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The minimum wage: the case of the United Kingdom and Italy.

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Introduction:

The minimum wage is an important aspect when it comes to talk about economics, but more specifically when both work and its peculiarities are considered. Indeed, in this regard, over the years plenty of countries in Europe and in other continents have been wondering if it would be a good or a bad idea to introduce it in their country and what would be the consequences and the pros and cons if a minimum wage was fixed in their country. In this respect, lots of nations have introduced it: some of them introduced it many years ago, including New Zealand and Australia, and some fixed it just few years ago, e.g. Germany and South Africa.

Some people in general may suggest that the minimum wage would surely bring only positive consequences in countries that introduce it; indeed a person who is not so specialist in this field might think that a minimum wage would help workers, especially the poorest ones, and that it would have positive effects on workers' situation, mostly including their wages and their ease to either find a job or pass to a new one. Unfortunately, when it comes to speak about the minimum wage and to discover its effects, there are many aspects and factors to take into account. In order to find out the possible effects of a minimum-wage introduction, it is important to focus on many economic elements, such as: the economic situation of the considered country, the situational wage of the considered country, the labor market and how it is structured, the type of businesses in the labor market (whether it is monopolistic or perfectly competitive), and what happens when fundamental labor-markets factors (i.e. wage, labor demand, and labor supply) change (when they increase or decrease). If a person wants to discover more about this environment, it is useful to understand that the economic theory of how labor markets work state that if the labor demand surpasses the labor supply means that the labor market will probably see more workers employed within it, and if the labor supply surpasses the labor demand means that there will be more likelihood to see less workers employed in the labor market. So, taking these basic notions into consideration, a minimum wage study may be carried out; needless to say that these theoretical concepts have to be the starting point in order to arrive to the final point, where the minimum wage has been finally understood. Furthermore, this starting point has to be embedded in its further continuations, that is all the set of things that will happen after what explained above.

The thesis will reflect the aforementioned basic notions in order to understand what happened to the United Kingdom when the minimum wage was fixed, trying to comprehend also its effect on some economic aspects, such as: employment, pay, businesses, and wage inequality; to sum up, the above-mentioned starting point will be useful tools to better grasp the minimum wage effects on the United Kingdom.

Moreover, the thesis will examine the minimum-wage effects under a theoretical and practical point of view, again focusing on employment, businesses, poverty, and wage inequality.

There are also some countries that have not introduced a minimum wage yet: this is the case of Italy, which is the second nation that will be analysed in this thesis. Italy has not a minimum wage in its country but there have been doing some debates about its introduction, so much that it seems that its implementation will not take so much time. The thesis, along with many figures and tables, will undergo to a deep analysis trying to figure out what would be the minimum wage effects on employment, pay, businesses, and wage inequality if it was implemented in Italy. In this respect, the same approach of what used for the United Kingdom will be used.

The thesis is split up into three chapters: the first one is divided into three more sections and it will examine some aspects, such as the basic notions of the minimum wage, the minimum wage situation around the world, and the effects that a minimum wage do bring on employment, businesses, poverty, and wage inequality from a theoretical point of view; the second one is divided into four more sections: the first section will explain the story of the debates and struggles that had been made in the United Kingdom in order to achieve the minimum wage in the country; the second section will examine the national minimum-wage peculiarities and how the United Kingdom responded to it; the third section will represent the wage background in the United Kingdom from the period 1970s-2015; and the last one will analyse its the national minimum-wage effects on employment, pay, businesses, and wage inequality; finally, the last chapter will study the case of Italy and it is divided into three sections: the first one concerns the debates and discussions of some political parties over the hypothetical minimum-wage introduction; the second one will describe how Italian wages had evolved within the period 1970s-2015; the third one will examine what would happen to Italy if a minimum wage was introduced, focusing on employment, wages, wage inequality, and businesses.

Chapter 1: An in-depth analysis of the minimum wage

The first chapter of the thesis will analyse the most important aspects of the minimum wage and it will be split up in three sections: in the first one both many definitions of the minimum wage and the several ways to fix it will determine it; the second one will display the situation of the minimum wage in some countries around the world, paying attention to various datas and numbers such as the level of the minimum wage in these countries and how its has been changing over the years; finally, the third section will show what are the effects of the minimum wage from both a theoretical and practical perspective.

Chapter 1.1: Minimum wage basic notions

The minimum wage is a strong theme that has been analyzing over the years and that has been creating several debates and discussions among the people who studies it, especially the economists who are those who mostly deal with the problems and the solutions of this delicate issue. Indeed, in this section, various definitions of minimum wage along with the methods to fix it will be taken into consideration. There are also different definitions of minimum wage, in fact some researchers, academics and economists tried to provide a good explanation of this matter, although the reality is much deeper. A first definition may be that the minimum wage is a labour market institution where the wage of all workers, who are wage earners, must guarantee a protection regarding their pay (Eyraud and Saget 2005). A second and the simplier explanation might be that the minimum wage is "the amount of remuneration that employers legally have to pay to workers for the work performed during a given period" (Sümer 2018). This is the simpliest definition because is the one that all the people may understand and that make the things clear, even in the case they are not economists or scholars of this environment. Once again, Sümer (2018) suggests that the minimum wage has a double face: an earning for the the employee, and an expense for the employer. A third definition could be that the minimum wage is just a purpose that must protect the workers on both their efficiency and productivity of their work (Adema, Giesing, Schönauer, and Stitteneder 2019).

Eyraud and Saget (2005) point out that the minimum wage is fixed in different ways, or better, it can be fixed in four ways. The first way is when the State has the authority to fix it. It chooses just one rate that is valid for the entire country or for the region; this is the most common used way, in fact it is used by more or less 68 countries around the world. The second way is when again the State has the competence to fix the minimum wage. But in this case, it sets multiple rates depending on the sector in which the worker belongs to and/or the occupational level. Here, the minimum wage has several roles, such as to protect workers that gain low wages and to have quite a good wage range to spread regarding worker qualification and experience. Furthermore, roughly 16 states, including Cyprus, Ecuador, Camdodia and several Latin American countries apply this way. The third way is similar to the first one, but the only thing that changes is that the decision is made by collective bargaining and not by the State. Collective bargaining encompasses both competent authorities and social partners. It also should be mentioned the fact that this way of fixing the minimum wage is utilized by very few countries such as Belgium and Greece. Finally, the last method of setting the minimum wage consists on multiple rates that differs from the work sector and/or the occupation with common bargaining as the main decider. This method is mostly used by Italy, Germany, Namibia and some different European countries. In addition, Eyraud and Saget (2005) specify that when the minimum wage is fixed in regions, it may generates negative effects because of people's choice to transfer from disadvantaged regions to cities with higher population where, evidently, wages are much higher.

Chapter 1.2: A glance across the world

In this section, some numbers and the situation of some countries across the world will be analyzed. Several countries will be taken into account, with their situation of minimum wage up until early 2024.

Starting with the first countries that adopted the minimum wage, Adema, Giesing, Schönauer and Stitteneder (2019) report the very earliest countries to set a legal minimum wage law. It emerges that New Zealand is the first country in the world to introduce a legal minimum wage in 1894, followed by Australia that set it two years later. The latter imposed a minimum wage that covered only six industries, in fact the principal aim of both countries was to set it in order to resolve the poor working problems in sweat shops. As regards the situation in the European Union, its members initiated to establish the minimum wage only in the second half of the 20th century, with Germany as the last European country to introduce it in 2015 (Adema, Giesing, Schönauer and Stitteneder 2019). The last country in the world to set it is South Africa in 2017 (Adema, Giesing, Schönauer and Stitteneder 2019).[1] However, not all the

1 These datas refer to the period until 2020.

workers across countries can earn the full minimum wage. Indeed, it varies when it is compared with different countries and it depends on several worker characteristics such as the age, the worker abilty/disability, the sector the worker belongs to, the worker's skills and the occupational situation at the moment. As concerns these dynamics, Adema, Giesing, Schönauer and Stitteneder (2019) provide in-depth explanation about the different circumstances listed above. For example, in Australia the minimum wage varies due to the age of the worker. Indeed, workers under 16 years old obtain 36.8% of the minimum wage and as age increases, the percentage rises: 16 years-old workers can reach 47.3% of the minimum wage, 17 years-old ones can obtain 57.8% of it, 18 years-old manage to gain 68.3% of it, 19 years-old 82.5% and finally, 20 years-old workers can reach almost the full minimum wage (97.7%). In Australia again, the minimum wage is also set depending on the disability of the worker as well as in New Zealand. In Luxembourg and Malta the minimum wage is higher if the worker is a high-skilled one and has enough experience in working. There are also different minimum wage rates ranging from the different sectors; this is the case of the United States that applies diverse rates depending on who acquires tax and free tips. Another example is Hungary where workers employed in job seekers programmes receive a wage that is discussed by the Government. Finally, two special cases stand out: in Germany and in New Zealand employers may diminish the minimum wage of agriculture sector worker by cutting the lodging cost from it.

Furthermore, another important aspect when it comes to look at the numbers and datas of the minimum wage is the Kaitz index.[2] Countries that have low Kaitz index means that the minimum wage is fixed at a low level and countries that have high Kaitz index means the contrary. According to what stated above, Spain had a low minimum wage level, as the Kaitz index hit 39.3, as well as in Bulgaria (41.0), Romania (44.4) and Poland (47.5), in contrast with Ireland and Hungary that had respectively a Kaitz index of 52.6 and 57.0 (Kampelmann and Rycx 2012). Kaitz index may vary due to the different occupational sectors of a country: for example in Lithuania, the Kaitz index covered 38% of the entire economy but the percentage increased in the hotels and restaurant sector (61%); the Estonian Kaitz index likewise in 2004, hit 34% for the economy but reached 67% in the retail branch (Kampelmann and Rycx 2012).

2 Kaitz index represents the results from the division between the minimum wage and the median wage (Kampelmann and Rycx 2012).

Now, an analysis of how much wages changed over the years in some countries will be considered. Giangrande (2020) is extremely helpful when these countries are compared. The first comparison is between Netherlands and Belgium whose gross annual wage in 2000, reached respectively 44,000€ and 43,400€ and 19 years later (2019) it reported a massive increase, respectively of +8.8% and of +9.9%. The second comparison is between Germany and France: in 2000 the gross annual wage touched respectively 35,800€ and 32,200€ with an increase of respectively +18.4% and +21.4% in 2019. Finally, the last comparison is between Italy and Spain; hence, in the same period, the gross annual wage was respectively 29,100€ and 26,800€ with a slightly increase of +3.1% for Italy and of +2.2% for Spain. Again Giangrande (2020) underlines three different wage dynamics: the first one regards Netherlands and Belgium, and it could be suggested that in presence of higher median wages, there is a huge rise of them; the second one concerns Germany and France, with the insinuation that median wages that stand at the average level among this six nations, present higher wage rises; the last but not the least dynamic is about Italy and Spain which have lowest median wages, and they are marked by long-run truncation of their wages.

Important informations about how minimum-wage rates have been changing over the past couple of decades are displayed in figure 1. Starting from United States, figure 1 shows that between 2008 and 2009 the latter had quite a significant increase in the minimum-wage rate[3], reaching its highest rate in 2020. France saw its minimum wage level increase over the years, having a discrete hike comparing 2008 and 2020 (figure 1); Australian minimum wage changed significantly between the end of 2010s and 2020[4], as figure 1 shows. The country that have been witnessing the largest change in minimum-wage rate is Luxembourg, which presents a huge change between the same period of time[5], as one can notice in figure 1; whereas figure 1 demonstrates that despite the high minimum-wage level, Ireland has not been owning such a great switching[6]. The last country represented in figure 1 is Hungary which have been increasing its minimum wage over the years despite its low level[7].

