Minimum Wage: Busting the Myth

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POLICY PAPER

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Executive Summary

For decades governments have been enforcing minimum wage laws, prohibiting employers from paying wages below a mandated level.

The policymakers introducing minimum wage laws claim such laws are conducive to the betterment of especially low-skilled and entry level workers, minorities, youth and the unemployed. A minimum wage then ought to be a cure for poverty and income inequality. According to public opinion polls all over the world, the public predominantly believes these claims and, therefore, supports a minimum wage.

In reality—and as the economic literature attests—minimum wage laws in most cases end up harming the work force and the broader economy by suppressing job opportunities, especially for low-skilled and entry level workers, minorities, youth and the unemployed - the groups promised to be helped by these policies. As a matter of fact, minimum wage laws do not create any new resources and, hence, do not create new jobs, spur economic growth or raise wellbeing. As such, the negative impact of a minimum wage on the workforce as well as on the economy as a whole grows with the size of the gap between labor productivity and minimum wage. Indeed, not all that glitters is gold.

This policy analysis reviews economic models used to study the impact of minimum wage laws and examines by way of empirical evidence the impact of a minimum wage on six Eastern members of the European Union (Czech Republic, Hungary, Lithuania, Poland, Slovakia and Slovenia).

To conclude, instead of blindly sticking to minimum wage laws—an ineffective policy pushing a considerable number of people into unemployment and damaging today's still sluggish economy—the governments should focus on policies generating economic growth, which would facilitate higher labor productivity and wages for all workers, not just a tiny fraction above the minimum wage.

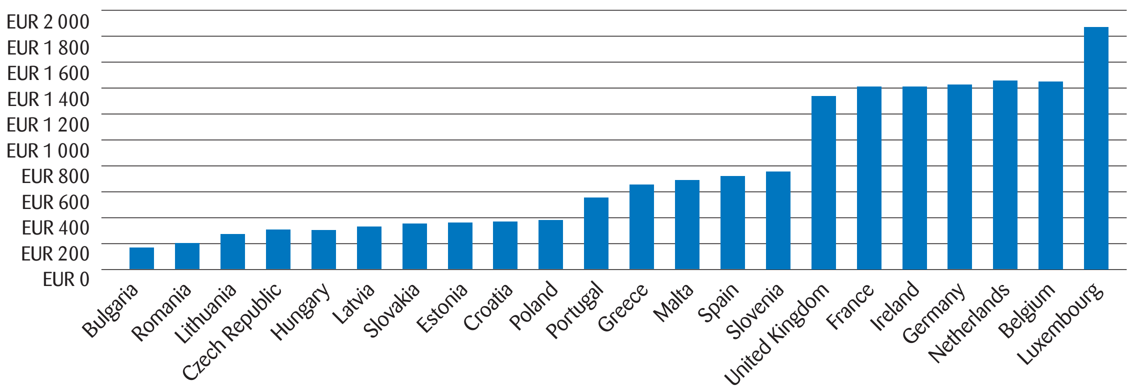
Minimum Wage in the EU Member States

Twenty-two of twenty-eight EU member states have minimum wage levels. While several of the founding EU member states have a lengthy tradition of enforcing a national minimum wage, a number of EU member states, including Germany, Ireland, the United Kingdom and many of those joining the EU in the last decade, have only recently introduced minimum wage laws. Six EU member states (Denmark, Italy, Cyprus, Austria, Finland and Sweden) had no national minimum wage as of 1 January 2015.

Minimum wage levels vary considerably across the EU member states. Minimum wage statistics, as published by Eurostat, refer to national minimum wages. The national minimum wage usually applies to all employees, or at least to a large majority of employees in a country. Taking into account differences in price levels, Figure 1 shows the minimum wage (purchasing power parity, PPP) of the EU member states.

