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EUROPE

Greece, Spain Raise Minimum Wage Despite High Unemployment

Moves to help low earners in election year test economic orthodoxy; increasing prices and spending power

By *Nektaria Stamouli*

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ATHENS—Evangelia Koskina just received her first pay increase in six years, but she worries that it could be bad news for the café where she works.

Greece, like fellow euro member Spain, decided this year to sharply increase the minimum wage, despite the legacy of high unemployment left by Europe's long debt crisis. In both countries, left-leaning governments are betting—against economic orthodoxy—that such increases will be good for growth and employment, as well as for their voter support.

The minimum-wage increase, Greece's first in nearly a decade, takes Ms. Koskina's monthly pay to €650 (\$731) from €586. It still isn't enough for the 25-year-old to move out of her parents' house, but she says she can finally afford driving lessons.

“But I know that my boss can hardly afford the rise for me and my three colleagues,” she said. “He will have to raise prices for the first time in years to offset part of the loss.”

While Greece has raised its minimum wage by 11%, Spain has raised its €736-a-month minimum wage by 22%, to €900. Critics say a higher minimum wage is the last thing these economies need, when millions are still struggling to find work after an economic depression. The unemployment rate has been falling recently, but remains at 14.1% in Spain and 18.5% in Greece, compared with 3.2% in Germany and 3.6% in the Netherlands, according to Eurostat's January 2019 unemployment figures. The eurozone's unemployment average is 7.8% and the European Union's 6.5%.

“An abrupt increase in the minimum wage could put a halt to, or even reverse, the current downward trend in unemployment. It could lead to a rise in undeclared labor, harm the competitiveness of the economy, and negatively impact the much-needed growth of exports,” said Panos Tsakloglou, an economics professor at Athens University. Any boost to consumer spending, he said, could be short-lived.

Other economists are more supportive of the moves.

“Higher salaries fuel greater spending, which can have a positive impact in the economy and lead to more jobs,” said Raymond Torres, an economist at Madrid think tank Funcas. He said it would be better if the wage increases were more gradual. But since the minimum-wage levels remain below 60% of the median wage in both countries, their economies can absorb the increases, he said.

Greece’s economy is slowly emerging from a grueling eight-year international financial bailout, which ended last August. The economy remains the most fragile in the eurozone. Spain, which also suffered a sharp financial crisis and needed eurozone support to stop the unraveling of its banking sector and bond market, has been recovering more strongly.



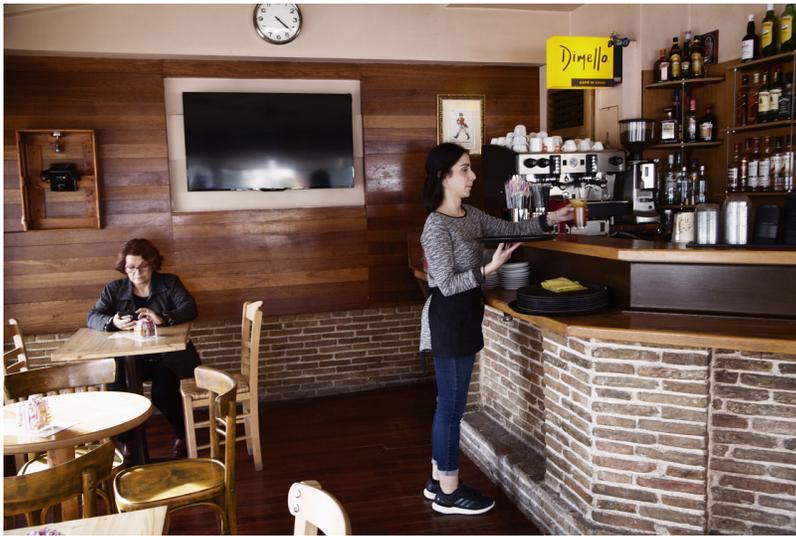
Vasilis Vavilousakis, who owns a business consultancy and runs the Not Just Falafel shop in central Athens, says more than half of his 20 employees in both businesses will benefit from a higher minimum wage. PHOTO: LOULOU D'AKI FOR THE WALL STREET JOURNAL

Greece’s economy narrowed 0.1% in the last quarter of 2018 after rising for nine consecutive quarters. Looking at 2018 as a whole, the data pointed to 1.9% growth, slightly below initial estimates. The economy remains on a positive trajectory, but the expansion is sluggish for an economy that has been reduced by more than a quarter in the last decade.

Spain was one of the fastest-growing economies in the eurozone in the past years, despite the political uncertainty. It marked three successive years of above-3% growth from 2015 to 2017 and it is estimated its economy grew 2.5% in 2018.

In return for financial support for Spain, Greece and some other crisis-hit countries, eurozone authorities demanded economic overhauls including deregulating labor rules. The aim was to boost exports and encourage hiring by driving down wages, a process economists call internal devaluation. But the policies also sapped domestic demand and were widely unpopular with ordinary workers on the receiving end.

Spain's governing center-left Socialists, who face national elections on April 28, want to relieve some of the postcrisis hardship. Greece's left-wing Syriza government, which also faces elections by October, also wants to brandish its pro-worker credentials. Polls show it trailing the conservative New Democracy party by as much as 14%.