3 Calculated in a hourly basis.

4 Calculated in a weekly basis.

5 Gross monthly wage is considered.

6 Gross monthly wage is considered.

7 Gross monthly wage is considered.

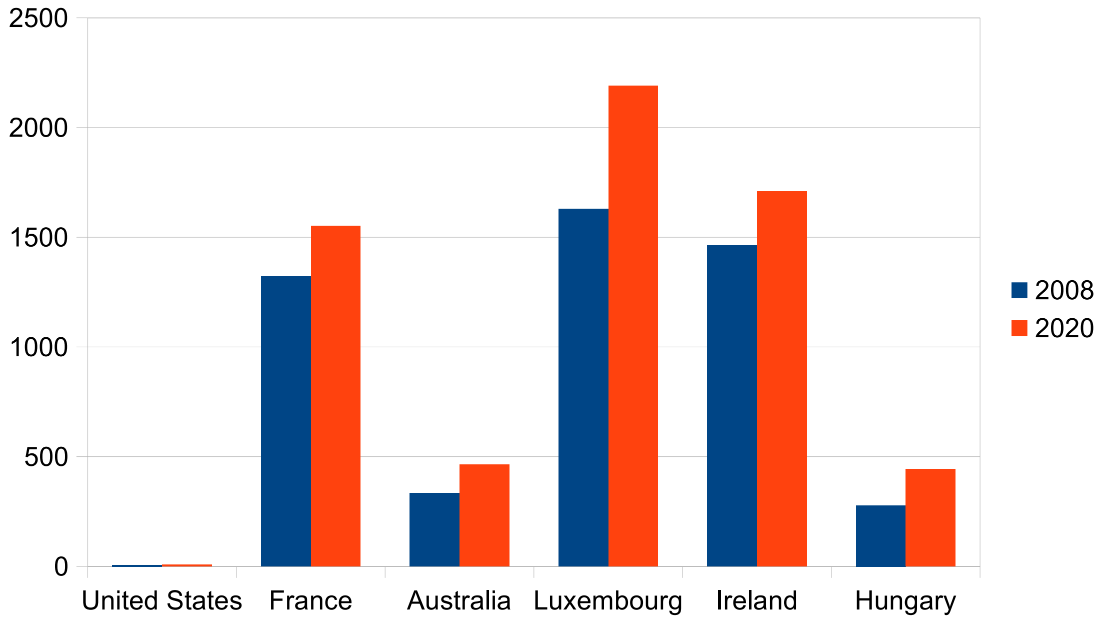

Figure 1: Comparison between 2008 and 2020 (Trading economics; Euronews).

[8]

Lastly, further explanation about the minimum wage level in the same countries will be shown in figure 2[9]. In the United States, teenagers are the most affected group by the minimum wage: in fact, both in 1979 and in 2019, more than 25% of them were paid below the minimum wage level (Manning 2021).[10] Respect other nations, United States has the lowest median hourly wage for teenagers, as the minimum wage level is set at a weak grade[11] (figure 2). France has registered an high unemployment of youth workers for so many years, and in 2021 there were plenty of workers (13.4%) who gain from the 2019 increase, much higher than in the United States (Manning 2021). Taking into consideration the 2019 increase, it could be stated that France has minimum wage fixed at a high level, as evinced in figure 2. Moving on, Australia system differs from the

8 The figure relies heavily on material found on https://tradingeconomics.com, on https://it.euronews.com, and on Manning 2021.

9 Gross monthly-minimum-wage of January 2024.

10 These datas refer to hourly wages.

11 2023’s data (hourly wage).

France's one: it has Federal minimum wages, which means that Australia contains more than 1500 minimum wages spread inside its country; but despite the relative high minimum-wage, in 2014 the number of workers who were paid the minimum-wage rate was pretty low (Manning 2021); however, figure 2 shows that it is fixed at an high level[12]. Other nation that is analyzed in figure 2 is Luxembourg, which presents the highest level of minimum wage in Europe, followed by Ireland. The last nation analyzed is Hungary, which is the nation with the lowest minimum-wage floor in Europe, as displayed in figure 2.

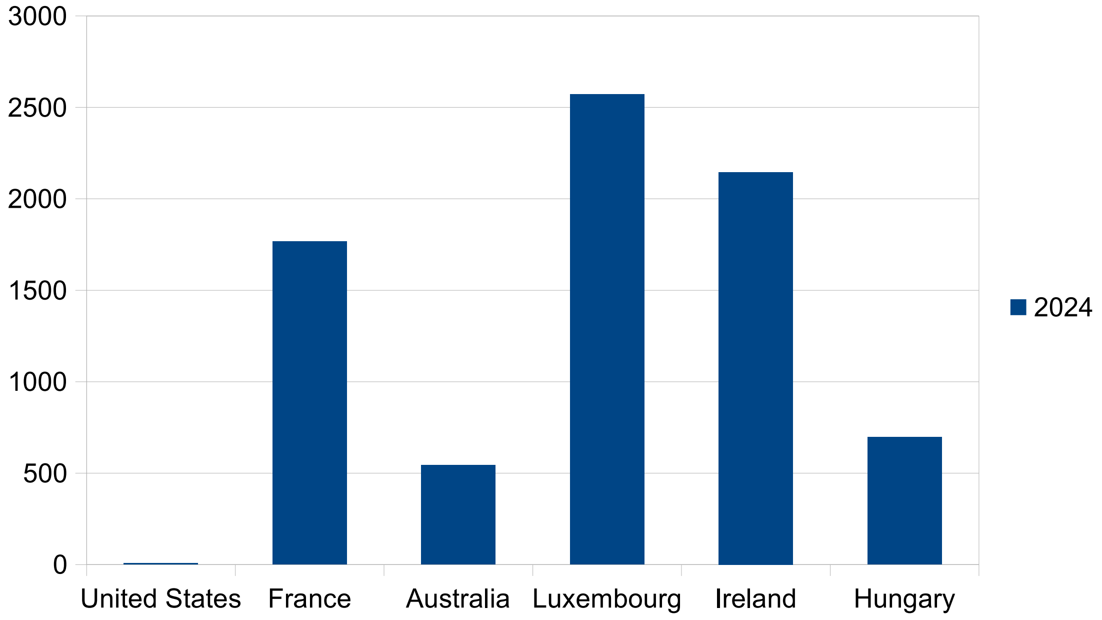

Figure 2: Minimum-wage level in January 2024 (Trading economics; Euronews).

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Chapter 1.3: Effects of the minimum wage

This section will carry out detailed informations about both the positive and negative effects of the minimum wage from a theoretical perspective as well as the practical one.

12 2023's data (weekly wage).

13 The figure relies heavily on material found on https://tradingeconomics.com, on https://it.euronews.com, and on Manning 2021.

Precisely, it will examine its effects on some aspects such as on employment, businesses, poverty, and wage inequality.

1.3.1 Employment

The employment effect is going to be analyzed first because of its essential gauge when it comes to study the effects that the minimum wage can provoke (Adema, Giesing, Schönauer and Stitteneder 2019). There are several debates about employment effects of the minimum wage as many people suggest that they are so evident when its effects are to be analyzed. On the other hand, there are a few people that state the contrary, that is the minimum wage effects on employment are not so evident, but are somewhat illusory (Manning 2021). The majority of the economists would state that higher minimum wages involve a decrease in employment but in spite of this, it is very difficult to display negative effect of minimum wages on employment, so this is the main reason for which the effects are illusory (Manning 2021). Again, if a case focuses on how a firm with turnover costs will handle its employment when the minimum wage is set, it would stand out that employment effects are still illusory since turnover costs decrease after the minimum wage raise because workers will want to keep their job so this will lead to less workers that want to leave that job and hence, in this case a slight change in the minimum wage would cause no employment effect, as both the labor demand curve and the labor supply one will stand as in figure 3 (Manning 2021). Manning (2021) also gives two explanations regarding the lack of employment effects. The first possible explanation is that employment effects are weaker than wages one due to the poor shift from the minimum wage to the labor costs to employers. The second one is about the elasticity of the labor demand curve. Indeed, having a look on figure 3, one would expect a vertical labor-demand curve when it comes to consider the elasticity of the labor demand curve, implying a steady curve when there are low minimum-wage costs. In addition, Manning (2021) suggests that the elasticity of the labor demand curve is quite low and it counts on different criteria: the portion of minimum wage earners in firm's total costs, the elasticity of the replacement between minimum wage earners and other inputs, and the price elasticity of demand when the product is concluded. In order to

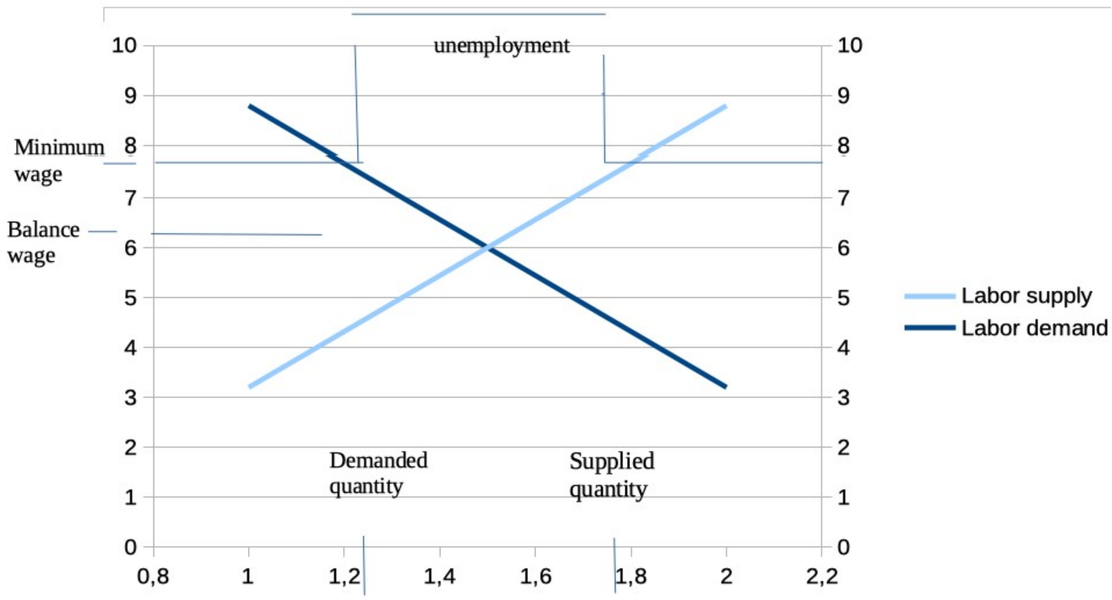

Figure 3: Case of unemployment.

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contrast this low elasticity, Manning (2021) tells that a confrontation between high minimum wage firms and firms that do not have it is needed, and in this case the elasticity may be wider; indeed, figure 3 would show the labor demand curve that will depend on the minimum-wage level (shifted to the left if the minimum wage is set at an high level and shifted to the right in the contrary case). Finally, employment effects should be seen in the case of imperfectly competitive labor markets[15] where a decrease of the labor demand and an increase of the labor supply may highlight the employment effects, based on which effect is more evident (Manning 2021).

