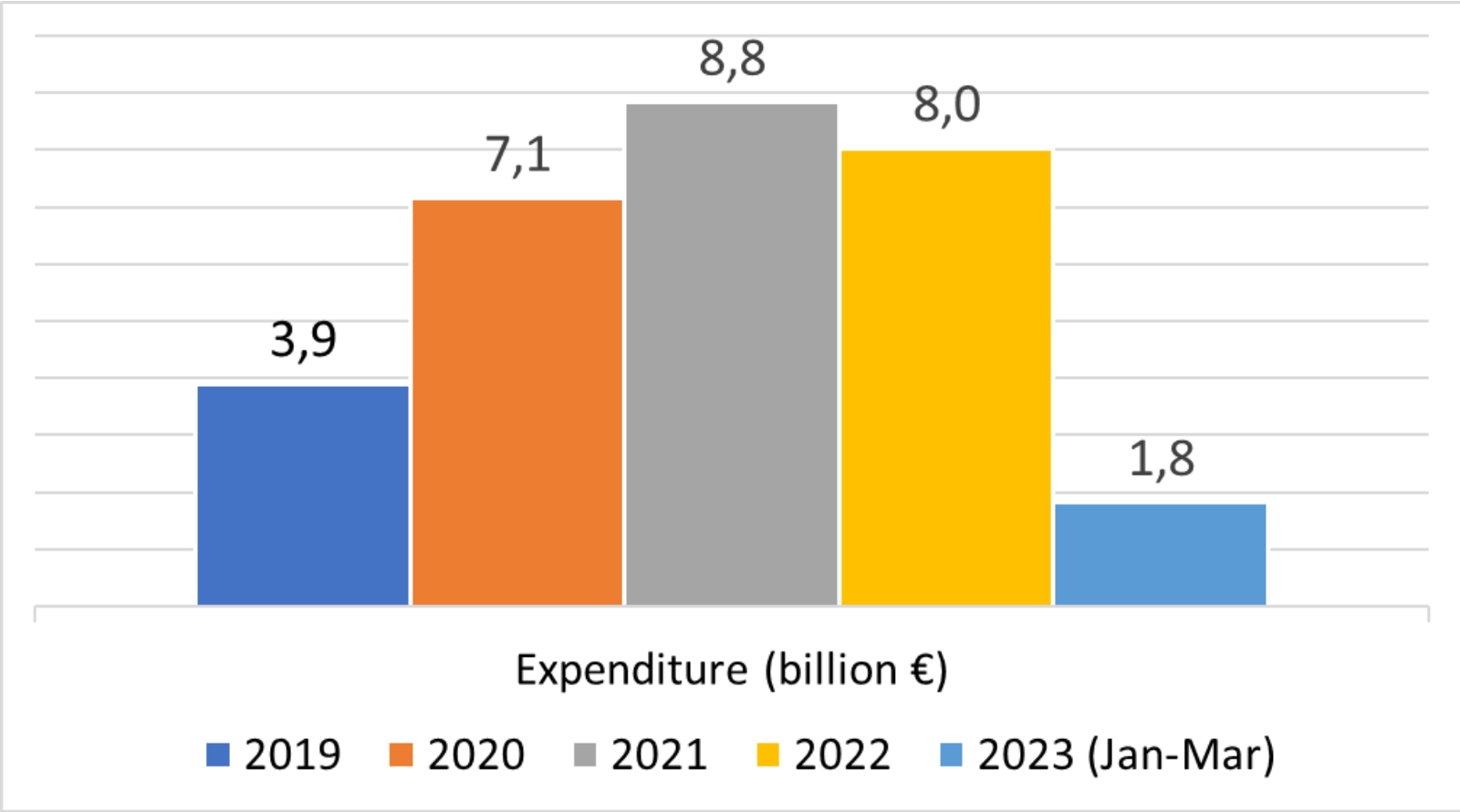
Data: million of households/people

Public income support