

# A COMPREHENSIVE PROPOSAL FOR THE MINIMUM WAGE IN EUSKAL HERRIA

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*This paper presents a proposal to establish a minimum wage and a maximum income in Hego Euskal Herria. The proposed minimum wage aims to ensure a sufficient standard of living and a fairer distribution of income. Based on a wage-led growth perspective, it suggests setting the minimum wage at approximately 65% of nominal per capita GDP. This approach would link minimum wage increases to economic growth, productivity gains and corporate profits, rather than merely to average wages. A substantial increase in the minimum wage has multiple positive effects: it improves the living conditions of low-income workers, reduces in-work poverty, narrows gender and ethnic wage gaps, and strengthens the redistributive capacity of the economy. In regions with demand-driven growth, such as Hego Euskal Herria, it may also stabilize economic cycles and increase public revenues. The methodology proposed departs from traditional indicators such as average or median wages and instead uses GDP per capita to ensure that gains in productivity and output are shared with workers. It stresses that such a wage policy should be accompanied by complementary measures to deepen its redistributive and transformative impact. One of the key complementary proposals is the introduction of a maximum income. This would cap both wage and non-wage income, using mechanisms such as a 100% marginal income tax above a certain threshold or contractual conditions in public procurement. The goal is to contain income inequality, limit unproductive profit extraction, and concentrate surplus within firms to support productive investment. Together, these measures form a comprehensive strategy to democratize income distribution, reinforce worker bargaining power, and lay the foundations for a more just and sustainable economic model.*

## 1. INTRODUCTION

This report presents a comprehensive proposal for the establishment of the minimum wage in Hego Euskal Herria, conceived not just as a social justice tool, but also as an instrument of economic, productive and redistributive policy. The proposal starts out from a focus point that combines theoretical principles that are Marxist, post-Keynesian and Kelekian and it is articulated around one main aim: improving the material conditions of the working class by way of a greater participation in the wealth that is collectively generated.

Throughout this document many different facets of the minimum wage are tackled. In the first place, its central role in how capitalism functions from a heterodox perspective is analysed, emphasising its influence on the accumulation, the aggregated demand and

the distributive conflict. Following this, the effects of an increase in the minimum wage in different areas is reviewed: as a social policy that reinforces the public protection system, as a mechanism for reducing poverty and inequality, as a redistributive step that impinges on the wage structure and as a tool for economic and productive momentum. The report also examines the evolution of the minimum wage in the Spanish State between the years 2000 and 2025, contrasting it with the welfare threshold defined by regional indicators.

From this point onwards, a new methodology for calculating the MIW is considered. Using simulations and international comparisons, the economic feasibility and redistributive capacity potential of this proposal is shown, as well as its compatibility with the productive and business structure in Hego Euskal Herria. Likewise, its positive effects on vulnerable sectors are identified, such as the care sector and on groups who historically have held insecure jobs, such as women and immigrant workers.

Finally, a set of complementary economic and labour policies are considered, which are necessary for the step to have a structural, sustained impact. Amongst these, progressive fiscal reform, an industrial strategy that avoids relocation and promotes local roots, active employment policies and the potentiation of collective bargaining and trade union control stand out.

This document, therefore, is not restricted to defending a specific figure for the minimum wage, but rather it aspires to contribute to the debate regarding the distribution of wealth, power within the company and the role of work in today's Basque economy. It starts by acknowledging that the economic policy is not neutral, rather it responds to correlations of strength between social classes. Accordingly, it sustains that it is the context of the class struggle and broader social disputes which can deviate the orientation of the economic policies from the interests of the capital towards those of work.

## 2. WAGES AS AN ELEMENT OF ECONOMIC ACTIVITY IN CAPITALISM

From heterodox economic policy – including Marxist, post-Keynesian institutionalist and comparative viewpoints— wages play a central role in the dynamics of capitalism. In the long term, the Marxist currents emphasise the structural importance of wages in accumulation and in crises<sup>i</sup>, while, in a more contextual sphere, the post-Keynesian and Kelekian viewpoints consider them to be key points for guiding the economic policy<sup>ii</sup>.

These viewpoints, although with different nuances, coincide in emphasising the distributive conflict between capital and work, and the determining influence of wages both on the offer and on the aggregated demand. On the one hand, wages determine the companies' cost conditions, related to the purchase of production factors and the obtaining of the product or service, both in the feasibility and profitability of the investments and sales, and therefore in the actual feasibility and profitability of the companies. On the other hand, on the demand conditions related to the expected profit rate, as a result of the use of installed productive capacity, of the effective production

and sales that will be carried out with the purchasing power of the wages (and of the margin for possible indebtedness).

From a macro-economic point of view, the Kaleckian approach sustains that an increase in the wage participation could have expansive effects on economies aimed at domestic consumption, generating wage-led growth dynamics, where the wage increases stimulate the aggregated demand by way of the multiplying and accelerating effects (Naastepad and Storm, 2007). On the other hand, in profit-led or export-led regimes, a wage rise could reduce the business profitability and curb investment and exports.

However, the empiric evidence would show that most modern-day economies work using a wage-led pattern, where wage increases not only boost demand, but they also stimulate the growth of the productivity<sup>iii</sup>. The neoliberal period, however, has been characterised by a drop in wage participation and an increase in inequality, without this deriving in sustainable growth, but rather in models based on debt or on exports. Accordingly, Kalecki pointed out (1971:185) that “a wage rise that showed an increase in trade union power determines [...] a rise in employment.” Therefore, the austerity and wage devaluation policies implemented during the crises (2008–2015, 2020) could have been counterproductive for the economic recovery, by maintaining business margins at the expense of employment and consumption.

In empiric terms, the case of Germany after the introduction of the minimum wage in 2015 shows positive effects on the economic growth and on the transition towards employment with greater social protection (Herzog-Stein et al., 2018)<sup>iv</sup>. In the Spanish State, the hypothesis is being considered that the sustained increase in the minimum wage since 2019 has strengthened the domestic demand and encouraged job creation, putting the country amongst the leaders in economic growth in the EU<sup>v</sup>. Finally, the econometric model of Kratena et al. (2016), based on a neo-Keynesian input-output dynamic, projects the idea that steps such as an increase in the minimum wage and a reduction of the working day would reduce unemployment and would improve the distribution of wealth in Spain, without the adverse effects that are usually attributed to this type of policy in the orthodox framework.

### 3. THE EFFECTS OF AN INCREASE IN THE MIW

An increase in the MIW has both direct and indirect effects on the social policy, redistribution of wealth, salary structure, employment and productivity. In light of the empiric literature, this section examines in detail the effects from these four complementary outlooks.

