

avenir debate

Who Do Wage Protections Protect?

Why the State Can – and Should – Dispense with Wage Policy

The flexible labor market is an important factor in Switzerland's success – but the regulatory elements are gradually getting out of hand. What stands out is the growing willingness of the state to intervene in the wage formation process with cantonal minimum wages, accompanying measures, and generally binding collective labor agreements. In a new study, Avenir Suisse analyzes this development and questions the importance of the wage protections so often invoked in this country.

The economic outlook is becoming increasingly gloomy. Price increases and the energy crisis are weighing on the prospects and causing problems for local companies. In times like these, it's important not to undermine our country's strengths. These include the (still) relatively liberal labor market and the traditional social partnership, features that enable the Swiss economy to adapt to economic shocks and structural changes in the best possible way. However, there is a growing willingness on the part of the state to intervene in the wage formation process:

- **Industry-wide minimum wages:** In an increasing number of industries, collective labor agreements are being declared generally binding at the federal or cantonal level.
- **Accompanying measures:** The cross-border provision of services from EU/EFTA countries is restricted by wage standards and flanked by a comprehensive state control bureaucracy. Even though the measures block the EU dossier, there are even calls to extend them.
- **Cantonal minimum wages:** Since Swiss voters rejected a national minimum wage in 2014, minimum wages have been introduced in five cantons.

Including standard employment contracts and cantonal minimum wages, an estimated 55 to 60 percent of employees appear to be in employment with a minimum wage.

Why the state can dispense with wage policy

As the new publication shows, it is questionable whether strong or even stronger wage protections really benefit employees. Here are the most important findings of the study at a glance:

- Between 2008 and 2020, the lowest 10 percent of wages in Switzerland increased by almost 12 percent. The pay of the top 10 percent earners increased by the same amount; the pay gap is not widening. The wages of low-skilled workers even increased more than those of the high-skilled.
- Almost every second employee is covered by a collective labor agreement with a minimum wage. However, collective labor agreement minimum wages are often hardly "binding." In the main construction trades, 98 percent of workers receive higher compensation than the negotiated minimum wage.
- European short-term residents perform less than 1 percent of the volume of work done in Switzerland. This puts the importance of wage protection into perspective. Moreover, there is no evidence that short-term residents force people out of jobs or put pressure on pay in this country.

- Cantonal minimum wages weaken the social partnership model and lead to duplication and legal uncertainty.
- Minimum wages are not suitable as an instrument of social policy: nine out of ten people in poverty are not employed or are employed only part-time. Not only that, but the household's perspectives are decisive for its economic situation. And here there is evidence that low wages occur equally frequently in households in the upper income brackets as in those in the lower brackets.

These days low wages enjoy comprehensive protection. The fear of wage pressure in the wake of the free movement of persons with the EU was unjustified. The current situation and wage trends therefore do not suggest a general need for regulation.

Avenir Suisse's recommendations

The high pay in Switzerland is not due to wage protection. It's the result of other factors, including a flexible labor market with a tried-and-tested social partnership. The following recommendations will enable the labor market to retain its flexibility in terms of wage-setting and continue to contribute to Switzerland's model for success:

- The proven wage policy within the framework of the social partnership should not be further eroded. The practice of dictating binding wage conditions for more and more sectors with a state seal of approval should cease.
- Minimum wages under collective labor agreements have to take precedence over cantonal minimum wage regulations. This insight should prevail without federal regulation.
- Any tightening of the accompanying measures should be avoided. In the medium term, the aim should be to gradually dismantle them. Especially in times of labor shortages, the cross-border provision of services should be seen as an opportunity and not as a threat to the labor market.
- Poverty should be combated in a targeted manner by means of needs-oriented social transfers, and not by intervening in the wage formation process.

A successful economic policy must be about creating productive jobs and achieving high labor market participation. Strong wage protections hardly contribute to these goals. Instead, they burden the labor factor directly (minimum wages) or indirectly (administrative hurdles), and can thus lead to lower wages and less employment. The "new wage protections" thus undermine the foundation of the Switzerland's model for success.

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