Now, continuing with the employment part, numerous effects will be taken into account. A theoretical case of unemployment can be seen in figure 3: if a minimum wage is set over the balance wage, unemployment stands out when the quantity of labor supply surpasses that of labor demand because it means that there are more people that needs a job rather than firms that need to hire workers (Mankiw and Taylor 2018). Additionally, the minimum wage can have negative effect, as Eyraud and Saget (2005) suggest, in fact it can produce unemployment if the unskilled labor cost is higher than the skilled one. In this case, the minimum wage causes unemployment because of the

14 Figure constructed taking into account datas from Mankiw and Taylor 2018.

15 These markets present a downward-sloping labor demand curve and the contrary for the supply curve. The wage equilibrium is reached when the labor demand equals labor supply (Manning 2021).

shift from low-skilled workers to the high-skilled ones (Eyraud and Saget 2005). Another reason of this statement is still represented in figure 3, where the labor demand curve would shift to the left due to the scarce work productivity (Mankiw and Taylor 2018). But negative effects of minimum wage mostly affect young workers, as they have no much experience and they still present lack of skills (Sümer 2018). Another case for which the minimum wage can cause unemployment is when it is fixed above the competitive rate for labor and it has this effect for two reasons: firstly, low-skilled workers will be replaced with other inputs, for example with other capital or with other apparatus; secondly, both the increase of wages and these new inputs signify higher prices, and, the same time, they signify a fall of the labor demand (Sümer 2018). Once again, the employer will decide to replace the low-skilled workers (who are the ones who will be disemployed) with the high-skilled ones due to the labor price surge (Sümer 2018); in this case, the more elastic is the labor demand curve, the more horizontal it will be, so this imply that when a low-skilled worker is substituted either for a high-skilled one or for other input such as capital, the labor demand curve will be more elastic (Mankiw and Taylor 2018). Moreover, if figure 3 is taken into consideration, it would emerge that the minimum wage effect on employment will be major in the aforementioned case (Mankiw and Taylor 2018). Other negative effect is when the business willing is only to make profit and in this case it will reduce wages, causing again unemployment (Sümer 2018). Moving on with the employment negative effects, Wilson (2012) pays special attention to three market models in particular: competitive markets, monopsony markets, and the insitutional model, adding that, generally, minimum wage increases tend to decrease employment. In competitive markets, the minimum wage setting creates negative effects in the labor market, as it can reduce worked hours and in turn the employment has high probability to fall (Wilson 2012). Indeed, the most common theory of competitive markets implies that a minimum wage fixed beyond the market wage rate will lower employment (Wilson 2012). As evidence, an interesting example of this might be the United States: in 1938, the minimum wage imposition caused a great deal of unemployments, in fact approximately 30,000 to 50,000 workers were affected by the minimum wage (Wilson 2012). In monopsony markets, (markets with only a few employers in a specific market place) there is a employment negative effect only in the case the minimum wage is set above the competitive level, as well as in competitive markets (Wilson 2012). On the contrary, this market may generate positive effects when the minimum wage augments toward the competitive level but stays below it; in this case, employment will hike instead of falling (Wilson 2012). This employment spike is due to two reasons: the first one is about the employer's decision to cover the higher wage cost by either touching profits or by applying these high costs to costumers; whereas the second one concerns the productivity of workers who earn below the minimum wage, and such productivity can be improved and raised by training them until the achievement of their employment profitability at the minimum wage level (Kampelmann and Rycx 2012). Conversely, in the event that the minimum wage increase yields workers' employment unprofitable, below-minimum-wage employees will be sacked out (Kamplemann and Rycx 2012). Finally, the last model to explore is the institutional one, which was used in the past in the United States but it is not used anymore (Wilson 2012). The institutional model involves either no employment effects or just small positive effects after a minimum wage rise in the short-run; in this case, when the minimum wage increases, the employers will decide to not fire workers but rather to improve equipments and services, to enhance the economic spread and to boost sales (Wilson 2012). Similar to this case is Germany, where in 2014, when the minimum wage was introduced, employment effects were weak and minor[16] (Bossler and Schank 2023). The minimum wage introduction in Germany affected only wages below or at the median level, whilst wages above the 60th percentile rate were not affected; this happened because minimum wage earners have not been swap with upper-wage jobs and they have not been shifted above the 60th percentile of the wage rate (Bossler and Schank 2023). Hence, it may be stated that employment in Germany after the minimum wage fixing did have no repercussions (Bossler and Schank 2023). Lastly, in order to conclude employment effects examination, both the short-run employment effect and the long one are going to be presented. Starting with the short-run effects, Sorkin (2015) affirms that they are caused by both the mutation of the output[17] (known as scale effect) and by the exchange of labor for capital (named substitution effect). Sorkin (2015) also adds that the short-run employment effects are equal to the long-run ones after a minimum wage increase. Now, when the capital stock is installed two different situations could stand out: the first one is when it is installed in the moment which the minimum wage results lower than what precticted after its increase, the employment can surge; the second one happens in the reverse situation, and then the employment can have a huge drop (Sorkin 2015). It is

16 These wages are calculated on a monthly basis.

17 "Quantity of goods or services produced in a specific time period (for instance, a year)" (https://www.bls.gov).

also to be mentioned that the long-run employment effects of a permanent minimum wage increase are as considerable as the temporary ones, but in the course of time the employment effect vanishes, since the wide majority of minimum wage increases are transitory (Sorkin 2015). To sum up, it can be evinced that it is hard to explain the possible differences between short-run employment effects and the long-run ones (Sorkin 2015).

1.3.2 Businesses

Businesses effects of the minimum wage will be discussed in this paragraph. An important attention will be given to the markets in perfect competition and the markets in imperfect competition concerning both the short-run effects and the long-run ones. Starting with the former in imperfect competition markets, Draca, Machin and Van Reenen (2011) argue that the effect of an increase in the minimum wage when the demand is rather flexible (it happens due to price increase), firm's price-cost margins will be hit by the minimum wage and its imposition will decrease firm's profitability due to a considerable number of employed minimum-wage workers; indeed, as figure 4 shows, there is a significant surge in occupation but the profitability will shorten in the short-run because of the time needed to adjust the wages' increase (Mankiw and Taylor 2018). Furthermore, firm's marginal cost will rise, causing a significant drop of its price-costs margins

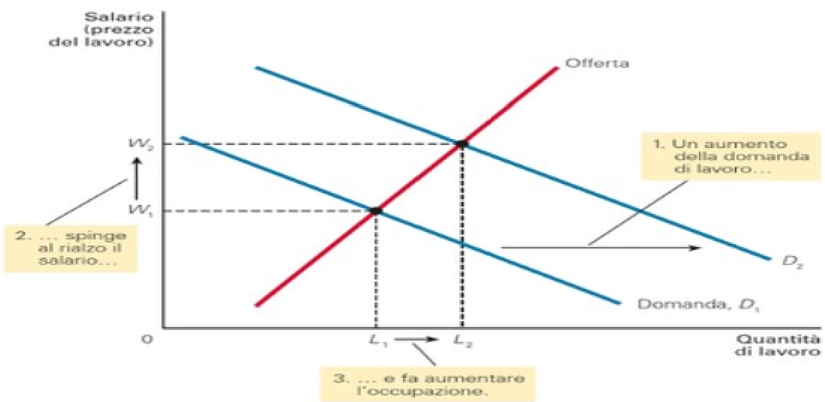

Figure 4: Shift of the labor demand curve (Mankiw and Taylor 2018).

[18]

18 Figure caught from Mankiw and Taylor 2018.

(Draca, Machin and Van Reenen 2011). At the same time, if demand flexibility is steady, firm's will again seen its profitability to fall (Draca, Machin and Van Reenen 2011). To summarise, in the event that demand is more elastic (due to price rise), profitability will decline as the latter depends on the former (Draca, Machin and Van Reenen 2011). Nonetheless, the long-run effects are weaker than the short-run ones because there will be less firms in the labor market as it, as the minimum wage may reduce its effect on two firms in imperfect competition but in the long-run, one of them will be constrained to exit the market place (Draca, Machin and Van Reenen 2011). It is to be said that the minimum wage has no effects on price-cost margins in monopolistic situation, since demand is constant (Draca, Machin and Van Reenen 2011). Carrying on with the perfect competition markets, it emerges that the long-run profit in this market is zero, so in the short-run there are two dynamics: the first one concerns a drop in profits because of the wages' hike of workers paid below the minimum wage level, whereas the second one refers to the substitution of minimum wage earners for other production factors, such as non minimum wage earners (Draca, Machin and Van Reenen 2011). Furthermore, when minimum wage spike is temporary, the long-run effects are smaller because the firm will adjust the rise referring to the actualized rate of wages (Sorkin 2015). To conclude this paragraph, product prices responses in the short-run are going to be argued. After the minimum wage has declined, there will be same costs as before the rise, so the product value will equal to the former level (Sorkin 2015). To offset the minimum wage increase, the product worth must absorb this rise; in the end, it could be pointed out that the product price of temporary response is greater than the permanent one (Sorkin 2015).

1.3.3 Poverty

Poverty effects of the minimum wage are another possible dynamic that it is going to be discussed. Eyraud and Saget (2005) suggest that the minimum wage could not be a strong device in struggling the poverty among workers, even though it is not wrong to state that the minimum wage carries out a crucial part in the combat against poverty. Nevertheless, on the other hand, Wilson (2012) tells the contrary, although plenty of academic studies do not follow his idea. Indeed, the evidence is that minimum wage has overall negative effects on poverty, as Eyraud and Saget (2005) explain the possible reasons: it favours only workers of formal economy because these workers gain a wage that can protect their large household, whereas wages of the informal-economy workers may be hit by the minimum wage due to its national establishment. Other evidence of the negative effects of the minimum wage on poverty could be seen in American datas: in 2012, 63.5% of the poor workers did not have a job (Wilson 2012). In conclusion, Wilson (2012) provides two additional reasons for which the minimum wage has negative poverty effect on poorest workers: the first one highlights the fact that a spike of the minimum wage could move some households out of the poverty threshold, but low-skilled workers may miss their jobs, causing low incomes and more likelihood to reach poverty; whereas, the second one underlines the fact that after the minimum wage is fully absorbed by costumers under upper prices, the poorest workers will be struck due to the inflation. A demonstration of what stated may be the figure 5, which shows that if the labor supply increase due to for example a rise of workers that changed their job and they are seeking for it, there will be a drop of wages (so poorest workers are not helped in this case) and a rise of occupation due to the high number of workers entering the labor market; moreover, another reason for which poorest workers, in this case, will not benefit by the minimum wage is that as the number of workers increases, the productivity of the fringe worker is lower, so that firms will prefer to hire high-skilled workers, leaving lots of workers without a job and hence causing poverty (Mankiw and Taylor 2018).

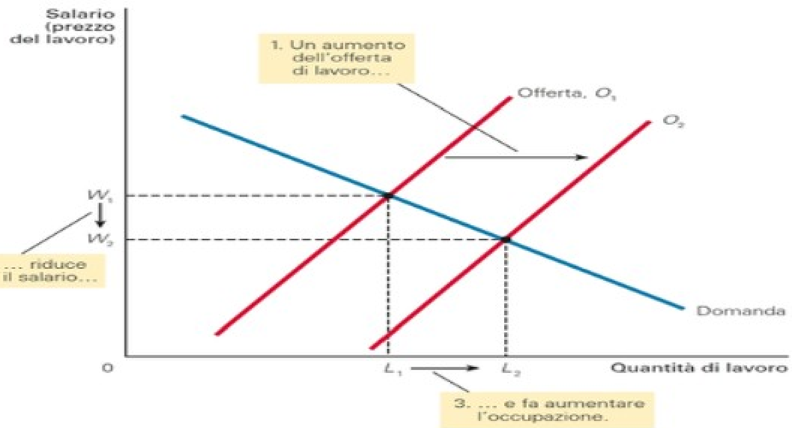

Figure 5: Shift of the labor supply curve (Mankiw and Taylor 2018).

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1.3.4 Wage inequality

19 Figure taken from Mankiw and Taylor 2018.

The last part of the theoretical analysis of minimum wage effects is about wage inequality, taking Germany as the main benchmark to see what happened after the minimum wage introduction. Before speaking about Germany, it is to be said that the minimum wage would be a good tool in reducing worker's wage inequality because it could have benefit over poorest people or those who do not earn so much, but there are some implications over these suggestions: the first one is that it has to be set in a balanced way, in order to guarantee a proper wage distribution (as figure 6 shows), thus to avoid both a case for which there is a more elevate number of workers that earn an high minimum wage than those who earn a low wage, and to have less probability to reach a wider wage

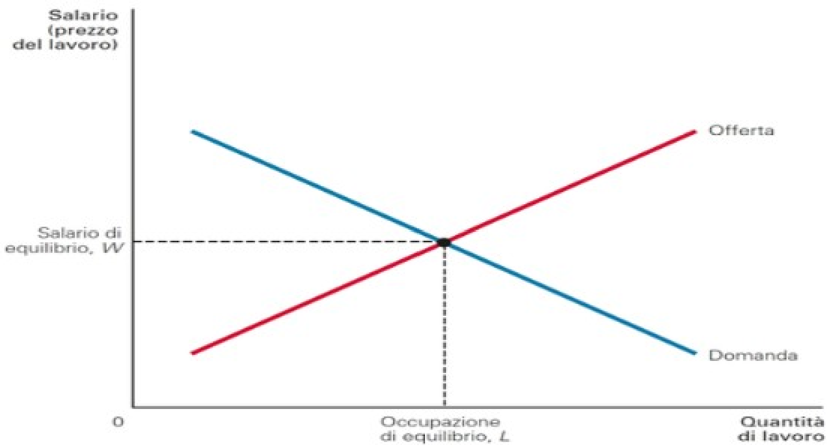

Figure 6: Balance of the labor market (Mankiw and Taylor 2018).