#### 3.1. The MIW as a social policy instrument

A substantial increase in the minimum wage generates different direct and indirect effects from a social policy<sup>vi</sup> perspective, particularly in relation to the Social Security system and the fiscal system. On the income side, this increase boosts the contribution rates in several regimes: the general one without any special systems, the special system for employed agricultural workers, the one for home-help workers, some special

agreements and benefits for unemployment, both contributory and for welfare. This effect is translated into a rise in the system's revenue. With regard to the expenses, the minimum wage has a direct influence on the amount of certain benefits, such as temporary disability, maternity, paternity and risks during pregnancy or the breastfeeding period, as well as in the ones covered by the Wage Guarantee Fund, which include unpaid wages or compensation in cases of corporate insolvency. Additionally, as many unemployment benefits and pensions are linked to the minimum contribution rate, these would also be improved as a result of an increase in the minimum wage.

Accordingly, in 2018 the Independent Authority for Fiscal Responsibility (Autoridad Independiente de Responsabilidad Fiscal -AIReF) estimated that the rise of the minimum wage to 900 euros would have a direct impact on the contributions made by the workers to the General Regime of around 600 million euros. Likewise, according to article 19 of the General Social Security Act, this rise also affects the minimum contribution rate of the Special Regime for Self-Employed Workers, increasing the system's revenue by approximately 1,000 million euros. As a whole, the AIReF calculated that the global impact of this step could be placed between 1,500 and 1,700 million euros in additional revenue for the Social Security.

In the same way, a substantial rise in the MIW such as the one set forth in this document would lead to an increase in work retentions in the Personal Income Tax of the beneficiaries, with a consequent rise in the fiscal collection. The minimum wage in the Spanish State has been exempt from taxation during the last few years, as the Personal Income Tax tables have been adapted to the consecutive increases. This year, however, there have been important disagreements amongst the different groups forming the government, although finally, it was decided that the minimum wage would remain exempt. In the proposal for the MIW increase that is being considered, the adaptation of the Personal Income Tax tables is not intended, therefore meaning an important rise in the collection.

### 3.2. Socio-economic effects

Different studies sustain that the increase in the minimum wage has a positive effect on the reduction of inequality and working poverty. According to the Report by the World Economic Forum (2017), in most of the countries analysed the minimum wage has contributed to reducing wage inequality without have a negative effect on employment, whenever adequate levels are set and they are complemented with other social protection policies: the increases in the minimum wage raise the income of the families in the lower bands of the distribution, decreasing wage inequality and, to a lesser extent, poverty.

In the same vein, Dube (2019)<sup>vii</sup> found, with data from three decades in the United States, that the increases in the minimum wage significantly increases the gross income of the households under the 15 percentiles, reducing the proportion of people below the 125% poverty threshold. In Ireland, Redmond et al. (2021)<sup>viii</sup> observed a drop of between 4% and 8% in the wage inequality with a 6% increase in the minimum wage, the effects of which extended to the 30% group. Likewise, studies such as those carried

out by Storer & Reich (2019), Dow et al. (2020) and others, document improvements in the general welfare and in specific groups after increases in the minimum wage.

In the Spanish context, Arranz and García-Serrano (2022)<sup>ix</sup> evaluated the impact of the increase in the minimum wage in 2019 and they concluded that an increase of over 10% in real terms occurred in the income of the households located in the first two deciles, reducing the inequality significantly. According to several different indicators, the inequality of income in these households would be reduced by between 7.7% and 11.4% in percentage ratios and between 12% and 18% according to rates centred on the lower rungs of the distribution. If the population is considered as a whole, the estimated reduction is between 2% and 3.8%, with a more considerable impact according to the rates that are sensitive to the lower rungs, around 3.4%. These results point towards a significant compression of the income distribution as a result of the increase in the minimum wage.

Regarding the aim of reducing poverty, the studies available offer complementary results. Granell et al. (2022)<sup>x</sup> estimate that the rise in the minimum wage benefitted 1,631,000 wage-earners, mainly in the agriculture, catering and trade sectors and amongst groups such as young people, women and foreigners. According to their data, over 250,000 people rose out of poverty between 2018 and 2020, 48% of them under the age of 30 years. Meanwhile, Arranz and García-Serrano (2022) conclude that the rise in the minimum wage reduced the intensity of poverty by 3.4% although it had no significant effects on its general incidence. However, in the population between the ages of 16 and 65 years, the intensity of poverty has dropped by up to 9.7% and the incidence by 24%. Both studies coincide in indicating that the minimum wage increase policy has contributed to reducing inequality and improving the living conditions of lower-income households.

### 3.3. Effects on the distribution of income, salary structure and employment

The relation between the increase in the minimum interprofessional wage (MIW) and the increase in income from work is complex, as it does not only depend on the wage evolution, but also on its impact on productivity and on the elasticity of the demand for work (Acemoglu, 2002)<sup>xi</sup>. Some studies suggest that the substitution effect – that is to say, the substitution of manpower by technology, does not exceed the positive effect of the MIW on the salary coefficient, therefore the participation of the work income in the national income would increase (Robinson, 1933<sup>xii</sup>; Rebitzer and Taylor, 1955<sup>xiii</sup>; Ahn et al., 2005<sup>xiv</sup>; Flinn, 2006<sup>xv</sup>). These authors even point towards possible positive effects on employment due to the higher cost of dismissal and to the increase in the labour offer. Other empiric works such as those by Katz and Krueger (1992)<sup>xvi</sup>, Blazeovic (2013)<sup>xvii</sup> or Zhan et al. (2020)<sup>xviii</sup> also rule out negative effects on employment, strengthening the idea that the impact of the MIW on the work income can be positive.

However, there is another line of research that warns of some possible negative effects of the MIW on work income in the long-term, particularly when the growth of productivity exceeds that of the wages, which has contributed to the drop in participation of the work in the income from the 1980s (ILO, 2014)<sup>xix</sup>. Structural changes,

such as the reorientation towards sectors that are capital-intensive, particularly in low and medium-income countries, could also moderate the effects of the MIW (OECD, 2012<sup>xx</sup>; Estrada and Valdeolivas, 2012<sup>xxi</sup>).

Additionally, the efficiency of the MIW to raise wages depends on their relative position within the wage distribution and the degree of compliance of their application. Even so, most studies coincide in the fact that the MIW reduces wage inequality, both directly and through indirect effects (“domino effect”) on wages that are slightly above the minimum (Autor et al., 2008; DiNardo et al., 1996; Lee, 1999). In Germany, these indirect effects managed to double the impact of the MIW on the total payroll.