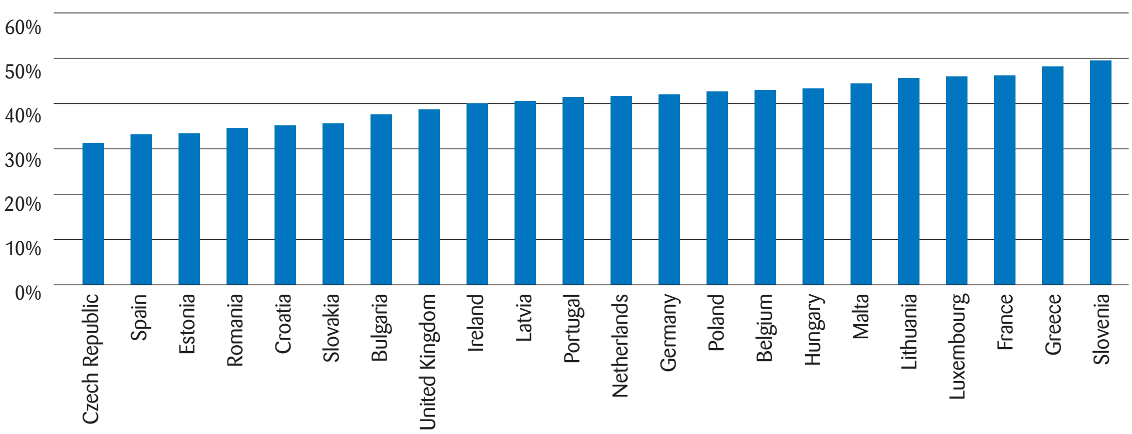
In 2013, the level of gross minimum wage across the EU member states varied from 32.6% (Czech Republic) to 51.4 % (Slovenia) of average gross monthly earnings, as shown in Figure 2.

Figure 1: Monthly Minimum Wage (PPP, January 2015)



Source: Eurostat

Figure 2: Monthly Minimum Wage (share of average monthly earnings)



Source: Eurostat

Economic Theory of Minimum Wage Effects

As Wilson (2012) notes research on the effects of the minimum wage has been studied with the use of three types of models: competitive, monopsony and institutional. Each of these models assumes a change in business behavior as a result of the increased cost associated with a minimum wage and its resulting impact on workers, business owners and consumers. Much of the empirical research has focused on estimating how much minimum wage increases spur unemployment in affected industries and groups of workers. Other research has examined the effects of a minimum wage on the number of hours worked, worker training, level of work effort, human resource practices, operational efficiencies and wage structures.[1]

Empirical Research of Minimum Wage Effects

A look at the past 70 years of empirical research display that the minimum wage increases tend to have a negative effect on employment. A review of more than 100 minimum wage studies by David Neumark and William Wascher (2006) found that about two-thirds of them had negative employment effects.[2] In this context, the higher the minimum wage relative to competitive-market wage levels, the greater the employment loss. As such, instead of improving their wellbeing a minimum wage puts the least skilled, disabled, youth, immigrants and ethnic minorities out of work.

Moreover, evidence from a large body of research shows that, even without negative employment or other effects, minimum wage increases would not reduce levels of poverty – an outcome unexpected by policymakers and the general public in their support of a minimum wage.

As one might predict, businesses adapt to minimum wage requirements. Generally, businesses deal with new governmental rules imposing higher labor costs on them by cutting their expenses or passing the costs to others. Indeed, there is no free lunch to a minimum wage top-down mandate.

On the expense side, businesses tend to do three things. First, they decrease labor costs by hiring less, cutting employee work hours and reducing benefits. Second, they make a shift from low-skilled and less experience workers to high-skilled and more experienced workers. As Nobel Laureate Milton Friedman taunted, “A minimum wage law is, in reality, a law that makes it illegal for an employer to hire a person with limited skills.”[3] Third, they substitute labour with capital-intensive modes of production. To recapitulate, all three options do little to reduce poverty, inequality, or unemployment.