recipients: Rel, RdC/PdC, REm

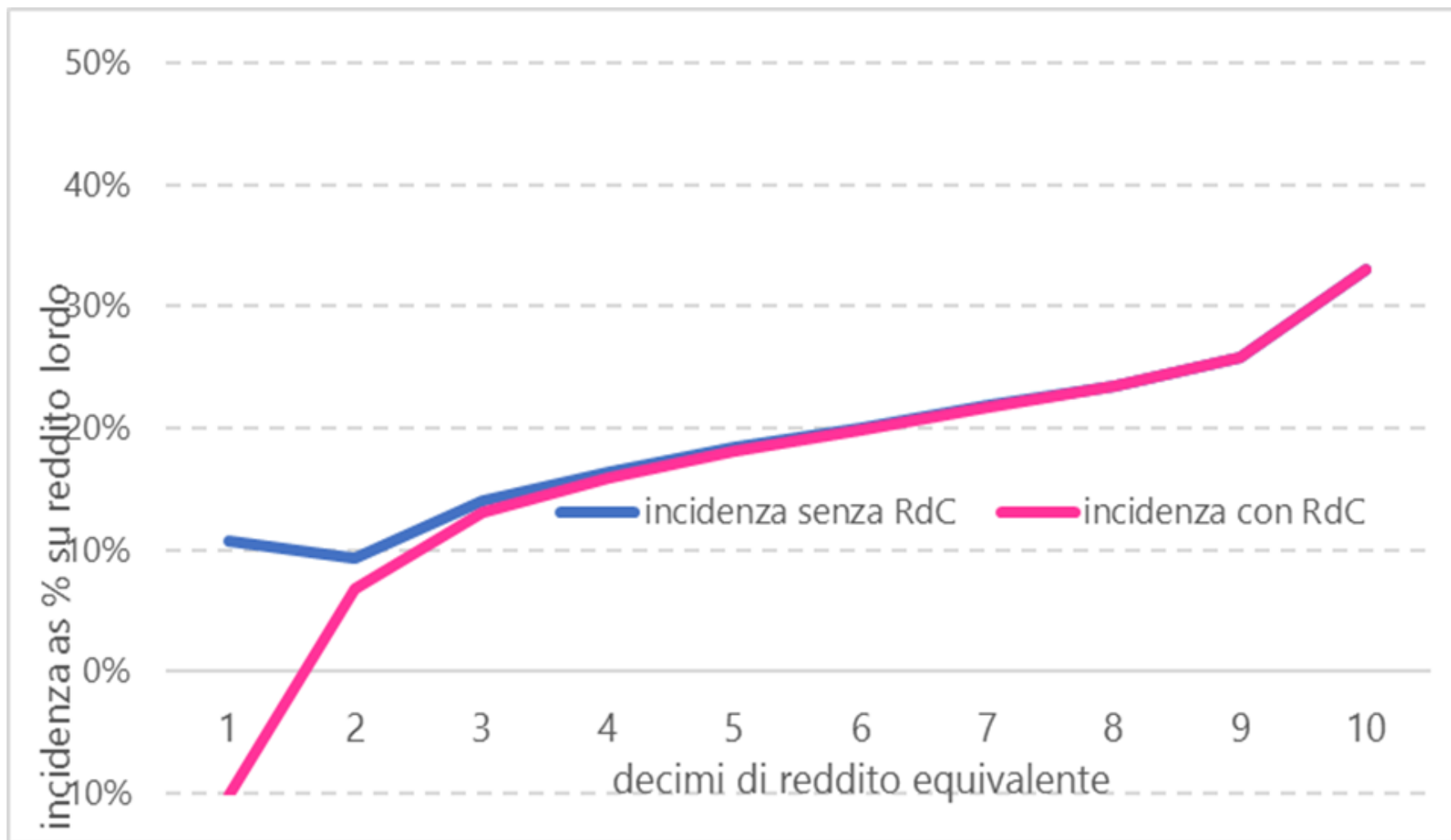


CITIZENSHIP INCOME