In Spain, recent studies show a considerable reduction in wage inequality after the rise of the MIW in 2019. De la Rica et al. (2021), Granell et al. (2022) along with Arranz and García-Serrano (2022) underscore a significant improvement in the wages of the first two deciles and a lower proportion of workers on the lowest rung of the distribution. A wage compression may be observed that can be measured using different indicators, with reductions of between 20.7% and 25.4% in inter-decile rates and of between 7% and 10% in global rates such as the one by Gini and Theil. The rates that are most sensitive to low wages (Atkinson) point towards reductions that are even greater, between 12% and 18%. In addition, the MIW would have contributed to decreasing wage gaps due to gender, origin or age.

Regarding employment, the international and state literature coincides on the fact that the negative effects of the MIW are generally modest, limited to certain groups such as young people, people with low qualifications or workers in specific sectors. Meta analyses such as the ones by Belman and Wolfson (2014) and Doucouliagos and Stanley (2009) show that the average elasticity of employment when faced with increases in the MIW is of -0.1. That is to say, a 10% rise in the MIW would reduce employment by only 1%. In the Spanish context, ex-ante studies such as the ones by Lacuesta et al. (2019)<sup>xxii</sup> or AIREF (2020)<sup>xxiii</sup> estimated losses of between 24,000 and 40,000 jobs, while BBVA Research predicted a lower creation of between 75,000 and 195,000 jobs in 2019-2020. However, the ex-post evaluations did not confirm these forecasts.

Studies such as the ones carried out by AIREF (2020), Bank of Spain (2021) and De la Rica et al. (2021) conclude that the impact of the 2019 MIW on employment was very limited or even null. Some research even indicates improvements, with a lower labour rotation or greater productivity. In the case of groups that are traditionally excluded from the analyses, such as home-help or people with several jobs, Cárdenas et al. (2022) did not find any negative effects on the work prospects. De la Rica et al. (2021) detected a slight negative effect from the sixth month of the increase, with an estimated loss of 28,000 jobs, although without any significant impact on the length of the working day.

Overall, the data available suggest that the 2019 increase of the MIW in Spain did not cause an important deterioration of employment, while it did generate clear improvements in the wage distribution and the income of workers with lower salaries. These improvements were particularly relevant for women, young people, immigrants and workers with less training in sectors such as agriculture, catering and retail (Granell

et al., 2022). As concluded by Dube (2019), although the sensitivity of employment to increases in the MIW is generally low, it is advisable to move forward with gradual increases, which are accompanied by constant evaluation, to maximise their positive impact and to minimize risks in different economic contexts.

#### 3.4. Effects as an economic, industrial policy and productive development

The World Bank, in a 2015 report, analysed the relation between the increase in the minimum wage and productivity, concluding that it could have a positive effect. Based on aggregated data from 18 member countries of the OCDE, it estimated that a 10 percent increase in the relation between the minimum wage and the average wage is associated with an increase of between 1.7 and 2.0 percentage points in the long-term labour productivity and in the multi-factorial productivity. Additionally, the report included positive evidence in countries such as China, the United States and the United Kingdom, where the increases in the minimum wage have shown favourable effects on productivity.

The World Bank's report identified three mechanisms through which an increase in the minimum wage could improve productivity. In the first place, the substitution of less qualified workers by other more qualified ones, as the employers tend to hire more productive profiles when the labour costs increase, without necessarily reducing employment. In second place, businessmen could be motivated to improve efficiency by way of investments in training, technology or new management practices to compensate the higher cost of the payroll. In third place, the higher wages tend to reduce the rotation amongst workers with low wages, generating staff with more experience, which also has a positive repercussion on the productivity.

A complementary study centred in Germany (Dustmann et al., 2020), analysed the effects of the introduction of the minimum wage in 2015, which affected 15% of all employees. The study concluded that the minimum wage raised wages without reducing employment, at the same time as causing a reassignment of labour towards more productive companies. On an individual scale, many workers with low wages moved from small companies to other larger ones, which paid better. Regionally, the average quality of the companies increased (measured by the size or the fixed wage effect), particularly in the regions where the step had the greatest impact.

The study also observed that this reassignment improved the general efficiency of the productive system, although it had some side effects: some small companies left the market, which could have increased the business concentration and reduced the competition. In addition, some workers moved to companies that were further away, taking on greater commuting times and possible personal disadvantages, in spite of earning a higher wage. Establishing and quantifying these effects of reassignment was considered to be a first, key step towards understanding the general implications of the minimum wage on well-being.

#### Summary of the effects of the increase in the MIW

|   |   |
|---|---|
| As a social policy instrument                             | It raises the contribution base<br>More revenue for the Soc. Sec. and more collection |
| Socio-economic  | Reduction in wage inequality and working poverty                                      |
| Income distribution, wage structure and employment        | Ambiguous effect on income distribution and little incidence on employment            |
| Economic and industrial policy and productive development | Positive effects on productivity  |

#### 4. THE MIW IN FIGURES

From the year 2000 until 2025, the Spanish State MIW has undergone a considerable transformation, rising from 424.8 euros per month in 14 paycheques in 2000, to 1,184 euros per month in 2025. This evolution has not been linear. At the beginning of the 21<sup>st</sup> century, the MIW was considerably lower compared to other European countries. During the first years of the century, the increases were moderate, going from 424 euros to 600 euros in 2008. Between 2008 and 2010, the MIW continued to grow slightly, but from 2010 it reached a period of stagnation. For six years running, between 2010 and 2016, the minimum wage remained virtually frozen at around 650 euros per month. This freeze was closely linked to the austerity policies adopted during the economic crisis. It was not until 2017 and particularly in 2018, that the rises started again, reaching 735.9 euros per month in the aforementioned year.

However, from 2019 onwards a turning point was reached with a 22.3% increase, one of the largest rises, putting the MIW at 900 euros per month. This trend continued over the following years with progressive rises. In 2025, the MIW has reached 1,184 euros per month, which represents an accumulated increase of over 160% with respect to the year 2000.