[20]

inequality; the second one is that if the minimum wage is fixed at an high level there is a risk of negative effects, so there will be wage inequality among workers because there will be plenty of workers that ask for a job and in turn those more qualified and skilled will have higher opportunities to obtain a job and reach upper wage floors (the case of figure 3); the last one is that the labor supply has not to be so high due to the strong likelihood of negative effects (figure 5) and at the same time, the labor demand has not to be so elevated so that it is important to have a fair equilibrium in order to decline the wage inequality (Mankiw and Taylor 2018).

20 Figure taken from Mankiw and Taylor 2018.

Now speaking about Germany, it is to be stated that after the minimum wage launch, both the 50th-20th percentile gap of the full minimum wage and the 50th-5th one were reduced, while the 50th percentile and the 10th one were not hit; furthermore, there were positive effects above the 20th percentile of wage distribution (Bossler and Schank 2023). There was an overall change in wage threshold and lots of minijob workers were employed (Bossler and Schank 2023). A special comparison could be observed between eastern Germany and western Germany, as before the minimum wage introduction eastern-Germany wages were 10% lower than the western-zone ones but after its introduction, that number shifted to 7.1%, so the wage inequality was reduced (Bossler and Schank 2023). To wrap things up, the minimum wage establishment in Germany had overall positive effects on wage inequality, as it were reduced and nearly 70% of wage gaps were finalized (Bossler and Schank 2023).

Chapter 2: The case of the United Kingdom

The second chapter of the thesis will concern the situation of the United Kingdom, from a point of view of the national minimum wage. This chapter will be divided into four sections: the first section will describe the situation of the United Kingdom before the fixing of the national minimum wage and how it managed to reach this achievement over the years; the second section will briefly represent the background of the United Kingdom after the national minimum wage establishment explaining its main characteristics; the third section will argue the situational wage of the United Kingdom, retracing the main steps from 1970s to 2015; finally, the last and fourth section will consider the several national minimum-wage effects on some important economic aspect, in particular on employment (the first sub-section), on pay (the second sub-section), on businesses (the third sub-section) and briefly on wage inequality (the fourth sub-section).

Chapter 2.1: The background of the United Kingdom before the national minimum wage

This first section of the second chapter will illustrate the situation of the United Kingdom before the minimum wage introduction, mainly focusing on how the country managed to apply the minimum wage.

In the 19th century there was a will to introduce a kind of minimum wage in the United Kingdom but up until 1999 no official minimum wage had been fixed (Metcalf 2006). The Fair Wage Resolution was the first minimum wage legislation established in 1891 with the aim of having a more fair competition for public sector contracts and of guaranteeing accepted wage rates (Metcalf 1999). In 1896 a sort of attempt of an introduction of a legal minimum wage law was determined and it made wages increase from 12% to 35% in five sweated businesses, such as bootmaking and baking, clothing, shirts, and underclothing; but in 1901 it spread to almost all businesses (Webb 1912). Around this period (under Victoria's regime) the law substituted the minimum for the irregular competitive rates, and it had a lot of benefits, such as to have more efficient workers, to help the entire business to be more efficient and to have the best equipped workers with important skills, and finally to try to exclude low-skilled employers (Webb 1912). There was a belief that this law could bring a high life standard and it also stipulated: a maximum working day, a fair break for meal-time and a limited extra hour (Webb 1912). After the return of the Liberal Government in 1906 there was a desire to have a minimum wage legislation with the purpose to modify wages in low-paid factories (Metcalf 2006). However, in 1906, the Fabians[21] made the first official attempt to introduce a national minimum wage in the United Kingdom; in this regard, they presented a document stating some points, including lower wage for women because there was an insinuation that they had lower qualities than man, it had to guarantee a healthy life and the most important point was that this law had to be national (Metcalf 2006). Indeed, the workforce counted 12.2 millions of male workers and only 5.1 millions of female workers (Metcalf 2006). Furthermore, the act of 1906 suggested that it could not help unemployed workers but it didn't mean that workers who gained less than the legal minimum wage would have been unemployed (Metcalf 2006). In the contrary, the law stated that the number of unemployed workers would fall step by step and through retirement and death (Metcalf 2006). Finally, the law of 1906 had no connection with the Living Wages, which were for employees who furnish goods and services to the public authority; rather it was useful for a three-children family (Metcalf 2006). The Trade Board Acts were another important passage of the minimum wage history in the United Kingdom. These acts were established in 1909 in order to adjust wages of cheap labor markets (Finn 2005). Its other goal was to be substituted by collective bargaining between employers and unions in the future (Finn 2005). In 1913 the Board of Trade developed a document of some minimum wage features, explaining some wages for both men and women in some trades covered by the act: in the chain-making trade women earned five cents and men earned 10 to 14 cents; in the lace-finishing trade, women earned five and a half cent while there was no rate for men; in both box-making and tailoring, women earned six and a half cents while men earned 12 cents (Abbott 1915). After this document there was a general contentedness among workers and employers and it extended towards five more trades: sugar, confectionery and food preserving, shirt-making, hollow-ware making, linen and cotton embroidery, and calendering and machine ironing in steam laundries; the latter was the only one that refused the act and that was not so satisfied with it because they considered the act to be not enough competent to provide a general protection to workers of that occupational sector (Abbott 1915). In 1945 there was an adversary of the Trade Board Acts and it was called Wage Councils (Finn 2005). They had the ability to define minimum rates of pay for various workers of different age and type and in 1953 there were as crucial as 66 of them dealt with 3.5 millions of workers (Finn 2005). In the following years there had

21 "An association of British socialists advocating the establishment of democratic socialism by gradual reforms within the law: founded in 1884" (https://www.collinsdictionary.com).

been several changes in United Kingdom, including the 1980s period when the Conservative Government liberalized the majority of British labor markets, the power of trade unions was lowered and they privatised many of nationalised businesses (Finn 2005). Again, the collective bargaining represented only 47% of the British workers coverage in 1990, compared to its high point of 73% in 1973 (Finn 2005). Moving on with the changes that happened in the United Kingdom in that period, it can be stated that another important change was the fact that the Fair Wage Resolution was suppressed by the Thatcher Government in 1983[22] (Finn 2005). An additional radical change in the United Kingdom, can be seen in March of 1985 when the Conservative Government imposed either an abolition of Wage Councils or a decisive reform (Finn 2005). Then, by that time, it seems that the Conservative Government opted for a radical change as the number of Wage Councils reduced from 66 in 1953 to only 26 in 1985, even though they still covered about 2.75 millions of employees; on the other hand, there were to contrasted thoughts: collective bargaining between trade unions and employers wanted a reduction of the number of Wage Councils and other people wanted its abolition (Finn 2005). The Wages Act of 1986 did not consider young workers (under 21 years old) in Wage Councils conventions and it was limited in: fixing minimum holiday allowances, having different wage rates for different occupational sector, and providing bonus wages for shift work (Finn 2005). Consequently, Wage Councils were abolished in 1993, when the Trade Union Perform and Employment Rights Act were introduced; after this, therefore there were many job places which wages were below the old minimum rates and this registered a loss of approximately 18,000 jobs in both the retail and catering sector as evidence (Finn 2005). Going close to the minimum wage introduction, by 1980s the number of movement willing to introduce the minimum wage increased; indeed the Low Pay Unit gathered trade unionists, academics, parlamentarians, and some voluntaries of some occupational sectors in order to decide a proper national minimum-wage rate, so they opted for a rate of two-thirds of average male wages (Finn 2005). Other movement was the Labour Party, which opted for a national minimum wage of 50% of median men's wages and that this number would have increased over the years by two-thirds of the median hourly rate (Finn 2005). Moreover, they stated that the national minimum wage would have been set at £3.40 per hour and they also assured that poverty would have been deleted, as the United

22 "[…] Thatcherism represents a belief in free markets and a small state. Rather than planning and regulating business and people's live, government's job is to get out of the way […]" (https://www.bbc.com).

Kingdom experienced a high level of it during the second half of the 20th century (Finn 2005). Nonetheless, there was an opponent of those movement and it was the Conservative Party, which suggested that an introduction of a national minimum wage would devastate jobs; however, their only approach to prevent unemployment was to bear in mind that low-paid jobs exist and the people just have to accept this fact (Finn 2005). Then, the General Election of 1997 listed the pros and cons of a national minimum wage; the pros were: a national minimum wage could provide protection to workers from the exploitation by employers, it could stimulate workers through more training and productivity measures, it may help low-paid women, especially in the catering and cleaning sector, it may decrease poverty and finally, it could lead consumers to purchase more (Finn 2005). On the other side, the cons of a national minimum wage were: it may cause job losses, it may decrease incentives to learn new abilities, it may not benefit poor workers, it may expand inflation and finally it may compromise international competitiveness (Finn 2005). Then, the turning point about the progress of the national minimum wage culminated in July 1997, when the Low Pay Commission started to work (Finn 2005). It could count on 600 employer organisations, 500 organisation of written evidence and 47 of oral evidence and its main purposes were to decide the initial level of the minimum wage and to make suggestions or exemptions for workers aged 16 to 25 years old (Metcalf 1999). Other scopes of the Low Pay Commission were to introduce the full rate from 21-years-old workers and to include 16 and 17 years-old workers within the national minimum wage, but the main suggestion was to fix it at £3.60 per hour from April 1999, augmenting it to £3.70 per hour by the following year (Finn 2005). It could be mentioned that the average wages in 1997 were: £3.60 for workers aged 18-20, £4.80 for those aged 21-25 and £6.70 for those aged 26 or more, and that only 2% of workers gaining below £3.50 per hour saw a change in pay, 3% obtained profit related wage, 4% gained a wage linked to output and 17% earned extra-time wage in April 1997 (Metcalf 1999). So the Government accepted all these reccomendations by the Low Pay Commission and, thanks to it, the national minimum wage in the United Kingdom was finally introduced in April 1999 (Finn 2005).

Chapter 2.2: The national minimum wage

The second section of the second chapter will briefly explain the beginning of the national minimum wage in the United Kingdom and what were the main features and principles of it.

The national minimum wage was set in April 1999 by the Low Pay Commission (Finn 2005). It principal points were: to set a national minimum wage of £3.60 for workers aged 21 or more starting from April 1999, to set a rate of £3.20 that will develop over the years for workers aged 18-20 and this rate had also to be applied for a limited period of six months for those aged 21 or more who were on learning (Metcalf 1999). In front of these reccomendations, the Government allowed them but changed only a couple of things, such as the rate of £3.20 lowered to £3.00 (reaching the rate of £3.20 by the following year) which represented around two-thirds of their corresponding median and not for those aged 18-20 but for those aged 18-21 (Metcalf 1999). This national minimum wage extended to all types of industries unlike Wage Councils, which provided lower wages for some trades including business one and care homes; in addition it included: bonuses, sales commission, piece rates, free housing, and tips and rewards (Metcalf 1999). But were excluded: tips received directly by the employee via the costumer, staff price-reduction, and free eating (Metcalf 1999). The only thing that did not reconcile the Low Pay Commission and the Government was that the former wanted the young rate to be around 21 years old, whereas the latter wanted it to be around 25 years old; moreover, the Government stated that the Low Pay Commission suggestions were a little bit large in relation to median wages (Metcalf 1999). They, therefore, argued for both a reduction of the youth national minimum wage rate from three-quarters to two-thirds of the median and a fall in the wage rate from 3.9% to 2.4% (Metcalf 1999). Finally, workers aged 18-20 constituted only 4% of employment, 6% of employment in line with the age and 16% of workers in the lowest floor-earning; while those aged 18-20 had a national minimum wage representing three-quarters of their corresponding median, those aged 22 or more had a national minimum wage of £3.60, which corresponded to the half median earning (Metcalf 1999).