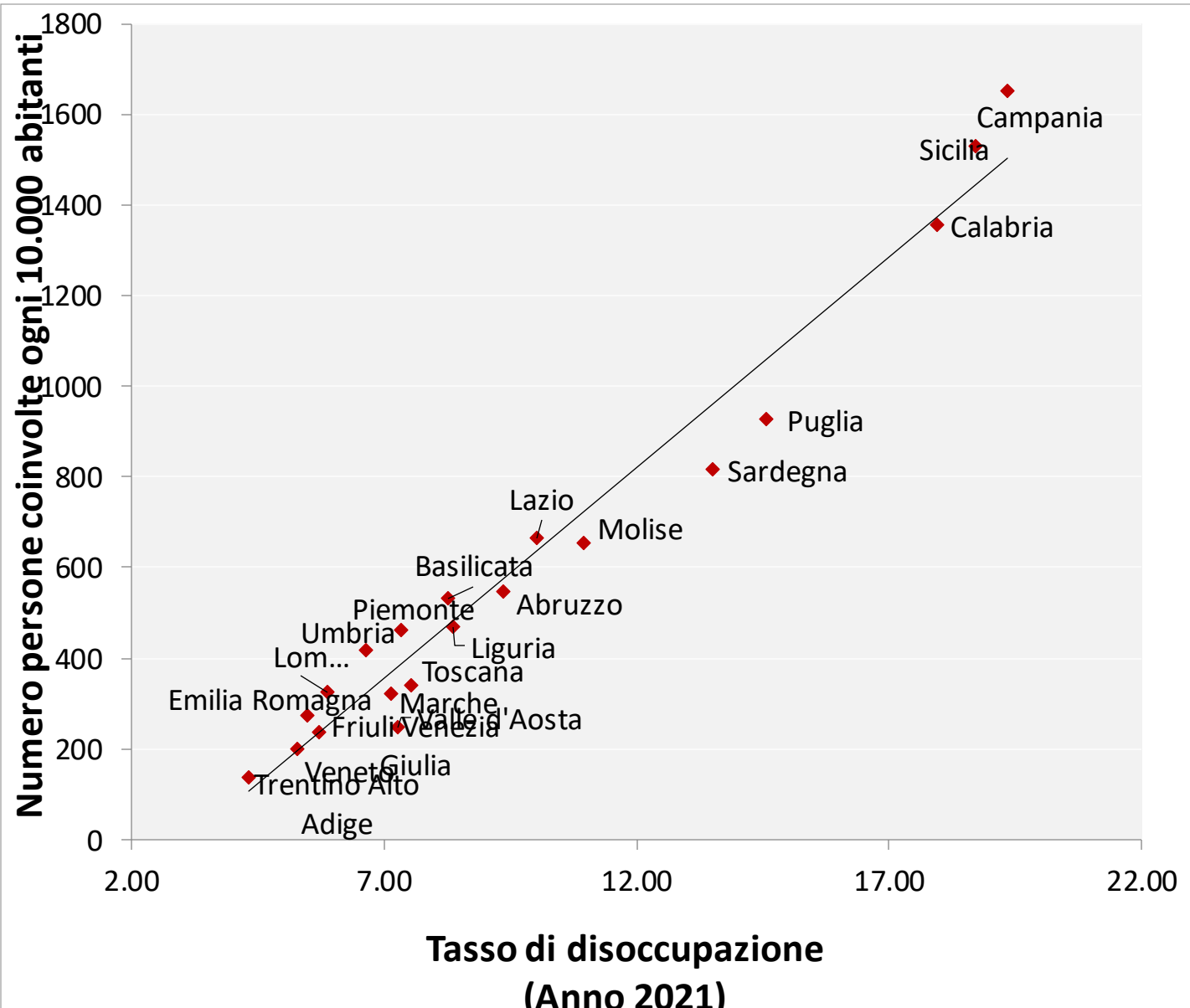
Expenditure 2019-2023 (48 months): $\approx 29,7$ billion €