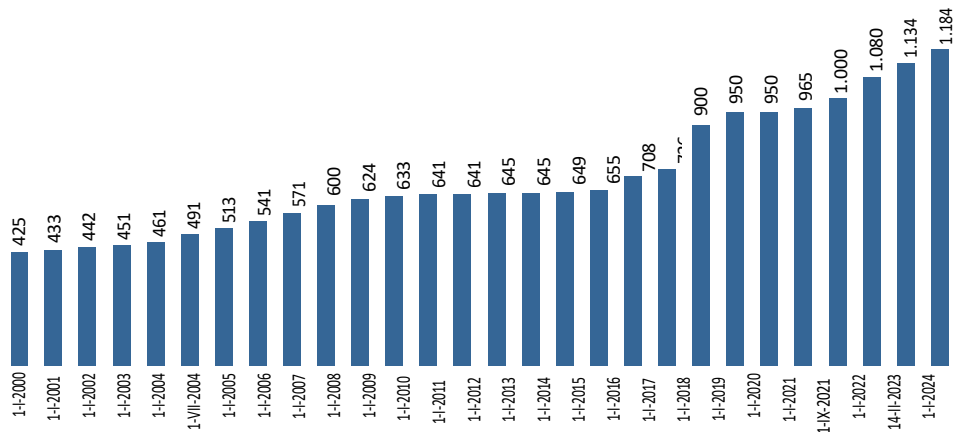
But in order to be able to truly understand the evolution of the MIW, we must look beyond its nominal values. It is essential to analyse its real value, as the analysis in real terms allows its evolution to be observed adjusted by the cost of living, offering a more accurate view of its purchasing power. Over the 2000-2025 period, three important stages may be observed: a first phase of moderate real growth up 2009, a second period of stagnation or loss of purchasing power and a last one of important recovery from 2019 onwards. The increase of the real wage in relation to the year 2000 would be around 57%.

However, if we analyse the evolution of real wages in recent years, taking the year 2019 as the starting point (that is to say, the period prior to the pandemic), we can see that the growth was very limited. Specifically, since then, real wages have only increased by



8%, and since 2020 there have been virtually no significant variations. This trend shows the very limited capacity for improvement in the workers' purchasing power in the recent context.

Evolution of the MIW (in € and in 14 paycheques)



Source: Preparation of the GE with data from the Ministry of Work and Social Economy

In spite of this slightly rising evolution of the real wage, the MIW is clearly insufficient if we compare it with the socio-economic reality of our region. It is worth remembering that the people who receive the MIW use most of their income to acquire essential goods and services, such as food, rent or housing and fuel, such as petrol. These are exactly the products that have become more expensive in recent years. For example, food prices have increased in a sustained way by 37% since 2019<sup>xxiv</sup>, while rent and housing have undergone significant rises that make it even more difficult to gain access to decent housing.

This insufficiency is verifiable; but there are also indicators that confirm this. The Survey on Poverty and Social Inequalities (La Encuesta de Pobreza y Desigualdades Sociales - EPDS) that the Basque Government publishes periodically is one of these sources. In its last report in 2022, it established that the threshold where a person started to have a lack of well-being was located at 1,356 euros net per month in 12 pay checks, which is equivalent to approximately 1,654 euros gross and in 14 paycheques this would be the equivalent of 1,418 euros.

12 paycheques ➤ 1,356 euros net = 1,654 euros gross

14 paycheques ➤ 1,418 euros gross

Source: The Basque Government's 2022 Survey on Poverty and Social Inequality and INE.

## 5. A NEW METHODOLOGY FOR CALCULATING THE MIW

Using a critique on the limitations of the current methodology, this point sets forth a new methodology for setting the MIW. Likewise, the expected economic and social effects of its implementation in Hego Euskal Herria are detailed.

### 5.1. Criteria

The calculating of the minimum wage by law is the main mechanism to establish minimum wages (90% of the countries belonging to the ILO establish it in this way), while 10% do it through Collective Bargaining structures (for example, the Nordic countries). In spite of the variety of methodologies, in recent years a convergence towards the calculation through the relation between the minimum wage and the average wage of a country is taking place, establishing the first as a percentage of the second. The European Charter of Social Rights recommends that the minimum wage should be at least 60% of the gross average wage of each country.

#### Average wage, 60% of the average wage in HEH in 2022

|                                | General  | Full-time |
|--------------------------------|----------|-----------|
| Average annual wage            | 31,579 € | 35,844 €  |
| 60% of the average annual wage | 18,948 € | 21,506 €  |
| In 14 paycheques               | 1,353 €  | 1,536 €   |

Source: Preparation by the GE with data from the INE

In the year 2022, 60% of the general average wage in Hego Euskal Herria was 1,353 euros per month in 14 paycheques, a figure that is higher than the State Minimum Inter-professional Wage (MIW) for this year, but still lower than the threshold recommended by the EPDS. If instead of the general average wage, the average wage of people working full-time were to be taken as the reference, this 60% would rise to 1,536 euros, therefore passing the threshold of 1,418 euros established by the EPDS.

In spite of this, basing the determination of the MIW exclusively on the percentage of the average wage involves important limitations. This approach does not consider other key factors, such as the evolution of business profits, which in recent years have reached record levels. From this point of view, it is possible to consider alternative indicators that promote a better distribution of the total payroll and a fairer relation between capital and work. Likewise, the 60% criteria does not incorporate elements such as the internal distribution of wages, ignoring the inequalities existing within the labour market itself. Therefore, two countries with an identical average wage could have very different wage structures and thus, very different needs regarding protection through a minimum wage. At the same time, this criteria also can mean an implicit loss in purchasing power. In recent years we have had a very high level of inflation, where wages have suffered a loss of purchasing power. The average wage has also suffered this loss and in turn, this would mean a drop in the purchasing power of the people earning the minimum wage.

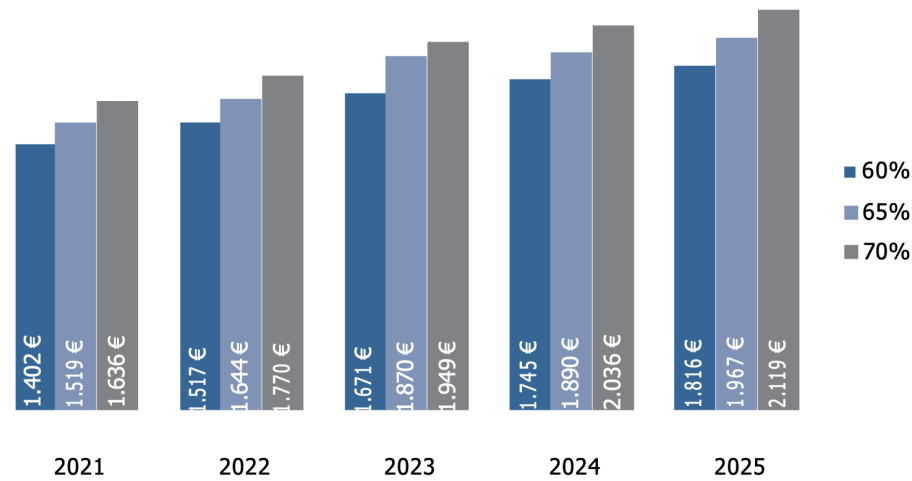
For this reason, the nominal GDP per capita (GDPpc) is being considered as a benchmark indicator for setting the minimum wage. Establishing the MIW as a percentage of the GDPpc would mean that any worker would receive this percentage for the value that they have generated in society. In this way, indicators such as the increase in productivity or company earnings or profits will also have a direct repercussion on the minimum wages in a positive way and could spill over into wages as a whole.