Chapter 2.3: A glance at the situation of wages in the United Kingdom

The third section of the second chapter of the thesis will represent the situation of wages in the United Kingdom through the period from 1970s to 2015.

Considering the change of male wages throughout the period from 1970s to 1995, it can be stated that one may rely on one's educational qualification or not, when it comes to observe how wages changed over a determined time (Gosling, Machin and Meghir 2000). There was quite a significant drop in the proportion of 16-years-old people with no educational qualification, more precisely from 62% to 43% and in the United Kingdom, the educational qualification was rather important as the growth in the average wages of workers depended on their level of education/qualification, e.g. either if one person leave school at 16 or before or if he/she doesn't have an attested qualification (Gosling, Machin and Meghir 2000). The 90th-10th percentile of log hourly wages of workers who quitted school at 16 years old, at 17 years old or at 18 or more years old were pretty equal; but it can be noticed that workers who left education at 17 or 18 years old experienced larger wages (Gosling, Machin and Meghir 2000). Since 1970s wage inequality had been grown, especially among workers who had no educational qualification, in fact it was more dramatic for them rather than for those with educational qualification (Gosling, Machin and Meghir 2000). Finally, it could be suggested that those having an educational qualification presented a substantial wage growth over the years rather than those with no any educational qualification that experienced a low average-wage growth; a proof of this assertion could be the fact that the low educational group saw a wage growth of 25% for those aged 38 or more and those at the top of education saw a huge wage growth even at the lower decile of the wage distribution (Gosling, Machin and Meghir 2000).

Now a consideration on male and female wages is to be done, taking into account some range of periods.

As table 1 suggests, male wages saw quite a huge wage rise in the 1980s, late 1990s, and early 2000s, instead female wage rise had been minor than male ones but major after 2008; additionally, table 1 shows that in 2010 there were reached the highest wage level for both male and female (Bell, Bloom and Blundell 2022). Between 1975 and 2015, it can be stated that men's fifth percentile of the wage distribution became sharper, representing a slight fall in wages; on the other hand, women witnessed a subtle shrinking at the first percentile of the wage distribution but not in the fifth percentile (table 2) (Bell, Bloom and Blundell 2022). Furthermore, in the same range of period, the top of the wage distribution widened for both males and females, as table 2 can show (Bell, Bloom and Blundell 2022). Taking now into consideration the period from 1975 to 2020, it can be sighted in figure 7 that there had been a boost in male's wage inequality but it slowly decreased since 2010; female, however, assisted to a fall of wage inequality since the mid-1990s and the raise in inequality between 1975 and 1995 mostly regarded the 50th and 10th percentile of the earning distribution (Bell, Bloom and Blundell 2022).

The moment when the United Kingdom witnessed the most evident one-year-wage increase was in 2016 with the advent of National Living Wage, which allowed for a rise in the 10th percentile of the wage distribution for both male and female (Bell, Bloom and Blundell 2022). Prior to this period, the United Kingdom saw the covariance between hourly wages and hours worked to have positive trends for the first time in 40 years (Bell, Bloom and Blundell 2022). Moving on with inequality, it may be suggested that for both male and female aged 25 (respectively figure 9 and figure 10), only the bottom wage distribution changed since it raised between 1975 and 2015, whereas the top of the earning distribution remained roughly steady (Bell, Bloom and Blundell 2022).

To conclude this section, a sight at what happened at wages in the period of Covid-19 (2020) will be done. It can be affirmed that surely male and female earnings hit the lowest point within the period that goes from 1975 to 2020 (table 1), as there was fall in 90th and 50th percentile of the wage distribution, although this mostly touched men rather than women, especially the older and youngest one, like table 2 can display (Bell, Bloom and Blundell 2022). To sum up, it can be evinced that this particular phase shortened almost the entire wage distribution, causing a fall in it (Bell, Bloom and Blundell 2022).

Year	Obs	Fem inc	Male inc
1975	93,082	309	599
1980	102,697	318	619
1985	99,449	362	681
1990	114,668	455	826
1995	115,072	494	841
2000	110,415	560	931
2005	114,028	648	1024
2010	119,105	670	1017
2015	121,036	634	914
2020	82,270	669	906

Table 1: Wages mutation over the years (Bell, Bloom and Blundell 2022). [23]

23 Table caught from Bell, Bloom and Blundell 2022.

Year	1	5	10	25	50	75	90	95	99	99.9
1975	85	145	193	326	470	623	792	925	1305	2186
1980	67	128	179	328	472	633	813	964	1403	2217
1985	66	125	187	343	506	690	921	1107	1649	2977
1990	75	147	220	394	594	836	1122	1382	2225	4411
1995	72	144	220	393	597	859	1164	1436	2313	4822
2000	84	168	246	429	650	942	1293	1624	2766	5628
2005	105	191	275	467	704	1038	1451	1840	3246	6235
2010	105	190	270	461	700	1046	1467	1877	3291	6781
2015	103	184	250	426	649	965	1350	1717	2852	5465
2020	119	202	273	456	661	971	1358	1717	2828	5289

Table 2: Earnings percentile for both genders combined (Bell, Bloom and Blundell 2022).

24

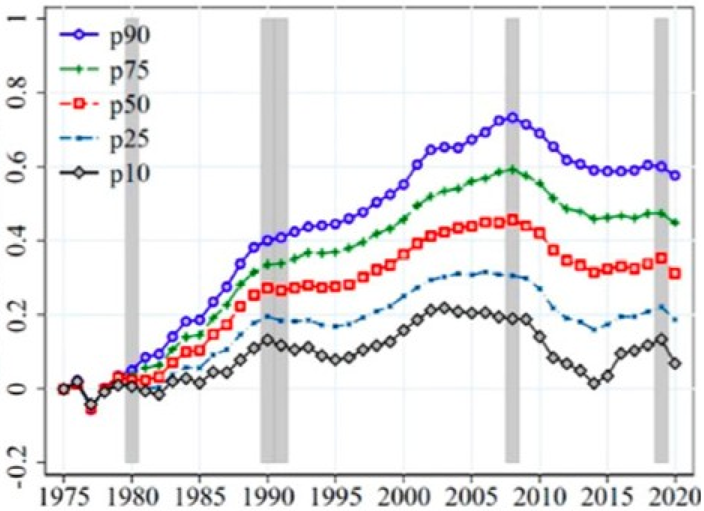

Figure 7: Male's change of percentiles (Bell,Bloom and Blundell 2022).

25

24 Table caught from Bell, Bloom and Blundell 2022.

25 Figure taken from Bell, Bloom and Blundell 2022.

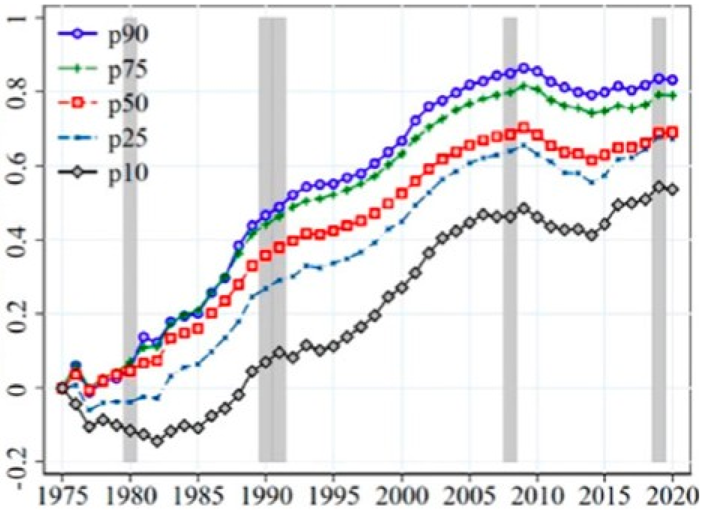

Figure 8: Female's change of percentiles (Bell, Bloom and Blundell 2022).

26

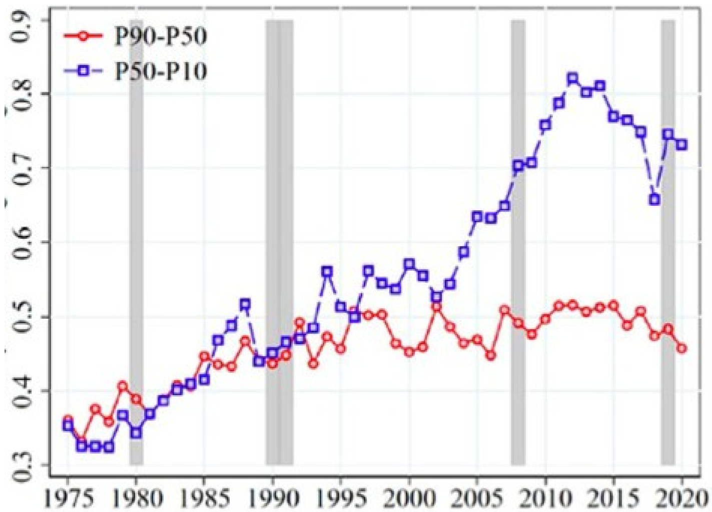

Figure 9: Male's wage inequality over the years (Bell, Bloom and Blundell 2022).

27

26 Figure taken from Bell, Bloom and Blundell 2022.

27 Figure taken from Bell, Bloom and Blundell 2022.

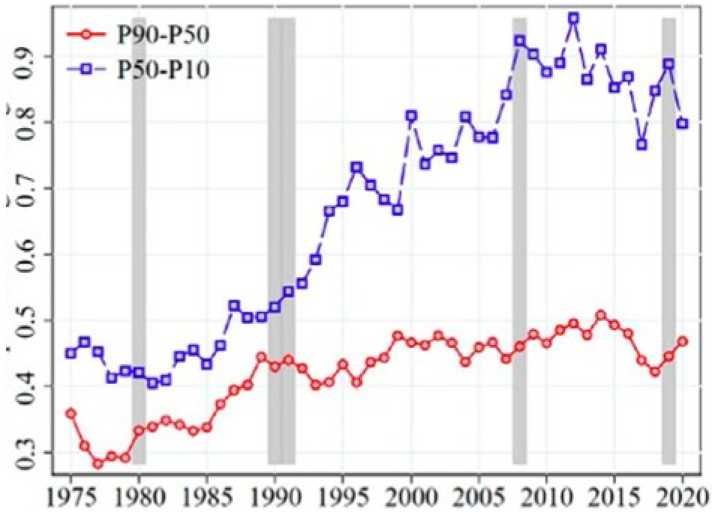

Figure 10: Female's wage inequality over the years (Bell, Bloom and Blundell 2022).
[28]

Chapter 2.4: Various effects of the national minimum wage in the United Kingdom

The last section of the second chapter of the thesis will speak about the manifold effects of the national minimum wage on employment, pay, businesses, and wage inequality.

2.4.1: Impact on employment

Now, the employment effects of the national minimum wage are to be considered.

Before the introduction of the national minimum wage (1993) there was not a universal coverage for all workers but with its introduction it did produce it (Metcalf 2006). United Kingdom's labor laws concerning, for example, firing for unfair reasons obliged firms to arrange employment at the bottom level (Metcalf 2006). If a firm asks its employees to make greater efforts in working tasks, i.e. to work only eight hours instead of ten hours, there will be a cut in worked hours; on the other hand, if a firm has many full-time workers that are more productive than part-time ones, then the firm may be expected to prolong the working week in preference to shorten working hours, when a national minimum-wage rate is applied (Metcalf 2006). It can be said that the national

28 Figure taken from Bell, Bloom and Blundell 2022.

minimum wage and firms are connected to each other, since if the latter lower hiring then the national minimum wage will reduce the job degree; additionally if the wage is fixed at a high level, there will be an increase in the labor supply by workers (Metcalf 2006). Again, there will be a fall of employment in low-wage areas where the national minimum wage hits hardly rather than high-wage areas where few employees' earnings are touched (same situation of figure 3); it could be the case of some areas in England, including Northumberland and Lincolnshire where several employees needed their wages to be increased rather than Surrey or Berkshire, when the national minimum wage was introduced in England (Metcalf 2006). In England, employment surged since 1993 and unemployment dropped from 1993 up to mid-2005, but the national minimum wage hit many low paying sectors such as: retail, hospitality, agriculture, textiles, cleaning, clothing and footwear, social care, and hairdressing (Metcalf 2006). Nevertheless, with the introduction of the national minimum wage, employment in those sectors had a rise from 6.3 millions to 6.7 millions between 1999 and 2006, probably because the equilibrium in the labor market was reached, as figure 6 displays (Metcalf 2006). In the period between 1999 and 2000, the national minimum wage had the effect to make employment of workers aged 16-17 fell, whereas it made those of 18-21 years old rise (Metcalf 2006).