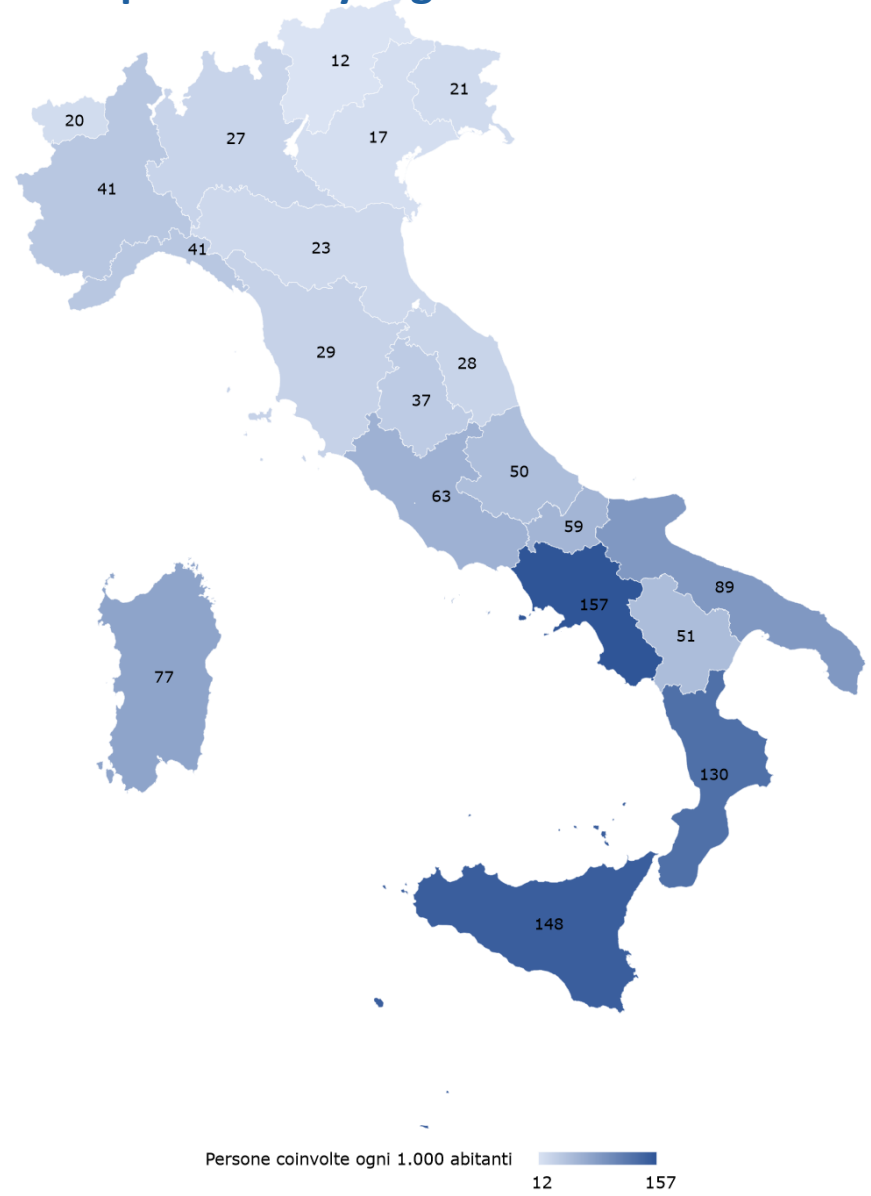
Tax – benefit. Net income incidence by decile of income distribution (most beneficiary in first and second poorest decile)