## 5.2. Proposal

The proposal includes establishing the MIW equivalent to a percentage of the nominal GDP per capita within a range of 60% to 70%. However, to make it easier to introduce the message, using two thirds as a protest element is proposed, as the calculations and effects are very similar, but it is easier to remember. An example of this would be to be able to explain to people who know nothing about the economy and the MIW establishment criteria the reason why it is advisable to fight for the planned increase: whereby the employed working class has guaranteed, as a minimum, that they do not have more than the third part of the value that their effort and work generates taken from them [or rather, or in addition],... that they receive a sufficient minimum payment in line with what the national economy generates, without allowing the generation of unproductive profits and without it having a negative effect on investment possibilities, in some necessarily applicable parameters and coordinates also in a no-capitalist economic system or with eco-social roots.

Taking into account the results of the regional accounts for 2023 offered by the INE; the advances and forecasts for real GDP growth, GDP deflator and nominal GDP, offered by the Basque Government and the Navarra Government for 2024; and the growth forecast of 4.5% in HEH as a whole (4.5% ACBC and 4.4% Navarra) and taking the population data as of the 1st of January, 2025, the MIW would be within the following levels between 2021 and 2025 in 14 paycheques:

#### Calculation and parameters of the MIW using the new methodology (in 14 paycheques)



Source: Preparation by the GE with data from the Regional Accounts from the INE, Basque Government, Navarra Government

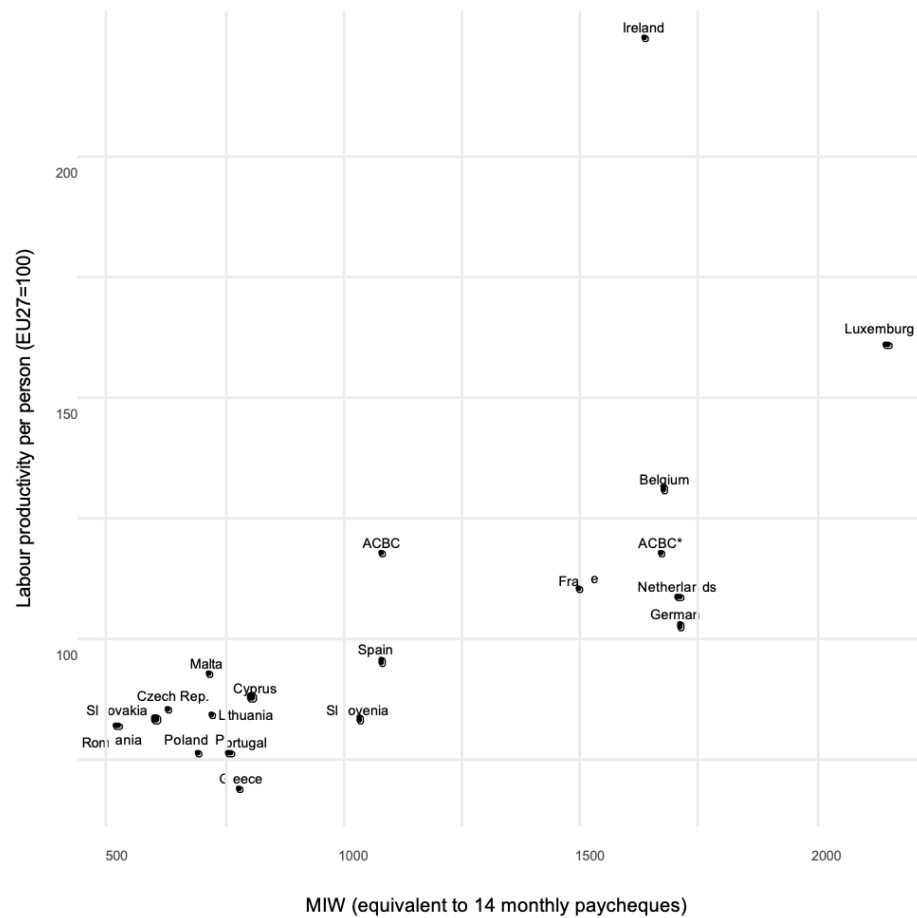
Taking into account the availability of state and regional accounting data, we propose setting the MIW annually in March, backdated to January of the same year, taking into consideration the forecasts of the last quarter of the previous year. However, and given that we would not have the closed data until two years later, compensation mechanisms associated to the updating of the GDP data must be established.

This approach would mean establishing an MIW for 2024 of between 23,198 and 27,062 euros gross per year, for full-time work in Hego Euskal Herria. Based on this criterion, ELA presented a specific proposal of 1,795 euros per month in 14 pay checks. It must be taken into account that the data available when planning it were different, but the proposal meets the criteria of this document and would also be useful for this time.

This level would put the MIW on a similar level to countries with productivity levels and dynamics very similar to those in Hego Euskal Herria. Specifically, in 2024 the lower limit of the proposed range would have been slightly below the German minimum wage and above the Belgian one and the upper limit would be below Luxemburg's minimum wage. Within this range, we would also find the Irish and Dutch minimum wages.

Thus, with the new methodology we would move from being amongst the group of countries with competitiveness that is based on low wages – which often involves a constant pressure on the working conditions and a very low commitment to added value, to progressively reach the Central European model, with a similar relation between productivity and wages.

Relation between productivity and MIW in Europe in 2022



Source: Preparation by the GE with data from Eustat and Eurostat

### 5.3. Effects

Taking into account the latest business results available on the Mercantile Register (2023), the proposed MIW for full-time work for this year would be lower than the average wage of approximately between 82.55 % and 87.6% of all the companies in Hego Euskal Herria, meaning between 41,836 and 44,399 companies. In 2024, taking into consideration the cost structure in the companies for the year 2023 (the latest data available at the time of preparing this report), the number of companies to which this rise would not affect would be lower than the average wage of approximately between 79.5% and 86.45% of all the companies in Hego Euskal Herria, meaning between 40,328 and 43,812 companies in Hego Euskal Herria.