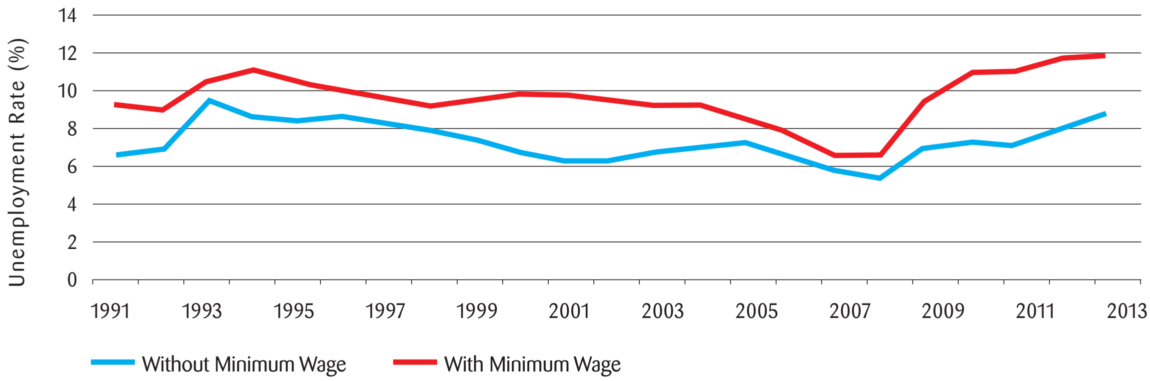
[1] Mark Wilson, "The Negative Effects of Minimum Wage Laws," Policy Analysis No. 701, June 21, 2012, pp: 3-6. Available at: http://object.cato.org/sites/cato.org/files/pubs/pdf/PA701.pdf.
[2] David Neumark and William Wascher, “Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research,” NBER Working Paper No. 12663, November 2006. Available at: http://www.nber.org/papers/w12663.
[3] Playboy Interview: Milton Friedman, Playboy 28(2), February 1973.

On the income side, businesses may manage higher labor costs by charging higher prices to the customers of his products and services. In so doing, these businesses then become less competitive in the market, which among other things results in lower economic growth and higher unemployment.

In this context, the gap in the unemployment levels between a group of EU members states with a minimum wage and a group of EU members states without a minimum wage is shown in Figure 3. In year 2013, EU countries with minimum wage laws had an unemployment rate of 11.9%, while those that did not mandate a minimum wage had 8.8%.

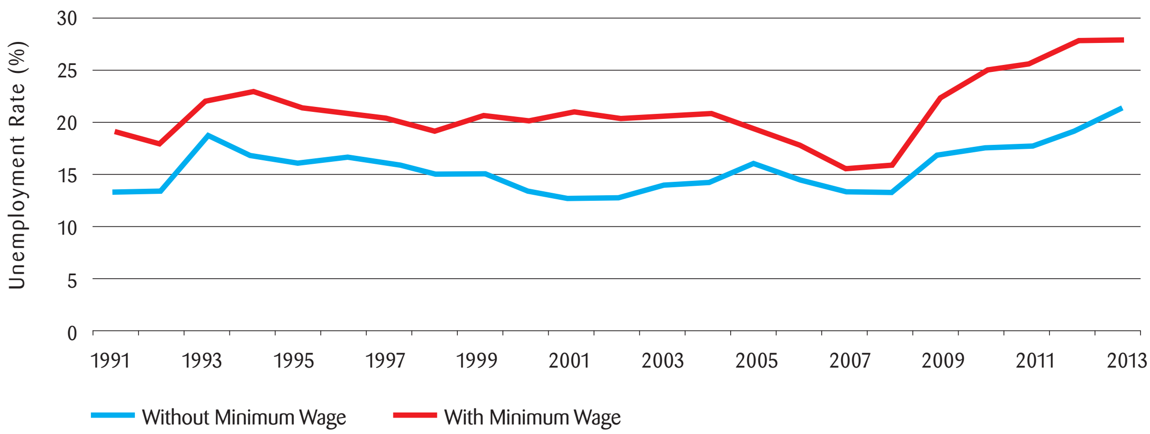
This point is even more pronounced in the rates of unemployment among the youth (15–24 years of age), where countries with minimum wage laws had 27.9% unemployment, while countires without minimum wage laws had an unemployment rate of 21.4%, as shown in Figure 4. The rates of youth unemployment are of great importance, as the effects of a minimum wage reveal, particularly in the areas of employment where these laws affect existing wages and employment relationships.

Figure 3: Average Unemployment Rate of the EU Member States (1991–2013)



Source: International Labor Organization - ILO and calculations by Tanja Porčnik.

Figure 4: Average Youth Unemployment Rate of the EU Member States (1991–2013)



Source: International Labor Organization - ILO and calculations by Tanja Porčnik.