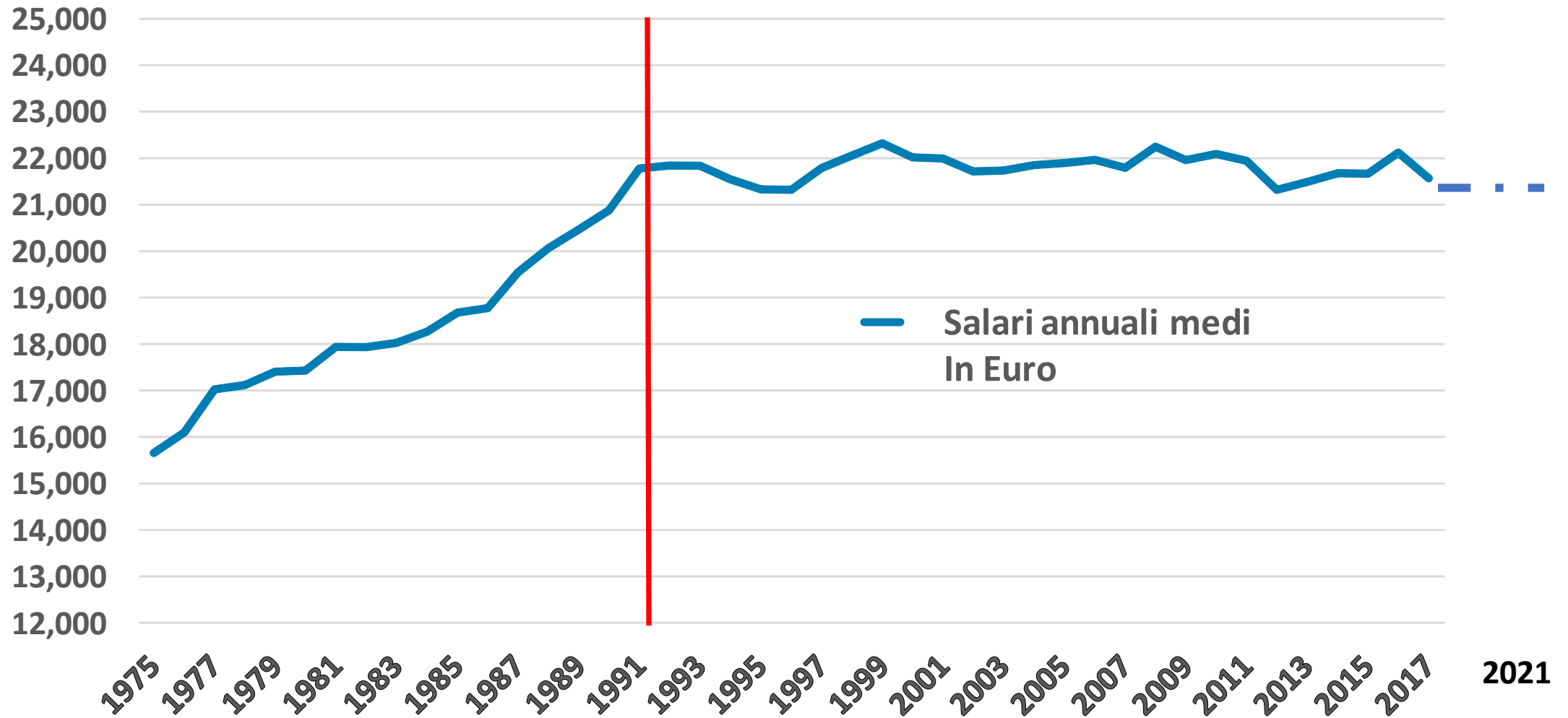
Citizenship income and unemployment



Citizenship income by region each 1000 inhabitants



Citizenship income showed the big issue: too low wages