These companies are concentrated in the metal, pharmaceutical, chemical, automobile, paper and non-metallic mineral industries, meaning that in these sectors an increase of the MIW in the proposed terms would not mean a significant increase in the total annual personnel expenses, consequently, it would not affect, in the short-term, business viability, competitiveness, nor the capacity to generate surplus for investment, or to the export sector.

On the other hand, in the sectors where the wages paid are below the proposed MIW, the step would have an impact on annual personnel expenses. These companies are concentrated in the services sector, mainly in retail, care and auxiliary services for industry, in addition to agriculture and the food industry. These companies concentrate between 30% and 40% of the wage-earning workers in Hego Euskal Herria.

Given that the area where most of the companies with wages below the MIW are concentrated is the service sector, a rise such as the proposed one would also have a positive impact from a gender perspective. The wage-earning workers in the services sector are mainly women: 89.9% in the ACBC and 81.9% in Navarra, compared to 59.8% and 50.6% of men. By comparison, the wage-earning workers in the industrial sector, where the wages are above the MIW, are mainly men (32.2% men compared to 9% women in the ACBC and 38.5% compared to 17.6% in Navarra). As we are aware that women are the ones who are concentrated in most of the insecure jobs in the service and care sectors, a substantial rise in the MIW would help to reduce the insecurity and discrimination suffered by women in the workplace considerably, as well as reducing the gender wage gap, which is around 22%.

The same occurs with immigrant workers (particularly women). Mainly employed in the service and care sectors, their income is much lower than non-immigrant workers. According to data from the Guipuzcoa Finance Department, the average wage for immigrant workers was 16,328 euros (for all types of working days, 44% less than the 29,406 euros on average that a non-immigrant worker earned.) For this reason, the proposed MIW increase would have a very positive impact on the reduction of inequalities due to origin.

Specifically, with data from 2023 (the last data about wage deciles available) it is estimated that the proposed increase in the MIW would have had a positive effect on between 17% and 23% of the wage-earning population in Hego Euskal Herria, depending on which point of the range we are looking at. This means between 165,400 and 225,100 people.

## 6. COMPLEMENTARY ECONOMIC POLICIES

The aim of increasing the MWI to the level through the proposed methodology is to redistribute the product of the work between the capital and work, that is to say, a tool for the redistribution of the capital gains produced and a better redistribution of the income. However, as has also already been mentioned, the step has a limited scope, therefore in order for the aforementioned redistribution to be effective and sustainable, it must be accompanied by a set of complementary economic policies and coordinated trade union action. To do this, a strategy articulated around three important points is proposed: fiscal policy, industrial policy and labour policy, with an active role of collective bargaining and trade union action.

### 6.1. Fiscal policy

On the fiscal subject, a progressive reform is proposed that substantially increases the contribution of the high incomes, the large estates and the business profits. Amongst the steps put forward in the Estudios 53 by ELA (2024)<sup>xxv</sup> the increase of the maximum Personal Income Tax rate to 66%, a marginal rate of 100% for earnings that exceed the MIW by between three and five times, the elimination of the duality between general income and savings, the adaptation of the brackets to inflation, the reform of the taxation of the private pension plans, the establishment of a minimum effective rate of 25% in the Corporate Tax and the elimination of deductions and fiscal incentives considered to be inefficient stand out. A 50% charge on extraordinary profits is also demanded, declaring profits in the place where they are generated and doubling the Wealth Tax rate with a charge of between 1% and 10%.

## 6.2. Industrial policy

The increase in the MIW could imply, in the short-term, a slight reduction in the capital income and in the profit rate. Accordingly, within the framework of late capitalism – characterised by the lack of profitable investment spaces, the capital has sought to sustain its profits through the devaluation of the work force. Therefore, when this becomes more expensive, instead of investing to improve productivity, many companies may opt for passing on this cost to the end price, which could be translated into a loss of purchasing power for the salaries above the minimum and in the medium-term, in an inflationary dynamic associated with the increase of the nominal GDP. Additionally, in the context of the global value chains, there is a risk that some companies – particularly those in peripheral or semi-peripheral positions, relocate their production to regions with lower labour costs. At the same time, companies with little profitability could cease to be viable, which would involve job destruction, increase of external dependence and a weakening of the local production.

In order to prevent this from being translated into inflation and eroding of the purchasing power, and in order for the wage increase to have a real positive impact, public policies that act in two directions are needed. On the one hand, they must contain the basic prices using intervention mechanisms, such as a public agency that promotes short, sustainable circuits. Likewise, policies are set forth to guarantee fundamental social rights, such as access to housing, by way of the promotion of social housing, price limitation, control over investment funds and the stopping of evictions, following the proposals included in the Estudios 43<sup>xxvi</sup> and 48<sup>xxvii</sup> reports by ELA.

Furthermore, it is essential for the investment to be politically aimed at the sectors that effectively have repercussions on productivity and that are desirable from an eco-socialist point of view. Accordingly, we propose an offensive industrial policy that strengthens the regional roots and the productive Independence. To do this, instruments are needed such as a centre of public participations, a public investment bank and mechanisms that condition the public aid. In the case of companies affected by the increase in the MIW, we propose differentiating between the ones that must be sustained due to their strategic value – and that might need public support, and those where the production could be replaced. For the latter, we suggest a reorientation of

resources, public intervention and their transformation into cooperatives or social economy companies.

### 6.3. Labour policy

As has already been indicated, an increase in the MIW under the terms proposed in this document could derive in a destruction of jobs in the sectors where the business margins are reduced more by the increase in personnel expenses, particularly in the short-term. In order to cover the employment deficit generated in the companies that have closed or reduced their personnel, it is important to develop active employment policies that generate incentives on this point. Not only in a reactive way, but also to reduce the risk of unemployment when faced by the increase in investment in productivity that this MIW increase policy is also pursuing.

In the first place, we suggest the need to move forward in the legally regulated reduction of the working day, particularly in the companies in the least affected sectors, in such a way that they can absorb the destroyed employment in the deficient productive units, without affecting the wages/hour.

Likewise, the boost of specific active employment policies is defended which take into account the sectors that will be most impacted by the increase in the MIW. These steps include: reinforcing public employment and limiting outsourcing, particularly in personal care services; creating regional public agencies that connect production and consumption in terms of proximity to sustain the employment in agriculture and livestock farming; and developing public professional training adapted to the new needs derived from the technical change and the greater demand in eco-social efficiency, with reskilling and upskilling programmes for the workers.