Case Studies

Before turning to individual case studies that analyze the effects of minimum wage in six EU member states from Eastern Europe (Czech Republic, Hungary, Lithuania, Poland, Slovakia and Slovenia), Figure 5 presents the minimum wage of those six EU member states in the period 2010-2015, while Figure 6 presents the gross minimum wage of average gross monthly earnings.

Figure 5: Minimum Wage (PPP, 2010–2015)

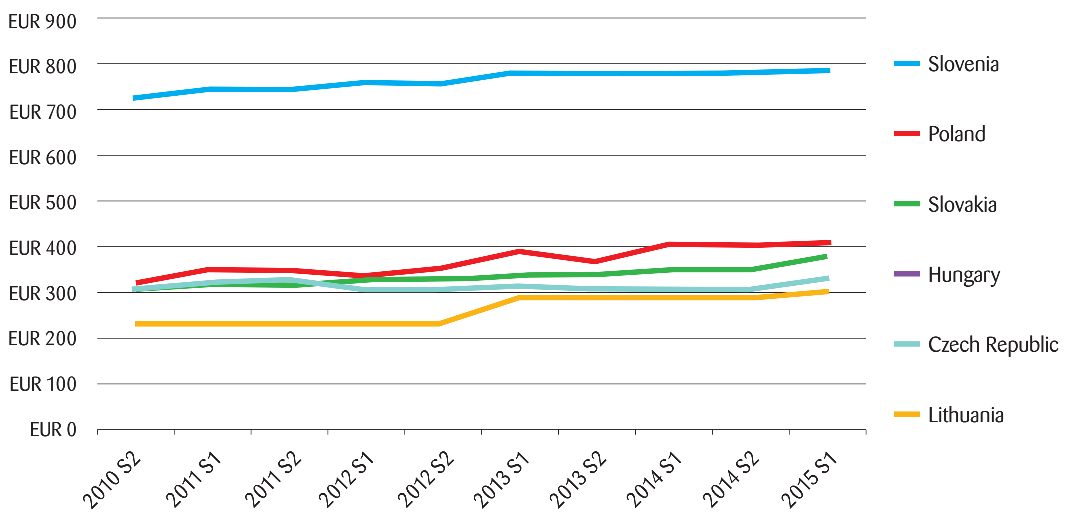
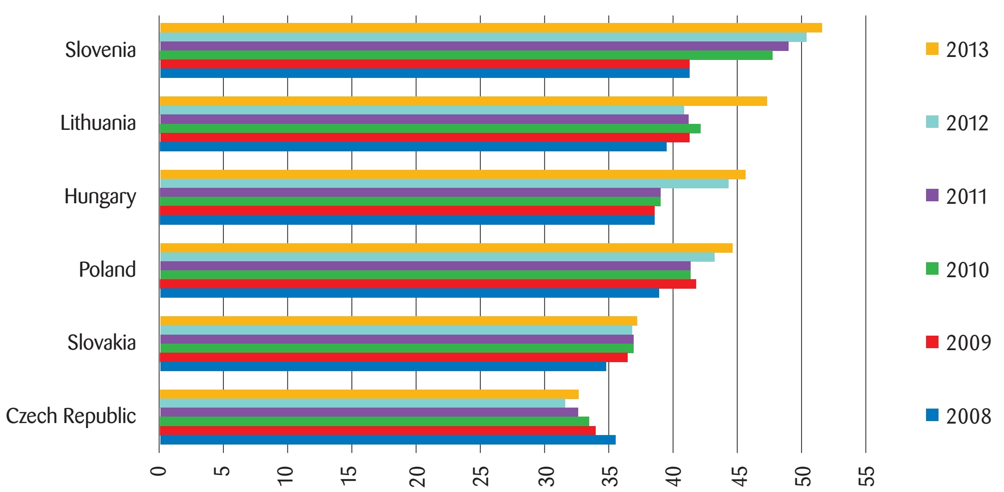


Figure 6: Monthly Minimum Wage (share of average monthly earnings, 2008–2013)



Case Study #1: Slovenia

Currently, the minimum wage in Slovenia stands at € 790.73 per month. Among the EU countries Slovenia has the highest minimum wage relative to the average wage, measured both in terms of either labour costs (gross wage plus social security contributions paid by employers) or gross wages. At the same time, the net income of minimum-wage workers is significantly lower than the labour costs to their employer.[4]

According to the Slovenian Minimum Wage Act[5], the minimum wage in Slovenia is calculated monthly and is based on a rise in consumer prices, wage trends, economic conditions or economic growth and employment trends. The minimum wage level is set by the Minister of Labour, Family, Social Affairs and Equal Opportunities, after a consultation with social partners gathered in the Economic and Social Council (ESS).