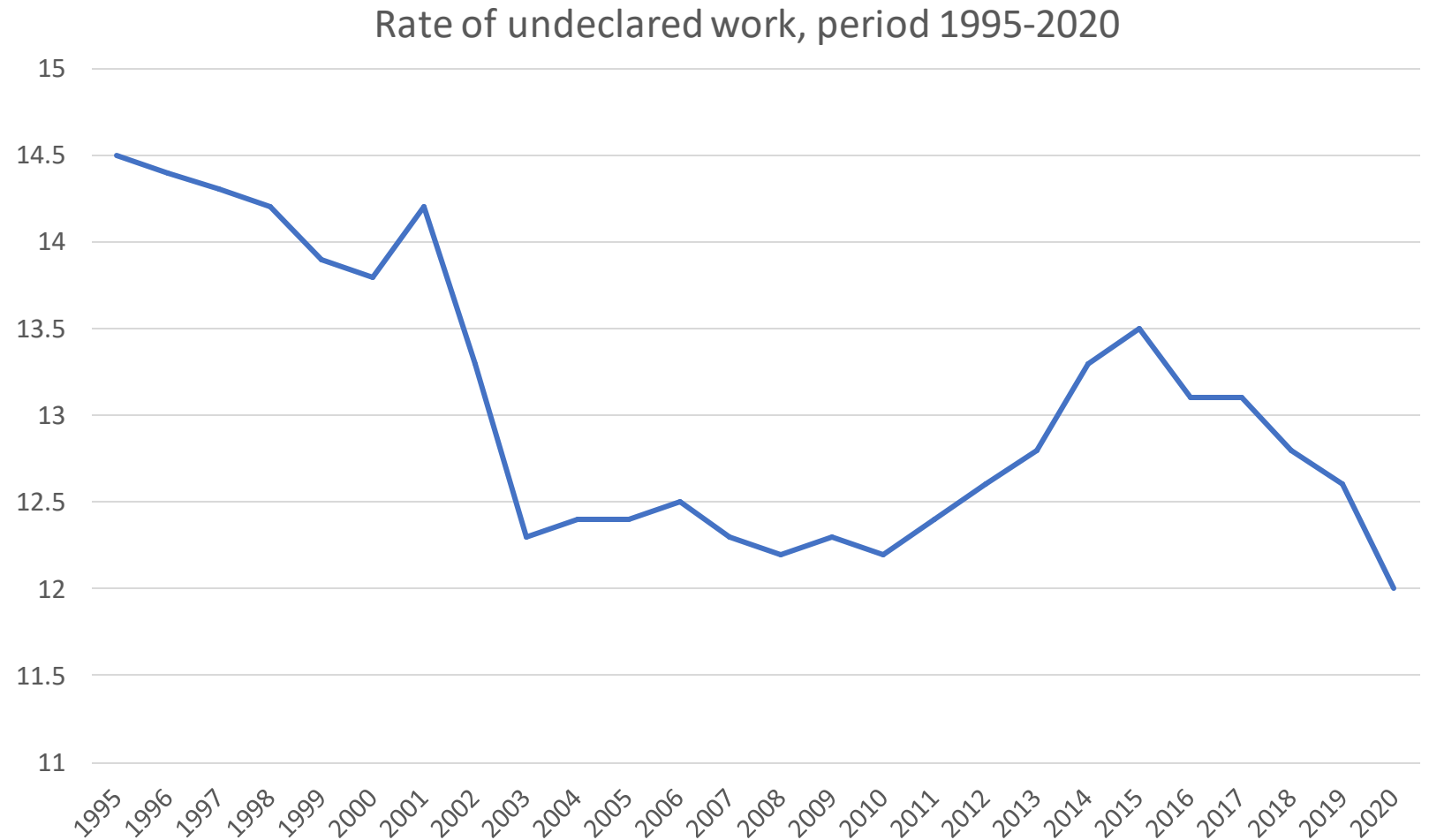
Fonte OCSE e INPS

...and also : CITIZENSHIP INCOME, any relation between RDC and undeclared work?

After the introduction of RDC in 2019 the undeclared work share decreased.