### 6.4. Collective bargaining and trade union action

The idea of using collective bargaining is also feasible to influence the decisions that allow the MIW to be established at the proposed level, as well as the implementation of strategies when faced with the increase derived from wage expenses. In the first place, through economic trade union control and on decisions on the subject of employment in the companies based on that established in the Workers' Statute, progress may be made in the reduction of the working day, as a step to conserve employment in the face of the increase in wage expenses that could cause a reduction in employment in the short-term, without affecting the wages/hour. In the same vein and in second place, the Works Council may establish a control of the superfluous expense and of the fraudulent income and using this, establish maximum wage levels<sup>xxviii</sup> or asymmetrical indexing that lead to a gradual wage levelling, a fact that not only will allow the companies to have the financial capacity to increase the minimum wages and the lowest ones on the wage structure, but it will also make it easier to not only reduce the working day, but also to increase hiring and employment.

Furthermore, it is also worth mentioning that from the Works Councils, surveillance could be exercised to ensure the fulfilment of the labour, social security, employment



and fiscal regulations in force. Likewise, there is a right to work to achieve the establishing of as many steps as might be necessary to increase productivity, through specific investment policies and technological change and in the productive and price policies, including the productive relocation decisions.

## 7. CONCLUSIONS

This report has shown that the Minimum Interprofessional Wage, far from being just a technical reference, forms a tool with a deep-rooted capacity for social, economic and political transformation. Throughout this analysis, it has been shown that its increase not only directly improves the living conditions of the workers with the lowest income, but that it also strengthens the sustainability of the public system for social protection, it reduces income and gender inequalities, it stimulates productivity and it promotes a fairer, more resilient economy.

The methodological proposal presented – based on linking the MIW to the GDP per capita and not to the average wage, introduces an innovation that is relevant in this debate. This approach allows the economic growth and the business profits to be directly translated into a proportional improvement of the lowest wages, lining up the collective interests with the macro-economic evolution. By establishing a structural link between the socially generated value and its redistribution, the conditions are laid down for a fairer wage logic, less dependent on the negotiating power or of the circumstantial political commitment.

Likewise, the report argues that this increase in the MIW is both technical and economically viable. Most of the business world in Hego Euskal Herria is in conditions to take on the proposed increase without compromising their profitability or their competitiveness. The sectors that could be more affected are exactly the ones with greatest job insecurity, where feminized jobs predominate, in the care sector or that are linked to the immigrant population. Accordingly, the proposal also acts as a redistributive policy, focussed on class, gender and origin, fighting against structural inequalities.

That being said, the proposal also warns that a step such as this one cannot deploy all its potential without complementary policies. The MIW must be integrated into a global transformation strategy that includes progressive taxation, an active industrial policy, a reform of the labour market aimed at a reduction in the working day and the strengthening of collective bargaining, as well as an effective monitoring of the business compliance. Only in this way will it guarantee that the increase in the minimum wage is not absorbed by regressive dynamics such as inflation, tax evasion or indirect job insecurity.

To sum up, this minimum wage proposal goes beyond a specific figure. It is a commitment to democratising the economy, strengthening the social value of the work and to moving forward towards a more inclusive and sustainable production model. It is a redistributive intervention which, in addition to raising the living standards of a substantial part of the working population, contributes to reorganising the relations of economic power in favour of the work and the common good. Within this framework,

the MIW is not conceived as an end in itself, but rather a lever towards a prospect of social justice.

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<sup>i</sup> Valuable labour foundations and the prices that are upheld in the exploitation and extraction of capital gains; structural trends to the generation of unemployment maintenance of job insecurity as a functional reason of capital economies; accumulation dynamics and multifactorial crises as a trend in capitalist systems, etc.

- Shaikh, Anwar (2016). "Capitalismo: competencia, conflicto y crisis". Fondo de Cultura Económica, México DF. 2022.
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<sup>ii</sup> Thomas I. Palley, 2022. "Theorizing varieties of capitalism: economics and the fallacy that "There is no alternative (TINA)"", FMM Working Paper 76-2022, IMK at the Hans Boeckler Foundation, Macroeconomic Policy Institute

- Cárdenas del Rey, Luis; Herrero Alba, Daniel; Rial, Adrian (2021) "Fundamentos institucionales del crecimiento dirigido por la demanda: Una nueva agenda de investigación". Revista de economía mundial, Nº 58, 2021, págs. 183-202.
- An application for the Spanish economy in Cardenas del Rey, Luis (2017). "Estudios de macro- dinámica aplicados a la economía española: productividad, inversión y distribución de la renta". Doctoral thesis, Universidad Complutense de Madrid, 2017.
- Combined with a Marxist analysis, in Buendía, Luis; Molero, Ricardo (2018). "The political economy of contemporary Spain: from miracle to mirage". Taylor & Francis, Routledge/Taylor & Francis Group, 2018. According to the authors, the Marxist tool box (as applied by Shaikh, 2016) is the choice for understanding the growth pattern. Commercial and production external insertion is based on a central-peripheral approach (Prebisch, 1962, Hopkins y Wallerstein, 1977, Gereffi and Korzeniewicz, 1994). Minsky (1992) and Keen (2011) are the main theoretical references for tackling the process of indebtedness and growing financial fragility of the Spanish economy. The analysis of the labour markets and the distribution of the income starts from the consideration that their evolution depends on (and is functional to) the trends examined in the rest of the book.

<sup>iii</sup> For the Spanish State, see Cárdenas (2017)

- See particularly Storm, Servaas; Naastepad, C.W.M. "Los efectos del crecimiento basado en los salarios sobre la productividad y las inversiones", en AA.VV (2011). Hacia una recuperación sostenible: por una política de crecimiento basada en los salarios. Boletín Internacional de Investigación Sindical 2011 vol. 3 núm. 2. Ginebra, OIT. También Stockhammer, Engelbert. 2011. "Crecimiento basado en los salarios: introducción" in the same Volume, citing Vergeer and Kleinknecht (2011) who carried out a panel analysis for the OCDE countries from 1960 to 2004 and found a greater wage growth led to a greater growth in productivity. The direction of the causality is not identified, nor is a distinction made between the short and long-term effects, however, the evidence available does not suggest that the real growth in wages has a negative effect in the long-term on the labour productivity growth.

<sup>iv</sup> Alexander Herzog-Stein, Camille Logeay, Patrick Nüß, Ulrike Stein and Rudolf Zwiener (2018). The positive economic impact of Germany's statutory minimum wage. An econometric analysis. IMK Report 141e, September 2018.