In Slovenia the principal advocates of the minimum wage are the Social Chamber of Slovenia (Socialna zbornica Slovenije), the Association of Free Labour Unions of Slovenia (Zveza svobodnih sindikatov Slovenije – ZSSS), Union Pergam (Sindikat Pergam), Social Democrats (Socialni demokrati – SD), United Left (Združena levica – ZL) and some economists.[6]

The leading critics of the minimum wage in Slovenia are the Association of Employers of Slovenia (Združenju delodajalcev Slovenije – ZDS), Chamber of Commerce and Industry of Slovenia (Gospodarska zbornica Slovenije – GZS), Visio Institute and some economists.[7]

The labour costs of employing minimum wage workers in Slovenia tend to discourage businesses from growing their production.[8] As Stoviček (2013) notes, the minimum wage is not only an inefficient tool in addressing poverty, but also can contribute to it by a resulting increase in unemployed persons.[9] Similarly, Brezigar-Masten et al. (2010) estimate that the minimum wage increase in 2010 reduced employment by 5,150 workers in the short run and by 17,170 workers in the long run.[10]

[4] Klara Stoviček, “Minimum wages in Slovenia: Reducing employment but not poverty?” ECFIN Country Focus, Vol. 10, Issue 4, June 2013. Available at: http://ec.europa.eu/economy_finance/publications/country_focus/2013/pdf/cf_vol10_issue4_en.pdf.
[5] Available at: www.uradni-list.si/1/content?id=96327.
[6] Boris Vasev, Gregor Cerar and Saša Banjanac Lubej, "Bruseljske zahteve: "Gre za neke vrste kapitalistični fundamentalizem" MMC RTV Slovenija, May 30, 2013. Available at: http://www.rtvslo.si/slovenija/bruseljske-zahteve-gre-za-neke-vrste-kapitalisticni-fundamentalizem/309959.
[7] Erika Repovž, “Z davčno reformo nad preobdavčene place,” Delo, March 31, 2015. Available at: www.delo.si/gospodarstvo/trg-dela/ministrica-za-delo-glavni-problem-minimalne-place-so-stroski-dela.html.
[8] Erika Repovž, “GospodarsTVo: Z ekonomistom Sašom Polancem o minimalni plači,” Delo, April 3, 2015. Available at: www.delo.si/multimedija/video/gospodarstvo-z-ekonomistom-sasom-polancem-o-minimalni-placi.html.
[9] Ibid.
[10] Brezigar-Masten, A., Kovačič, S., Lušina, U. and A. T. Selan, "Estimation of the Impact of Minimum Wage Rise in Slovenia," IMAD Working Paper Series No. 3, Vol. XIX, 2010.

Case Study #2: Czech Republic

While the first references to minimum wage in the territory of today's Czech Republic can be traced to the Austro-Hungarian Empire and then later to the first independent Czechoslovak Republic (1919 law regarding minimum wage for home workers), the minimum wage in its current legislative form was introduced in 1991 in the former Czechoslovakia (two years before the separation of the Czech and Slovak Republics).[11] [12]

Minimum wage in the Czech Republic is set as a monthly and hourly wage. In the Czech Republic guaranteed wage entitles many workers to a wage higher than the minimum. Minimum wage corresponds to the lowest group on the guaranteed wage scale (8 categories based on difficulty and responsibility).

Among the supporters are the political left-wing parties (such as the Czech Social Democratic Party – ČSSD), left-wing organizations (like the Bohemian-Moravian Confederation of Trade Unions – ČMKOS) and also the Czech president Miloš Zeman. Among the opponents are the right-wing political parties (Civic Democratic Party – ODS and TOP 09) and employers' associations (the Confederation of Industry of the Czech Republic and the Czech Chamber of Commerce).