Now, the probabilities on remaining in employment after the national minimum wage are going to be discussed.

The key assumptions are that employment probabilities on remaining employed are low at the bottom of the wage distribution, whereas they are higher at the upper wage distribution and for workers directly affected, so in this case the national minimum wage does not affect those kind of groups (Steward 2004). But the most important assumption is that the impact of the national minimum-wage introduction on the probability on remaining in employment is slightly different from zero, in fact it means that there are no adverse employment effects of its introduction in any of male, female, adults and youth groups (Steward 2004). Indeed, a proof of that suggestion, for example, could be that if an adult women needed £1 to comply with the minimum wage level, then the employment probabilities were lowered for just about 0.5% (so slightly different from zero) (Steward 2004). The last two proofs are about male and female workers: the male employment probabilities before the national minimum-wage introduction were negative but after its introduction they increased until they became positive; the same happened for female, but after the introduction of the national minimum wage the employment probabilities fluctuated from negative rates and positive ones (Steward 2004).

In order to conclude this sub-section, a survey, carried out in 2002, is going to be described.

This survey was conducted among 380 employers, and it emerged that 8% of those afflicted by the national minimum wage submitted a job lowering after its introduction (1999), whereas 12% of them submitted the same after the increase of the national minimum-wage rate in October 2001 (Finn 2005). [29]

To sum up, it could be affirmed that the national minimum wage generally had no adverse employment effect (Finn 2005); however, just few above-mentioned cases differed from that statement.

2.4.2: Impact on pay

The second sub-section of the second chapter will speak about the national minimum-wage impact on pay.

The national minimum wage in the United Kingdom had such a large impact on pay, as prior to its introduction workers gaining less than £3.60 had a rise of 15.5%, compared with those who earned above the minimum wage (4.6%) (Metcalf 2006). It can be suggested that the national minimum wage had a large impact mostly on low-paid sectors and on workers at the bottom of the wage distribution; indeed, in the home-care sector before its introduction there were between one third and two fifths being paid below the minimum wage rate and after its introduction there was a wage increase of about 10% (Metcalf 2006). Additionally, 40% of workers aged 22 or more in that sector were paid below the national minimum-wage floor prior to its establishment but then the percentage declined after its introduction (Dickens ad Manning 2004). The estimated spill-over effects of this group were low and there was a positive wage growth (Dickens and Manning 2004). Moreover, between 1998 and 2003, hourly wages of workers who stood at the bottom of the wage distribution saw an higher increase (about double) than those at the median of it (Metcalf 2006). However, in the period between May 1999 and May 2001 workers at the bottom of the earning distribution saw their wages drop by 9% in respect to the median floor and the only increase in that period (2.8%) was in October 2000 (Dickens and Manning 2004). In addition, there had been a progressive increase of the national minimum-wage level by 7% in 2003 and by 8% in

29 Results were find among low-paid sectors such as hospitality, textiles and social care.

2004, and these percentages were slightly above both the inflation rate and average earnings (Finn 2005).

As concerns the median hourly wages, it can be evinced that in 1999 the national minimum wage as a percentage of median hourly wages was a little bit higher (47.6%) than in 2001 (45.2%) but the percentage heightened during the subsequent years, registering about 52% in 2007 (Metcalf 2006). Just after its establishment, roughly 9% of workers (2 millions of people) saw their wages raised and the main beneficiaries were young workers and part-time ones (Metcalf 1999).

In 1999 a poll was carried out among 4500 workers aged 18 to 60-65 about their hours of work (Metcalf 2006). It stood out that the majority of the workers had their working hours shortened after the national minimum-wage establishment (Metcalf 2006).

As regards workers who were paid below the national minimum-wage rate, prior to its introduction (March 1999) around 7% of workers aged 22 or more were paid below it and in May 2001, when a rate of £4.10 was applied, approximately 8-9% of workers were paid below that level (Dickens and Manning 2004). Conversely, the percentage fall in 2004, since between 5% and 6% of employees were paid below the minimum rate (Dickens and Manning 2004). In addition, around 327,000 employees were paid below the national minimum-wage level in April 2005 (Metcalf 2006).

The number of workers who benefited from the national minimum wage were of 1.3 million in 2001 and of 1.2 million in 2003 and mostly of them were women (Finn 2005).

2.4.3: Impact on businesses

The impact of the national minimum wage on businesses is going to be discussed.

The national minimum had also an impact on businesses but it generated a small negative effect, only 0.4% on the price level (Metcalf 1999). It also had the largest impact on the low-paid sectors, such as bar staff, waiting staff, cleaners, and mainly in hotel and restaurant sectors (Finn 2005). After the introduction of the national minimum wage, profits from income levy and national assurance rised by £800 millions in 1999-2000, and savings related to the income were £360 millions in 1998-1999 (Metcalf 1999). Proceeding with businesses profits, it can be stated that profitability decrease in businesses mostly affected by the national minimum wage; indeed, the care home sector (the most low-paid sector at that time) saw a massive fall in profits (23%) (Metcalf

2006). Nevertheless, in 2001, businesses brought up prices in order to contrast the drop in profitability, in fact around that period profitability rose in low-wage businesses by around 21%, whereas it grew by 12% in high-wage businesses (Metcalf 2006). As regards productivity, it can be suggested that the national minimum wage, after its introduction, increased productivity in some trades, including textiles, hairdressing and security but it did not mean that firms that were more affected by the national minimum wage saw a swift growth in productivity (Metcalf 2006).

In 2004, the British Chambers of Commerce declared that the national minimum wage would have raised of 35% in the following four years, but it also stated that it could not continue to increase its value beyond the inflation rate, as the minimum rate would have been an uncontrollable costs for businesses (Finn 2005). Many employers, thereby intensified productivity in order to fight against businesses' costs (Finn 2005).

2.4.4: Impact on wage inequality

These very brief sub-section will conclude the second chapter of the thesis.

The United Kingdom experienced a rise in inequality between the 1980s and the 1990s and around the introduction of the national minimum wage the people were hopeful about the fact that it could reduce the gap in wage inequality; this optimism were fulfilled since the national minimum wage reduced wage inequality at the bottom of the wage distribution (Dickens and Manning 2004). Furthermore, wage inequality had overall small effects because it was fixed at a low level (Dickens and Manning 2004). The only consequence found was a shrinking in average hourly wages of women in comparison with those of men (Finn 2005).

Chapter 3: A nation without a minimum wage: the case of Italy

The last chapter of the thesis will represent the Italian situation about the minimum wage introduction, as this country has not fixed an official minimum wage yet.

This chapter will be split into three sections: the first one will speak about the debates and discussions of some political parties, with both their proposals and the pros and cons over an hypothetical minimum-wage introduction, since it is still at the center of their discussions nowadays; the second one concerns the Italian situation about wages and how they have been changing, tracing the period that goes from 1970s to 2015; finally the third one will be about the suppositional effects in the event that a minimum wage would be introduced in Italy, more precisely of its effects on employment, wages, wage inequality, and businesses.

Chapter 3.1: Debates over an hypothetical introduction of a minimum wage

The first section of the final chapter of the thesis will be about the various attempts to introduce a minimum wage in Italy, going over the several debates that have been registering up until 2023 about this delicate matter.

The hypothetical institution of a minimum wage in Italy is an issue that has been discussing for years (Garnero 2019). Indeed the first ever attempt to fix it in Italy was in 1930, when workers and all people in general considered collective bargainings to be an useful tool to guarantee proper wages (Menegatti 2017). It is worthwhile to state that Italy has no minimum wage set at national or subnational level, in fact it is fixed by collective bargainings between employer organisation and trade unions at sectoral or firm level[30] (Garnero 2018). Proceeding with the debates, in 2014 the Government sperimented a minimum hourly payment limited to the sectors not covered by collective contracts made between trade unions and employers but this proposal went against the former, which stated that a minimum wage would be useless and that collective contracts already represented a sort of minimum wage (Boeri and Lucifora 2014). However, what is remarkable is that in the same year collective contracts covered only 80% of workers, whereas 20% of them were not covered, so the latter were at risk of being paid low wages and to be in poverty condition (Boeri and Lucifora 2014). The main reason about the trade unions opposition to the minimum wage were due the

30 Sectoral agreements are useful to keep purchasing power of wages, whereas firm agreements are useful to the distribution of productivity gains (Garnero 2018).

article 36 of the Italian Constitution, which uses CCNL[31] minimum rates that determines the proper wages for workers (Boeri and Lucifora 2014). Going more deeply to discover the article 36, it states that "workers have the right to a remuneration commensurate to the quantity and quality of their work and in any case such as to ensure them and their families a free and dignified existence"; in Italy wages are controlled by Labor Courts to determine if the firm complies with the article 36 (Garnero 2018). This article has a twofold nature: it wants to implement itself toward the figure of the legislator and the collective autonomy; and it guarantees not so diverse treatment respect to wages authorities; in addition, it also has more objectives: it wants to provide a fair retribution proportioned to the job done and it wants to guarantee a sufficient minimum level of living to all workers (Menegatti 2017). Moreover, the article 36 is not a tool to decide minimum wage floors but it is just an execution command and in the absence of collective bargainings it is the only way to furnish a proper wage distribution (Menegatti 2017). Despite this, it presents some limits: the first one regards the fact that the minimum of the collective bargaining cannot be automatically applied to jobs not covered by a collective contract; the second one concerns its efficiency to set a fair minimum wage rate; finally, the third one is about its incapacity to include the minimum wage under the relations that do not fall within the area of dependent work (Menegatti 2017).

Coming back to CCNL, it can be suggested that, in 2015, the gross hourly minimum-wage fixed by them was 9.41€, so it means 17.7% higher than 2008 (8€ per hour) (Garnero 2019). The main puropose of CCNL is to establish minimum wage floors within a particular occupation and sector and these minimum thresholds should: be equal between temporary and permanent contracts; be applied to all jobs signed under a specific CCNL regardless of the worker's unionization; and firms can provide top-ups above them (Daruich, Di Addario and Saggio 2023). In 2018, more than 800 sectoral agreements encompassed all private-sector employees in Italy, whereas trade unions covered under 40% of workers and employers' entity represented roughly 50% of the coverage (Garnero 2018).