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<sup>v</sup> Gorjón, Lucía, David Martínez de Lafuente, and González Romero, “Employment effects of the minimum wage: evidence from the Spanish 2019 reform,” *SERIEs*, 2024, 15 (1), 1–55.

<sup>vi</sup> For a first recent approach to the impacts of the increase in the MIW in general and in the social benefits in particular, it may be seen for the 2023 MIW in the Spanish State, the RDL Project by which the Minimum Interprofessional Wage is set for 2023 and the Memory of Analysis of Regulation Impact (MAIN) (they also evaluate impacts on previous RDL).

<sup>vii</sup> Dube, A. (2019): “Minimum wages and the distribution of family incomes”, *American Economic Journal: Applied Economics* 2019, 11(4): 268–304

<sup>viii</sup> Redmond, P., Doorley, K. y McGuinness, S. (2021): “The impact of a minimum wage change on the distribution of wages and household income”, *Oxford Economic Papers*, 73(3), 2021, 1034–1056

<sup>ix</sup> Arranz, J.M., y García C., (2022): Los efectos del incremento del salario mínimo interprofesional de 2019 en España en los hogares pobres. A report carried out for the Directorate General for Employment of the Secretary of State for Employment and Social Economy of the Ministry of Work and Social Economy, Madrid

<sup>x</sup> Granell, R., Fuenmayor, A. y Savall, T. (2022): El salario mínimo, una medida a favor del pacto social: los efectos del salario mínimo sobre el bienestar social, la pobreza y la desigualdad. *Desigualdad y Pacto Social*, Fundación La Caixa

<sup>xi</sup> Acemoglu, D. (2002). Technical change, inequality, and the labor market. *Journal of Economic Literature*, 40(1), 7–72

<sup>xii</sup> Robinson, J. (1933). *The economics of imperfect competition*. Macmillan

<sup>xiii</sup> Rebitzer, J. B., & Taylor, L. J. (1995). The consequence of minimum wage laws: some new theoretical ideas. *Journal of Public Economics*, (2), 251–255

<sup>xiv</sup> Ahn, T., Arcidiacono, P., & Wessels, W. (2005). Minimum wages and positive employment effects in general equilibrium. *Duke University*

<sup>xv</sup> Flinn, C. J. (2006). Minimum wage effects on labor market outcomes under search, matching, and endogenous contact rates. *Econometrica*, 74(4), 1013–1062

<sup>xvi</sup> Katz, L. F., & Krueger, A. B. (1992). The effect of the minimum wage on the fast food industry. *Industrial and Labor Relations Review*, 46(1), 6–21

<sup>xvii</sup> Blazevic, S. (2013). Is employment decreasing due to the minimum wage increase? *Economic Research - Ekonomski Istrazivanja*, 26(1), 69–100

<sup>xviii</sup> Zhan, Q. et al. (2020) ‘The influence of Minimum Wage Regulation on labor income share and overwork: Evidence from China’, *Economic Research-Ekonomska Istraživanja*, 33(1), pp. 1729–1749

<sup>xix</sup> International Labour Office (ILO) (2014) *Global Wage Report 2014/15: Wages and Income Inequality*

<sup>xx</sup> Organisation for Economic Co-operation and Development (OECD) (2012) “Employment Outlook 2012”

<sup>xxi</sup> A, Estrada & E, Valdeolivas (2012). “The fall of the labour income share in advanced economies”. *Occasional Papers 1209*, Banco de España

<sup>xxii</sup> Lacuesta, A., Izquierdo, M., and Puente, S. (2019). Un análisis del impacto de la subida del salario mínimo interprofesional en 2017 sobre la probabilidad de perder el empleo. *Occasional Papers/ Banco de España*, 1902

<sup>xxiii</sup> AIREF (2018). Informe sobre las líneas fundamentales de los presupuestos de las administraciones públicas 2019. Report 45/18

<sup>xxiv</sup> Calculation of variations in the Consumer Price Index (CPI system 2021 base). January, 2019 and January, 2025

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<sup>xxv</sup> Manu Robles-Arangiz Fundazioa, Gabinete de Estudios. (2024). La clase trabajadora sostiene el sistema fiscal. Análisis de la fiscalidad de Hego Euskal Herria y propuestas para un sistema fiscal justo (Estudios, 53). Bilbo: Manu Robles-Arangiz Fundazioa

<sup>xxvi</sup> Manu Robles-Arangiz Fundazioa, Gabinete de Estudios. (2023). La vivienda en Hego Euskal Herria: un derecho en manos del mercado (Estudios, 48). Bilbo: Manu Robles-Arangiz Fundazioa.

<sup>xxvii</sup> Manu Robles-Arangiz Fundazioa, Gabinete de Estudios. (2022, abril). El problema de la vivienda en Hego Euskal Herria: diagnóstico y alternativas (Estudios, 43). Bilbo: Manu Robles-Arangiz Fundazioa

<sup>xxviii</sup> Specifically, the possibility of establishing an income or maximum wage policy in Hego Euskal Herria is being considered, limiting the total individual income to a maximum of five times the Minimum Interprofessional Wage (MIW), which would be determined in terms of the total product of the economy. This step is aimed at guaranteeing a fairer distribution of the wealth between capital and work, based on the principles of sufficiency and payment solidarity. In a system in which personal income is the main route for access to essential goods, limiting the excessive accumulation seeks to prevent a few people from appropriating, either through high wages or capital, the collective value generated by the whole of the working population.

In order to apply it, different institutional and contractual routes are considered: from legal reforms (such as the modification of the Workers' Statute or the legislation over public contracting with maximum wage ratios), to taxation steps such as the application of a marginal rate of 100% on the income that passes the set threshold. Interprofessional agreements with the employers' associations and asymmetrical indexing mechanisms that limit the growth of the higher wages in relation to the lower ones are also being contemplated. These tools can be activated from collective bargaining and trade union action, including the control of the wage structure within the companies, which strengthens their viability in the short and medium-term.

The effects expected from this policy are similar and complementary to those of an increase in the MIW: a reduction in the inequality of income, an improvement in the purchasing power of the lower wages, an incentive for the reduction of the working day and an increase in employment. Additionally, it generates a redistribution of the surplus that may be used for productive, sustained investment, preventing its redirection to investment income or dividends, and promoting a more efficient, fair economic model with less ecological impact. Its positive impact on democracy is also emphasised, as it reduces the disproportionate power of the large fortunes over political decisions. In fiscal terms, it is estimated that a policy like this one would significantly increase the tax collection without affecting most of the population, strengthening the redistributive role of the tax system.