The development of the minimum wage can be thus divided into four distinct periods influenced by the political leaning of ruling governments. The first (1991–1998) and the third (2007–2012) periods, when right-wing governments were in power, can be characterized by either irregular or no increase in nominal minimum wage (32.5% increase from the initial 2000 CZK in the first period and 0.57% increase in the third), while the real minimum wage decreased in these periods. The second (1999–2006) and the fourth (2013–present) periods, with the center-left governments in power, can be characterized by regular and large increases in the nominal minimum wage (more than a 200% increase from 2650 CZK to 7955 CZK in the second period and thus far 15% in the fourth to 9200 CZK), as well as a minimum wage increase in real terms.[13]

Considering wage distribution, the ratio of minimum wage to average wage dropped sharply from 53% in 1991 to 22% in 1998 and then increased again to 34% in 2014. This is relatively low in comparison to other OECD countries. However, more relevant is the ratio to the first wage decile, which reached 79% in 2014. Thus, the minimum wage might still pose a considerable burden on the employment of the least-productive and lowest-paid workers.[14]

[11] Tomáš Pavelka, Marek Skála and Jan Čadil, "Selected Issues of the Minimum Wage in the Czech Republic," E+M Ekonomie a Management 17, No. 4 (December 2014), pp. 30–45. Available at: http://www.ekonomie-management.cz/download/1420548563_9f10/03_SELECTED+ISSUES+OF+THE+MINIMUM+WAGE.pdf.
[12] Jana Gregorová, "Zavádění minimální mzdy," Available at: nb.vse.cz/~stastnyd/HP442/HP442-Gregorova.doc.
[13] Ibid.; "MPSV.CZ : Přehled o vývoji částek minimální mzdy." Available at: http://www.mpsv.cz/cs/871.
[14] Kamila Fialová and Martina Mysíková, "The Minimum Wage: Labor Market Consequences in the Czech Republic," Czech Journal of Economics and Finance (Finance a Uver) 59, no. 3 (2009), pp. 255–74; Trexima, Informační Systém O Průměrném Výdělku: 1. Pololetí 2014 Mzdová Sféra (MPSV ČR, 2014).

Nevertheless, the empirical evidence regarding the impact of a minimum wage on employment in the Czech Republic is inconclusive, with most studies on the national level finding the impact to be insignificant[15] and studies on the regional level finding the impact to be negative. Furthermore, there is evidence of an adverse effect of a minimum wage on employment probabilities of low-paid workers.[16] The motivational effect of a minimum wage on low-paid workers' willingness to accept a paid job is indicated by its comparison with the minimum subsistence level. Nevertheless, these two policies have been mostly independent, and for the majority of its existence the net minimum wage has been below the subsistence level, thus demotivating low-paid workers from entering the labor force.[17] Therefore, given its inability to attract the labor force and at the same time its potential to reduce the employability of low-paid workers, the minimum wage thus far appears not to have been a particularly effective instrument in the Czech Republic.

Case Study #3: Slovakia

Slovakia introduced minimum wage law in 1993. In Slovakia the minimum wage has six levels, where the basic level of € 380 a month applies to low-skilled manual jobs and the highest level of € 760 applies to managerial jobs. Currently, the minimum labor costs, which are the total cost to the employer for hiring a worker at the minimum wage of € 380 per month, is € 476 per month[18]. The difference is in mandatory social contributions.

In Slovakia the main advocate of the minimum wage is the Confederation of Labor Unions (Konfederácia odborových zväzov), which has a strong fellow advocate in the governing social-democratic party SMER-SD.

The primary critics of the minimum wage in Slovakia are the employers' unions (Republiková únia zamestnávateľov) and economic public policy think tanks. One of these think tanks is INESS - Institute of Economic and Social Studies, which analyzed the effects of the minimum wage on the labor market in Slovakia[19]. Among their conclusions was that the Slovakian minimum wage directly affects more than 100,000 employees and more than 300,000 unemployed. Among employees to whom the minimum wage applies since the beginning of 2013 are also tens of thousands of workers on short-term contracts.

