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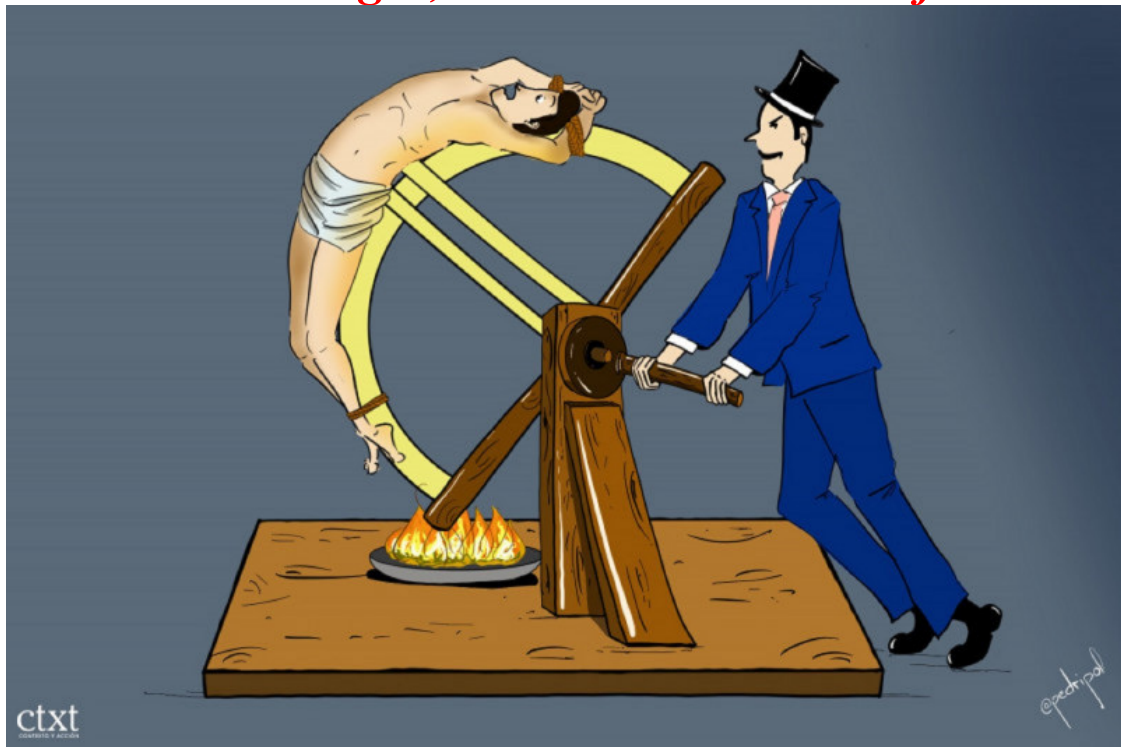
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European Languages

زبانهای اروپایی

By Carlos Vacas-Soriano  
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## Minimum wages, between covid and inflation



Sources: CTXT [Image: Economy, interest rates, inflation. PEDRIPOL]

*If inflation continues its current course throughout the year, virtually no European country will escape significant losses in purchasing power among the lowest-wage workers.*

Policymakers had a complicated task in deciding the level of the minimum interprofessional wage (SMI) for 2021, during the worst moments of the pandemic. The countries of the European Union (EU) generally opted for moderate increases or, some

like Spain, for the freezing of the SMI. This seems to be behind us, as minimum wages have risen again markedly in 2022 in most European countries. However, the strong irruption of inflation means that these nominal increases do not translate into improvements in the purchasing power of the lowest-paid workers, as explained in a [recent report](#) by the European Agency for the Improvement of Living and Working Conditions (Eurofound).

### Minimum wages pass covid, but are hit by inflation

Faced with the negative effects of the pandemic on labour markets, most European countries chose to adjust their SMI quite modestly by the beginning of 2021, while four of them froze them (Spain, Belgium, Greece and Estonia).