Now, more debates about the minimum wage introduction are to be underlined. In 2018, this matter returned to the centre of political discussions among the Five Star Movement, the League and the Democratic Party; the Five Star Movement wanted the

31 CCNL is the acronym of the collective contracts of workers made between employers and trade unions.

hypothetical minimum wage to be applied at a rate of 9€ per hour and to all type of workers; the League wanted it to be applied independently from collective bargainings; and the Democratic Party wanted it to be applied on workers excluded from collective bargainings (Garnero 2019). Unfortunately, all these dynamics were in contrast with both the social parts and mostly with trade unions, which again did not wish for an introduction of a minimum wage for fear that collective bargainings (the only system they supported) would come to an end (Garnero 2019). The recent debate over the introduction of the minimum wage was made in 2023 between CNEL[32] and the Supreme Court (Valente 2023). There is a strong oppostion between the two, as the 12th of October of 2023, CNEL approved the document against the introduction of a minimum wage, embracing the idea that collective bargainings are suffcient to deal with this issue and it refused to try to apply it on some occupational sectors; on the other hand, the Supreme Court promoted the contrary idea, that is the minimum wage fixed by collective bargainings is not a proper way to comply with the article 36 of the Italian Constitution (Valente 2023). Prior to this event, the Prime Minister commissioned CNEL to develop a document concerning the observations and proposals of an hypothetical minimum wage in Italy and her main scope was to dampen the proposals of the two oppositions (Valente 2023). Although this happened, CNEL stated that Italian collective bargainings covers about 14 millions of workers and its main ideas were that: poverty is just based on the hours worked by a worker rather than workers' income; collective bargainings relative to the contracts made by unknown trade unions, applied to only 54,220 workers; and that the Italian collective bargainings, even when they are expired (roughly 54%), ensure an adequate wage, correspondent to 50% of the average wage (7.10€) and 60% of the median wage (6.85€) to a population of almost 14 millions of workers (Valente 2023). On the other side, the Supreme Court published two decisions that contradict what stated by CNEL (Valente 2023). These were carried out by some work-cooperative-member workers in order to obtain a proper earning: these were full-time workers[33], whose wages were below the poverty threshold (984.30€); so the Supreme Court used this data to affirm that wages are not coherent with what stipulated in the article 36 of the Italian Constitution (Valente 2023). In the case of low wages, the judge can apply collective bargainings to other similar occupational sectors

32 It is the acronym of "Consiglio Nazionale dell'Economia e del Lavoro" and it is an Italian institution for the economy and the work.

33 They worked in a supermarket.

and to similar jobs, and it can also refers to other directives, such as the one of the EU about an adequate minimum wage; so collective bargainings registered by CNEL and stipulated by representative trade unions do comply with both the Constitution and the European directive (Valente 2023). Nevertheless it is not up to the judge to solve this problem because he/she can apply the parametres indicated by the Supreme Court in its own way; rather it is up to the Government and the Parliament, assisted by CNEL, to decide if a change is necessary or not (Valente 2023). To conclude this section, it can be evinced that only policy-makers can pave the way to a proper minimum-wage path proposed by the Supreme Court, which cannot be the main decision-maker to solve this issue (Valente 2023).

Chapter 3.2: The Italian economic background

This second section of the thesis will point out the economic situation of Italy in the period from 1970s to 2015.

Italy witnessed some reforms and changes over this period, and one of them is the Scala Mobile which was a tool for wage fixation and its main scope was to heighten all employees' wages; in addition, it worked from 1970s to the early 1990s, when it was abolished due to several reforms (Manacorda 2004). After its ending, in 1994 there was a new method of wage restraint, as an accordance between unions and entrepreneurs arose with the aim of changing the rules of the wage trading (Manacorda 2004). Other reform undertaken in Italy was the employment protection one, which was born in 2001 with the desire to improve the overall labor market under the employment point of view and to substitute permanent contracts[34] with temporary ones (Daruich, Di Addario and Saggio 2023). Firms were those who mostly benefited by the reform due to the drop of labor costs that in turn induced higher profits, whereas young workers were those who mostly lose out from the reform as their earnings declined, resulting in an enhanced gap between young and old employees (Daruich, Di Addario and Saggio 2023). It is also to be mentioned that between 1998 and 2013, employees with temporary contracts represented 16% of the Italian workforce: the majority of them were young workers and females (Daruich, Di Addario and Saggio 2023).

Now, a detailed glance at some wages in Italy is going to be given. In 2015, figure 11 displays that gross minimum wages set by collective agreements were 9.41€ per hour

34 Permanent contract is the most traditional form of contract in Italy (Daruich, Di Addario and Saggio 2023).

(13th and 14th monthly paid included), 17.7% higher than in 2008 (8€ per hour), whereas the minimum wage range fluctuated between 7.47€ and 13.89€ per hour; additionally, it can be suggested that gross minimum wages compared to the median income were set at a very significant level, as a evidence they oscillated between 74% and 80% of the wage distribution[35] (Garnero 2018). Taking some sectors into account, it can be said that agriculture and finance were the least-paid sectors in 2015, even though the Kaitz index in agriculture was quite high and it went above 100% in Arts and other occupations: this is the proof that minimum wage rates were set above the median in most cases in 2015 (Garnero 2018). In addition, Kaitz index varied from 46% in education to 80% in hotel and restaurants, to 88% in professional tasks (Garnero 2018). High wages compared to the median can be mostly seen in the South and in small-sized businesses, where effect of the minimum wage is higher rather than large firms (Garnero 2018). Another important aspect of the minimum wage in collective bargainings in Italy is the elevated level of non-compliance, in fact between 2008 and 2015 the number of workers paid less than what established in their respective collective bargainings was slightly above 10%, ranging from 10.35% in 2008 to 11.99% in 2015, with 14% reached in 2014 (figure 12) and it is fundamental to notice that these numbers reach an high level in small firms rather than in large firms; furthermore, in the same period, near one tenth of workers paid less than the minimum wage rate set by collective agreements were paid between one fifth and one quarter less than what agreed in the bargainings (Garnero 2018). Other datas that stand out is that the number of employees that received wages below the agreement level ranged from 6% to 7% in terms of monthly income in 2008-2015 (see figure 11); by contrast, figure 11 also shows that more or less 4% of workers earned a wage in conformity with what established by collective bargainings, but these workers were required to work extra-hours (Garnero 2018).

In order to conclude the penultimate section of the thesis, a few notions about underpayment in Italy is going to be discussed. Figure 12 shows that in 2015, the portion of underpaid employees [36] went from roughly 8.5% of North-Eastern workers to about 18.5 in South (Garnero 2018). Last thing to mention is that women had more chances to be underpaid, whereas older workers, including prime ones and high-skilled ones, had more than 50% of probability to obtain wages inferior to the minimum ones with respect to young workers aged 20-29 years old (Garnero 2018).

35 In 2008-2015 period.

36 In this case, underpayment represents workers paid less than 95% of the agreed minimum wages (Garnero 2018).

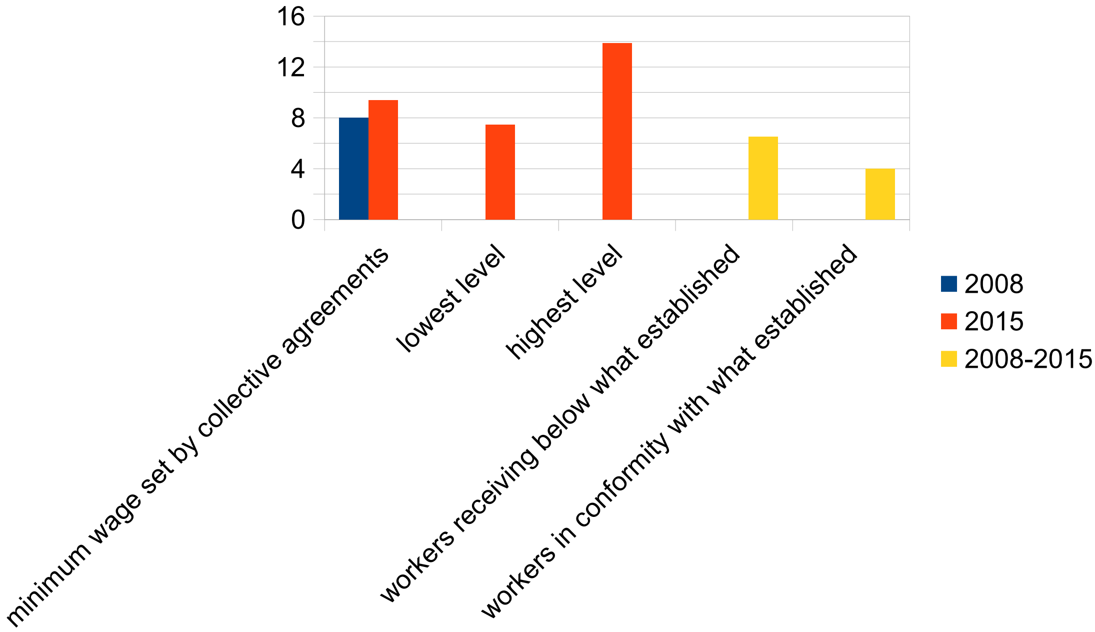

Figure 11: Situation of minimum wages set by collective agreements.

37

37 Gross minimum wages and its highest/lowest level are calculated in hourly-earnings terms whereas workers are calculated in percentages terms (Garnero 2018). Figure created relying on datas from Garnero 2018.

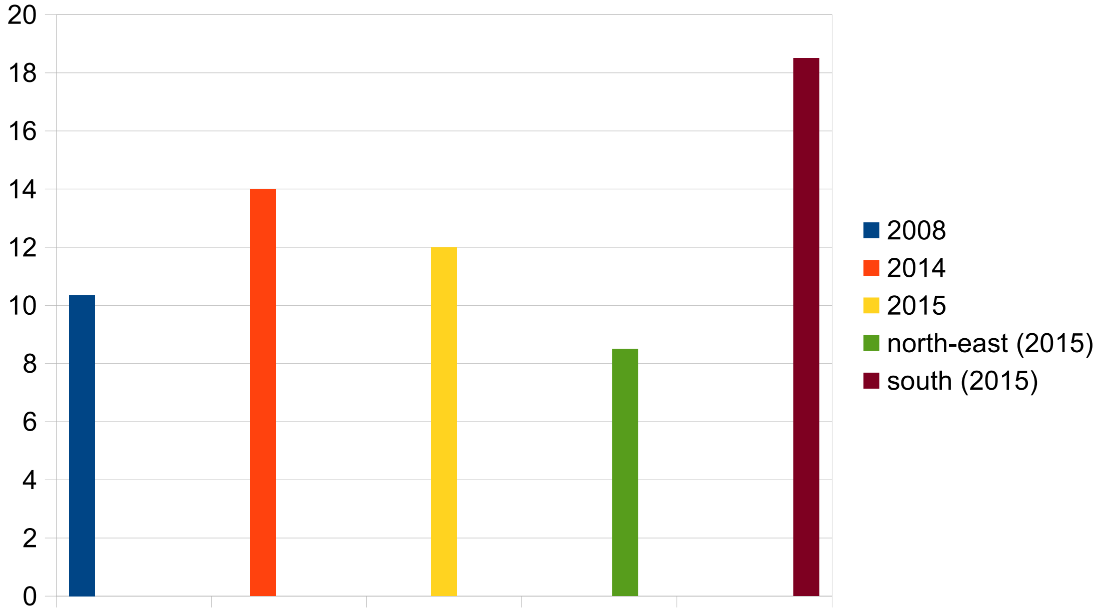

Figure 12: Workers paid below the minimum wage set by collective bargainings.

38

Chapter 3.3: Feasible scenarios of a minimum-wage introduction in Italy

The last section of the thesis will go through the effects that a hypothetical minimum wage would generate if implemented in Italy. In this respect, some positive and negative effects will be discussed, including its possible effects on employment, wages, wage inequality, and businesses.

First of all, if there is a will to apply a minimum wage in Italy, there are three things to consider: the first one is the level of the minimum wage, the second one is the method to fix it, and the third one is its coverage (Boeri and Lucifora 2014). As concerns the first point, it could be a bright idea to fix the minimum wage between the Spanish minimum-wage level (4.48€) and the level of relative wage poverty equivalent to 6.5€ (it would cover 10-11% of dependent workers); on the other hand, if a minimum wage

38 Figure built up by referring to datas from Garnero 2018.

would be fixed at the same level of France (9.35€) or Germany (8.5€) it would cover 30-40% of workers and it would have high probabilities to cause unemployment (Boeri and Lucifora 2014)[39]. Regarding the method to fix the minimum wage, it can be stated that if there would be an authority that proposes its level to the Government, it would monitor the effect of the minimum wage on the labor market and it would avoid the electoral use of that tool (Boeri and Lucifora 2014). Finally, the minimum wage should cover all the dependent workers for which their work contract encompasses a wage and a work schedule; the amendment of the Government (that limited only to the sectors not covered by collective contracts) was likely to render the minimum wage inefficient, so for this workers monthly minimum wage might be an option (Boeri and Lucifora 2014).

3.3.1: Some effects on employment

The first possible scenario of a minimum wage introduction in Italy concerns employment. Its effects on employment usually depend on the situation in which the country is, e.g. if minimum wage hikes happen during recessions period or within an expansionary moment for a specific country (Caselli, Mondolo and Schiavo 2023).