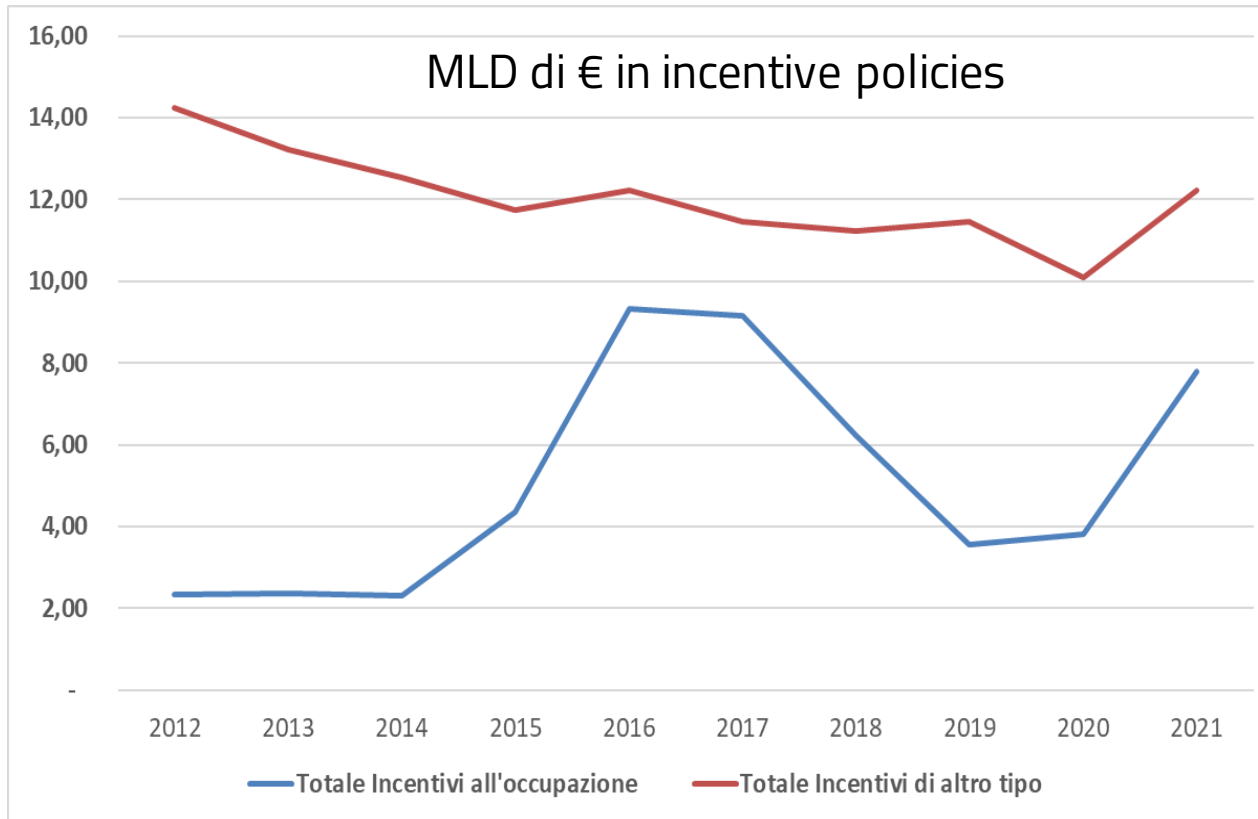
Just descriptive evidence, and of course in 2020 the Covid represents a major confounder.

So far, no scientific paper on this issue.



Data: million of households/people

Employment tax cuts for firms: how many public resources are involved?