This year things have been different and most EU countries have updated their SMI significantly (Figure 1). The median increase in the minimum wage has been almost 5%, and much higher in many of the countries of Eastern Europe.

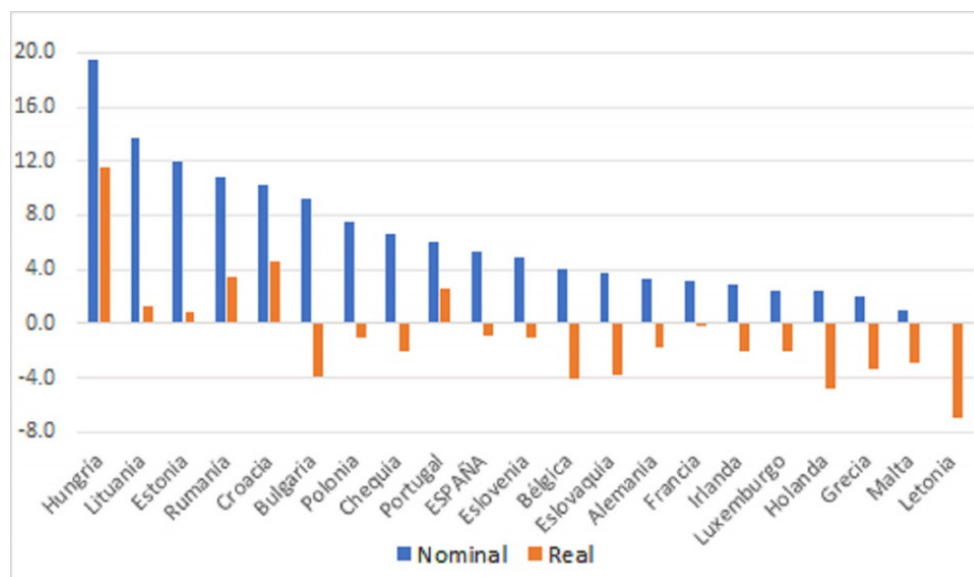


Figure 1. Minimum wage growth in EU countries in 2022 (in %).

*Notes: Data shows growth rates between January 2021 and January 2022. The nominal is the level set by governments, while the real also takes into account the evolution of inflation. Countries are ordered from highest to lowest nominal minimum wage growth.*

Spain again registers a notable increase of more than 5% after last year's break, although this includes the update of September 2021 and January 2022 (1.5% and more than 3.5%, respectively). It is in fact, together with Portugal, the Western European country with the greatest progress in this area in the last year.

However, this overview of the SMI in nominal terms, which are those set by governments, has a great but this year. After a long time absent from the European continent, inflation has returned in a brilliant way, driven by the global economic recovery after the pandemic stoppage, bottlenecks in international supply chains, the increase in the price of energy and raw materials, recently aggravated by the war in Ukraine.

This means that nominal advances in minimum wages do not necessarily translate into real advances, i.e. that workers who receive such wages do not improve their purchasing power. The data show that such purchasing power has only improved in less than a third of European countries, while it has deteriorated in most, Spain among them.

Moreover, after the new nominal levels of the SMI were set in January 2022, this deterioration in real terms has continued to advance in recent months. If inflation continues its current course throughout the year, virtually no European country will escape significant losses in purchasing power among the lowest-wage workers.

### **Spain, a separate case in recent years**

Two great lessons can be drawn about the evolution of the SMI in European countries over the past two decades (Figure 2). Firstly, the average evolution in the countries of Eastern Europe has been monumental, multiplying by seven the level of their minimum wages in the last twenty years. This reflects that the EU is especially strong as an integration machine, generating a great convergence of Eastern Europe since its accession in the 2000s, as happened in previous decades with Spain or Portugal.

Secondly, the evolution of the SMI in Spain stands out in recent years. This evolution is quite similar to that of the average of the Western European countries until 2016: stagnation in the years following the economic crisis of 2000; growth as the economy accelerates from 2005 onwards; again stagnation after the great financial crisis of 2009.