Now four typical cases for firms are going to be analysed. The first one regards firms that pay low levels of wages, have scarce labor productivity, and with employees that own a kind of market power: an hypothetical minimum wage introduction within these type of businesses would probably have negative effects, as applying a minimum wage rate that surpasses the marginal earning product may diminish firms' labor-demand curve and eventually force them to exit the marketplace (Caselli, Mondolo and Schiavo 2023). This would have negative effects on employment because the labor-demand curve would shift to the left causing a fall of employees in a firm, as figure 6 can express it (Mankiw and Taylor 2018). The second one concerns monopsonistic firms with poor wages and low labor productivity; the effect is twofold: firstly, a possible minimum-wage establishment may lower the employment level and provoke the firm to leave the labor market; secondly, its introduction would dampen firms' monopsony power by increasing wages and so it may turn into a positive effect for workers due to the likely employment increment (Caselli, Mondolo and Schiavo 2023). As regards the latter case, there would be both an increase of employees' wages (moving the labor supply curve to the right) and an increase of employment (moving the labor demand to the right) thus reaching a good balance, as figure 6 represents (Mankiw and Taylor

39 These informations are relative to 2014.

2018). The third one is about firms with low wages but an high level of work productivity: a suppositional minimum wage would shorten market weaknesses and lead to an augment of employment, as wages would increase and the work productivity would remain as high as before (Caselli, Mondolo and Schiavo 2023). The last one concerns the circumstance where firms already pay wages at the same level or even higher than the assumed minimum wage: in this case, the effect of a minimum wage would presumably be insignificant, since there is no passage from the old wage level to the minimum wage one (Caselli, Mondolo and Schiavo 2023).

In order to wrap up what stated above, it may be suggested that generally an hypothetical minimum-wage introduction in firms with low wages and low work productivity would generate negative employment effects as both it would reduce its level and the gap between wages and productivity would deeply enhance after a minimum wage introduction (Caselli, Mondolo and Schiavo 2023). On the other hand, an hypothetic minimum wage in firms with high wages and high work productivity would have quite positive effects, as it would lead to both employment increase and have higher wages for employees after its introduction (Caselli, Mondolo and Schiavo 2023).

3.3.2: Possible effects on wages

A perfect solution to guarantee a sufficient and proportioned retribution to all workers could be the decisional combination between collective bargainings and legislation, as the former would decide the proportionality between the wage and the type of work, whereas the latter would decide the sufficient retribution (Menegatti 2017). Indeed, if a minimum wage fixed by the law is too low, it would risk to not be in concordance with the main principles of the article 36 of the Italian Constitution; and in this case, workers not covered by collective bargainings would claim a proper wage (Menegatti 2017). Additionally, a minimum wage fixed by the law may help wages to not fall below the poverty threshold, in fact it can be suggested that it may be a worthy solution for Italy, not only to shorten poverty but also to increase consumption, the labor demand and also to increase work productivity[40] (Menegatti 2017); indeed, if figure 4 is considered, it can be affirmed that as labor demand increases, there will be more workers employed and so wages will be raised, leading to more probabilities to avoid poverty among workers (Mankiw and Taylor 2018). Furthermore, a minimum wage

40 Only if the minimum wage would be set at an affordable level (Menegatti 2017).

introduction in Italy would not damage trade unions action but rather it would provide a useful support to both collective bargainings and workers' wages (Menegatti 2017). The main idea of trade unions was that poverty and low-paid jobs may be protected by their actions, although their action would stand out as useless, resulting in negative effects such as the reduction of collective bargainings and the augment of poverty for those who earned above the minimum rate (Menegatti 2017). In the case that the legislator would provide a minimum wage, the latter would become the main benchmark of the retribution, so that employers will want to to apply it; and this would imply a reduction of minimum wages toward the ones established by the law, so it would create negative effects (Menegatti 2017). Again, an hypothetical minimum wage would put in risk the coverage of collective contracts because this trouble came from a legal minimum wage fixed at a lower level than the ones of collective contracts; then the social parts should trade retribution at a lower level (close to the minimum) so that to keep the competitiveness of collective contracts when the employer wants to exit from them (Menegatti 2017). In addition, for workers not covered by collective bargainings, a legal minimum wage set at a lower level than the minimum planned by collective contracts of its occupational sector would provoke poverty (Menegatti 2017). Finally, a minimum wage above the equilibrium threshold may lead to the shift to the informal economy for the least productive workers causing, in turn, a drop of wages due to the labor supply increase (Menegatti 2017); again, the situation in this case would be like figure 3, where lots of workers enter the labor market due to the relative high level of the minimum wage and then its level decreases, leading in turn to wages lowering (Mankiw and Taylor 2018).

3.3.3: Eventual effects on wage inequality

From 1993 to 2012 the wage inequality increased by 20% and mostly happened at the bottom of the wage distribution: the first percentile experienced a loss of 15 points whereas the median and the top of the wage distribution remained steady (Cappellari and Leonardi 2015). It is hard to state if a minimum wage introduction would have changed the dynamics because it might generate unemployment or shifts on workers paid above its level and it is probable that it would have hit the top of the wage distribution; however, what is probably sure is that if a minimum wage would have been introduced in Italy in 1993, the wage inequality would have been minor and its rise would have been lower because it would have improved the average situation of several italian households who were paid below what established by their work contract (Cappellari and Leonardi 2015). Additionally, what is quite certain is that an eventual minimum wage would elevate low wages above the poverty floor, and so decreasing the inequality between low-paid workers and high-paid ones (Menegatti 2017).

3.3.4: Hypothetical effects on businesses

The introduction of a minimum wage in Italy would represent a radical change in industrial relationships, in fact even businesses that do not apply national contracts, have to comply with the minimum wage established by themselves; nevertheless, not all businesses do that, so the minimum wage introduction represents a tool to protect workers earnings in these businesses[41] (Cappellari and Leonardi 2015). It can be stated that a minimum wage introduction in Italy would mostly affect small firms rather than large ones because the former consider the minimum wage an obstacle when it comes to compete with large firms, whereas the latter have higher power in providing higher wages (Menegatti 2017). Trade unions fear that its eventual introduction would lead to lesser pays: if it is fixed, for example, at 5-6€ per hour, firms might exit collective bargainings and diminish workers' wages (Garnero 2019). What it is fundamental is that the minimum wage value is calculated taking into account the fiscal system in order to avoid that minimum wage hikes will not be end within fees or small social benefits (Garnero 2019). In conclusion, other effects that an hypothetical minimum wage may have on businesses concerns public spending, which would be very small or insignificant and an eventual retributions augment could be compensated by both the saving on the measures intended for low-paid workers and by the consumption increase that an augment of wages generally produces (Menegatti 2017).

41 Mainly of small size (Cappellari and Leonardi 2015).

Conclusion:

The goal of the thesis was to investigate how the minimum wage works in particular situations and how it is among nations around the world, and principally its main aim was to examine the minimum-wage effects on four important economic aspects: employment, businesses, poverty, and wage inequality, starting from a theoretical and practical point of view. Furthermore, the thesis wants to explore the minimum-wage effects in two countries: United Kingdom and Italy, retracing the same economic aspects as the first chapter.

This thesis has responded to these matters as it emerged that, from a theoretical point of view, the minimum wage has more negative effects than positive ones on employment. Its effect are illusory when the minimum wage raise and turnover costs of a firm decrease because workers do not want to change their job. However, the minimum wage does generate unemployment in some cases: when it is set over the balanced wage level (in this event the labor supply surpasses the labor demand); when unskilled labor cost is higher than skilled one; when low-skilled workers are replaced by other inputs, including capital or other apparatus; when wages increase so it means higher prices and, in turn, a fall of labor demand; when businesses' willing is only to make profit, so it will decline wages; and, finally, in competitive markets when the minimum wage shorten worked hours and in this case employment will drop. Both monopsony markets and institutional mode are the only cases where the minimum wage does have positive effects: in the former, when the minimum wage surge until the competitive rate; in the latter, after a minimum wage rise in the short-run, the employers will decide to improve businesses' equipment, services, and to boost sales rather than firing workers.

As regards businesses in imperfect competition in the short-run, when the minimum wage increases, there will be a decrease in firm's profitability due to the high number of employed-minimum-wage workers, and due to the time needed to adjust wages increase. Conversely, in the long-run, the effects are weaker because one of the firms will be forced to leave the market place. On the other hand, the minimum wage has no effect on price-cost margins because the labor demand is steady. It also stood out that in perfect competition markets there are some situations: in the long-run businesses' profit is zero, whereas in the short-run there is a fall of it due to the large number of workers paid below the minimum wage level and due to the substitution of minimum wage earners for non-minimum-wage earners. Furthermore, in order to offset the minimum wage increment in the short-run, the product worth must absorb the rise.

The thesis showed that the minimum wage has overall negative effects on poverty as: it favours only workers of formal economy rather than those of informal economy; a spike in the minimum wage could move some households out of the poverty threshold but low-skilled workers may miss their jobs; the poorest will be struck due to inflation since the minimum wage is fully absorbed by costumers under upper prices; and when the number of workers increases, there will be more poverty because firms will prefer to hire high-skilled workers.

In the last part of the theoretical part, the thesis demonstrated that the minimum wage could be a good tool in reducing wage inequality because if it is set in a balanced way it could have benefit on either the poorest people or those with low wages. Nevertheless, if it is fixed at an elevated level it will bring negative effects, as the labor market has to be balanced.

Moving on, the thesis outlined that the national minimum wage in the United Kingdom had, in general, no adverse employment effects. The only area hit by the national minimum wage was that of low-wage, such as Northumberland and Lincolnshire where there was more unemployment than other high-wage areas. Moreover, the minimum wage had benefit on some low-paid sectors, in fact employment surged in these sectors. Finally, it emerged that when the national minimum wage was introduced, the employment of workers aged 16-17 fell, and that of those aged 18-21 raised.

As concerns pay, the national minimum wage had a large impact on it, as workers had a boost of wages after its introduction and mostly for those at the bottom of the wage distribution.

The impact on businesses were overall negative, and as it stands the national minimum wage had a great impact on low-paid sectors due to the drop of profitability in those sectors, though it increased productivity in some sectors after its introduction.

Finally, the national minimum wage shrank wage inequality at the bottom of the wage distribution after its implementation.

To conclude, the thesis also gave answers about the effects of an hypothetical minimum wage in Italy. With respect to employment, four case appeared: the first one is when a firm that pay low wages and have scarce labor productivity; in this case, an hypothetical minimum wage would probably cause unemployment because of the fall of labor demand; the second one concerns the monopsonistic firms with poor wages and low labor productivity; here, a minimum wage may either lower employment or it may increase wages so employment will hike; the third one regards firms with low wages and high productivity and in this case a minimum wage would raise employment, since wages would increase; the last one is about firms that already pay wages at the same level of the minimum wage or even more than it: the minimum wage effect would be illusory.

As concerns wages, a minimum wage fixed by the law may help them not to fall below poverty levels and it would be a great thing for both collective bargainings and workers' wages. On the other hand, it stood out that if the legislator is the minimum-wage provider, this would imply a reduction of the minimum wage toward the ones established by the law, so it would generate negative effects. Furthermore, other negative effect is highlighted: for workers not covered by collective contracts, a minimum wage set below that planned by collective contracts would provoke poverty. The last negative effect is if a minimum wage was fixed above the equilibrium threshold it would provoke a drop of wages for the least productive workers due to the labor supply increase.

Moving on with the possible effect on wage inequality in Italy, the thesis specified that it is quite certain that an eventual minimum wage would lift wages above the poverty floor, so the inequality between low-paid workers and high-paid ones would be narrowed. However, wage inequality in Italy increased by 20% between 1993 and 2012 and if a minimum wage would have been introduced in 1993, the wage inequality would have been minor.

To complete the conclusions part, the thesis also underlined that a minimum wage would affect small firms rather than big ones because the former consider the minimum wage an obstacle when they compete with the latter. Moreover, effects on public spending would be insignificant with a minimum wage in Italy.

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