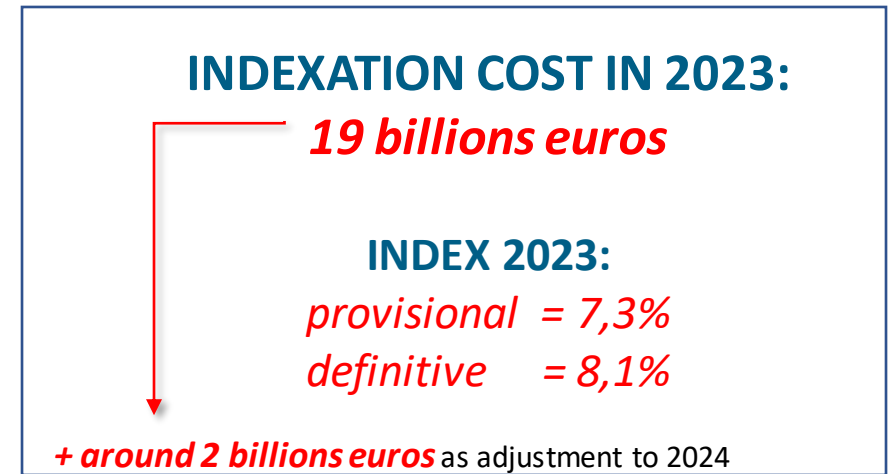
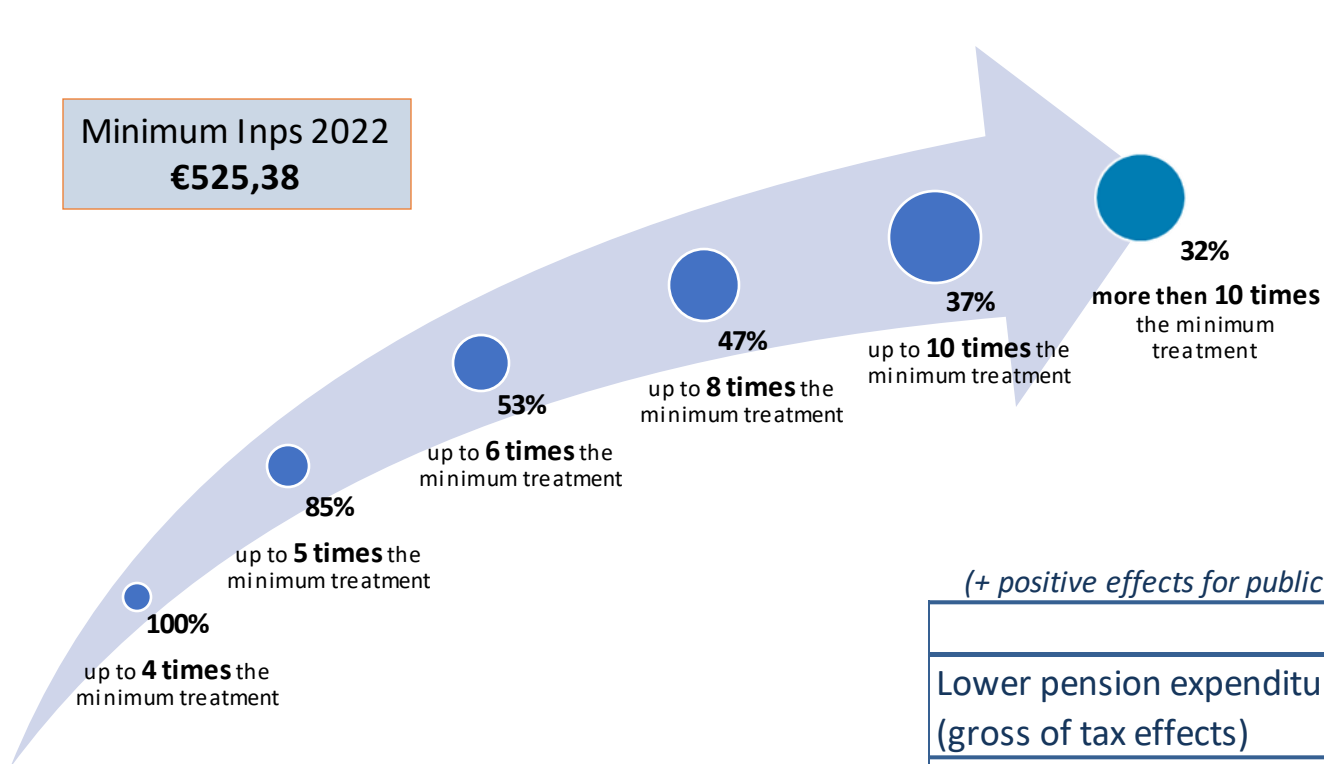
Blue line: Specific incentives to private employees (young, south, apprenticeships, women etc.), raised from €2 billion in 2012 to €9 billion in 2016 (jobs act), and to €8 billion in 2021 for post-Covid benefits.

Red line: Other structural kind of incentives (for agricultural and self-employed workers, etc), more resources (from €14 to €10 billion) but decreasing over time.

- Considering the two series together, around €20 billion in 2021, and the specific employee component (blue line) is the one mostly used by the policy maker since 2012.
- It is crucial to understand the effectiveness of such policies through impact evaluations.

Pensions indexation

2023: legislation and indexation cost



(+ positive effects for public finance; - negative effects for public finance; values in millions of euros)

	2023	2024	2025
Lower pension expenditure (gross of tax effects)	3.535	6.831	6.589
Lower pension expenditure (net of tax effects)	2.121	4.098	3.953

A photograph of a modern building facade. The facade is composed of large, rectangular panels. Some panels are a solid, vibrant blue, while others feature a black and white vertical striped pattern. The panels are arranged in a grid-like fashion, with some panels missing or offset, creating a dynamic, geometric composition. The lighting is bright, casting sharp shadows and highlighting the textures of the panels. The sky is a pale, clear blue.

THANKS