However, Spain is beginning to improve its minimum wage much more than the average of the surrounding countries after 2016, especially thanks to the formidable increase of 22% in 2019.

As a consequence, the Spanish SMI has already reached the level of 1,000 euros per month in fourteen payments, or 1,167 euros in twelve payments, which is the norm in most European countries. This allows Spain to shorten the distances with the six neighboring countries of central Europe that have the highest SMI: Luxembourg (€ 2,257), Ireland (€ 1,775), Holland (€ 1,725), Belgium (€ 1,691), Germany (€ 1,664) and France (€ 1,603).

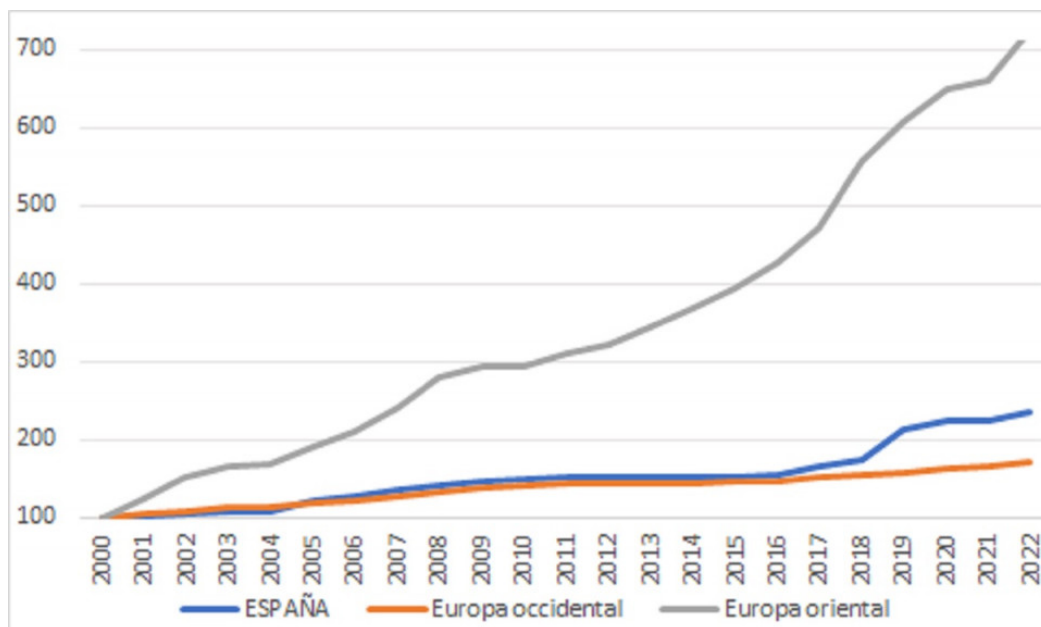


Figure 2. Evolution of minimum wages between 2000 and 2022 (Indices, 2000=100).

*Notes: Western Europe represents the average evolution of Belgium, Ireland, Greece, France, Luxembourg, Malta, Holland and Portugal. Eastern Europe represents the average evolution of Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia.*

### The rise of 2019, key to changing the dynamics

The differential fact in this change of trend in Spain was the great rise of the SMI in 2019, when it went from 736 to 900 euros per month in fourteen payments. The available data show that this measure led to enormous wage growth among the lowest-paid workers in

the country and, due to the drag effect of collective bargaining, also among workers with moderate wages above minimum levels.

This example shows the potential for change that a public policy can have in the labor market. Spain, a country characterized by relatively high levels of wage inequality among its workers, was the EU country that most managed to reduce this inequality in 2019. It was thanks to this determined political commitment.

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Source: <https://ctxt.es/es/20220701/Politica/40001/carlos-vacas-soriano-smi-inflacion-europa-salarios-covid-economia.htm>

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