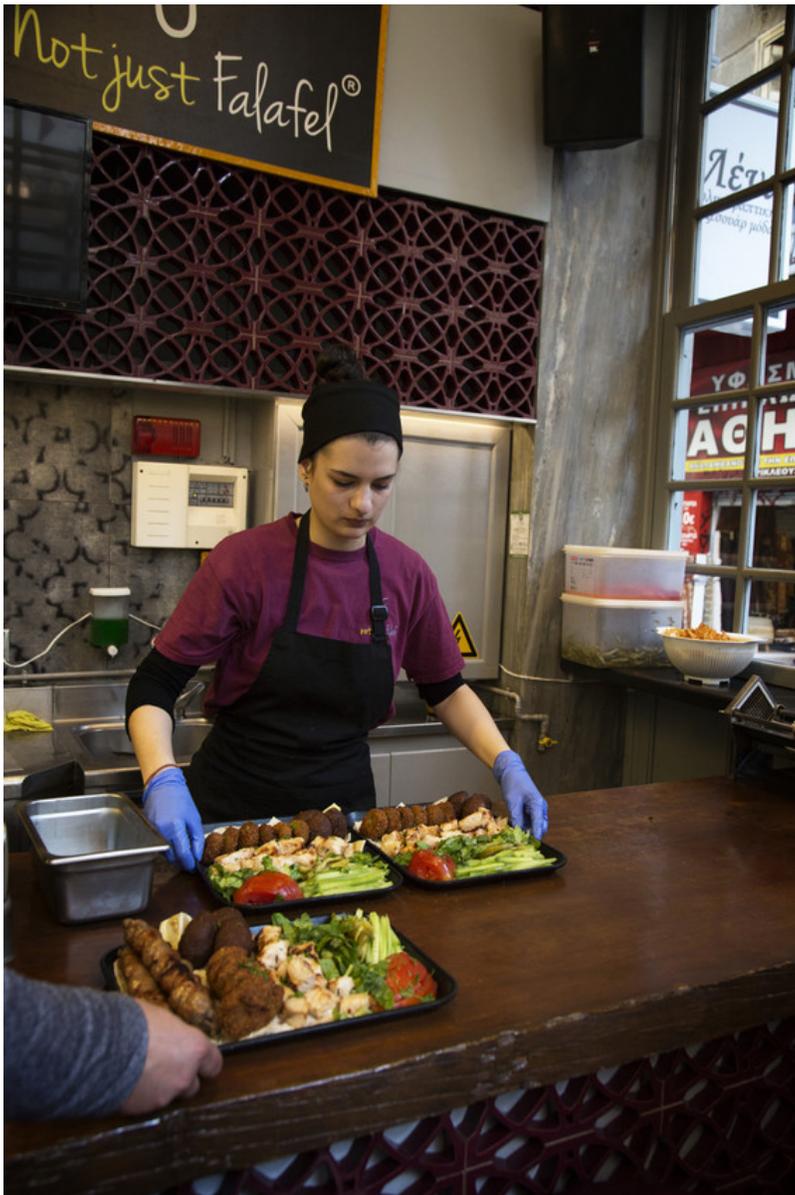
'I know that my boss can hardly afford the rise for me and my three colleagues,' Ms. Koskina said. 'He will have to raise prices for the first time in years to offset part of the loss.' PHOTO: LOULOU D'AKI FOR THE WALL STREET JOURNAL

Spain raised the minimum wage 4% last year and 8% the year before, which didn't stop unemployment from declining. Marco Bartolome, owner of three cafés in Barcelona, pays his employees more than the minimum, and he expects the rise will positively affect his business.

"Quality of life is going to improve for many people," he said. "People with 22% more money in their pockets means happier people, who will want to spend it on a good coffee or a good meal."

Much economic research from countries including the U.S. and U.K. has found that moderate increases in minimum wages, in a generally strong economic environment, haven't significantly harmed employment. Germany's introduction of a minimum wage in 2014 hasn't slowed its rising employment rate. But the impact depends on minimum-wage levels and on economic circumstances, many economists say.

Some Greek businesses say they can't afford the wage increase. Vasilis Vavilousakis, who owns a business consultancy and runs a falafel shop, says more than half of his 20 employees in both businesses will benefit from the raise.



Marina Veli, 20 years old, prepares a food platter at Not Just Falafel in Athens, where she earns minimum wage. PHOTO: LOULOU D'AKI FOR THE WALL STREET JOURNAL

“We are not going to increase prices, but the hike will cost us as much as hiring an extra person,” Mr. Vavilousakis said. Indeed, he has shelved his plan to hire another worker at the restaurant.

Marina Veli, a 20-year-old cook at the falafel shop, said the extra cash will be a big help.

“I can use it for the bus ticket to go visit my parents, who live in northern Greece,” she said. “Athens is so busy with tourists that I don’t think the businessmen, at least here, will find it so difficult to pay the extra money. Despite that, if it wasn’t obligatory they wouldn’t do it by themselves,” she said.

Spain’s central bank estimated that a total of 125,000 jobs could be lost this year thanks to the minimum-wage increase, which took effect in January. Greece’s central-bank head, Yannis

Stournaras, recently said the minimum wage should only rise in tandem with labor productivity.

“Vulnerable groups will find it more difficult to find or stay in their jobs,” said Marcel Jansen, a labor economist at Madrid think tank Fedea. “The hike will not affect adult workers with sufficient education, but the problem is for those at the bottom,” including young workers.

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