Further, INESS observed that in the period 2008–2013 the minimum wage in Slovakia grew faster than the median wage in every single region of Slovakia, resulting in an increased burden on the labor market and the economy as a whole. Since the Slovak counties with low median wages faced high unemployment rates, enforcing the minimum wage cut jobs from the labor market that were suitable for the low-skilled and the long-

[15] Pavelka, Skála, and Čadil, "Selected Issues of the Minimum Wage in the Czech Republic."
[16] Kamila Fialová and Martina Mysíková. "Minimum Wage: Labour Market Consequences in the Czech Republic," Working Papers IES No. 06 (2009). Available at https://ideas.repec.org/p/fau/wpaper/wp2009_06.html.
[16] Kamila Fialová and Martina Mysíková. "Minimum Wage: Labour Market Consequences in the Czech Republic," Working Papers IES No. 06 (2009). Available at https://ideas.repec.org/p/fau/wpaper/wp2009_06.html.
[17] Pavelka, Skála, and Čadil, "Selected Issues of the Minimum Wage in the Czech Republic."
[18] In 2014 the Slovak parliament adopted a cut in health contributions for low income earners, for which the 2015 minimum wage increase did not increase total labor costs.
[19] Ján Dinga and Radovan Durana, "Minimálna mzda – úinný nástroj nazvyšovanie nezamestnanosti" (July 29, 2013). Available at: http://iness.sk/media/file/pdf/publikacie/Minimalna%20mzda_Final.pdf.

term unemployed. Furthermore, since the minimum wage does not take into account differences in the Slovak counties' median wage, it distorted the labor market in the poorer areas more than in the wealthier ones.

Case Study #4: Poland

The minimum wage in Poland was introduced in 1956. In 2003 a new minimum wage law was implemented, mandating that the minimum wage should be annually negotiated and agreed upon by the Trilateral Commission for Socioeconomic Affairs. The Commission includes representatives of labour unions, business and the government. If negotiations are unsuccessful, the minimum wage is set by the Council of Ministers at a level that cannot be lower than the initial governmental proposal for the Commission. When the minimum wage is below 50 percent of the average wage, the minimum wage is by law indexed to the inflation rate and additionally by two-thirds of the projected annual real GDP growth. The largest increases in the minimum wage took place in 2008 and 2009, under the incumbent Civil Platform - PO (an increase in 2008 was negotiated and accepted by the previous Law and Justice - PiS government).

Most mainstream political parties in Poland favour of a higher minimum wage, and the government has a tendency to propose more generous increases of this wage than are required by the law. However, the main supporters of the minimum wage are labour unions. With the relatively low unionization rate in Poland, the unions' influence seems somehow limited but their political power is fairly strong, chiefly due to their presence in the public sector and state-owned companies, their numerous organizational privileges (e.g., salaries for unions' representatives being paid by employers)[20] and the political ambitions of some unions' leaders. The labour unions' explicit target for minimum wage is 50 percent of the average wage (in 2013, the latest available data, it was at 44.3 percent).[21]

The majority of entrepreneurs and business organizations oppose excessive growth of the minimum wage, as it directly increases labour costs.

The minimum wage, being one of the sources of private sector wage rigidity,[22] may incentivize employers to use the different types of contracts that are possible in Poland, such as civil contracts or temporary jobs. A recent study by Kaminska and Lewandowski (2015) shows that a minimum wage increases unemployment among the youth. The study also shows that after the rate of growth of the minimum wage increase in 2008, prime-age workers became more likely to lose their jobs. Moreover, more than 50 percent of workers who became jobless after the minimum wage increase in 2008 were women with temporary

[20] Szymon Murek, "Trzy nadmierne przywileje związków zawodowych w Polsce," FOR Analysis No. 29 (2012). Available at: http://www.for.org.pl/pl/a/2459,Analiza-292012-Trzy-nadmierne-przywileje-zwiazkow-zawodowych-w-Polsce
[21] Hervé Boulhol, "Making the Labour Market Work Better in Poland," OECD Economics Department Working Papers No. 1124 (2014), p. 17. Available at: http://www.oecd-ilibrary.org/economics/making-the-labour-market-work-better-in-poland_5jz2pwf4wd41-en.
[22] Hervé Boulhol, op. cit.

jobs.[23] In addition, as Majchrowska and Zółkiewski (2012) show during the period of a substantial increase in the minimum wage (2005–2010) young workers (of age fifteen to twenty-four) were the most adversely affected by the minimum wage laws.[24]

Another problem with the minimum wage in Poland is that it is set at the national level, despite significant regional differences in average wage, productivity and costs of living. A regional diversification of the minimum wage is frequently recommended by Polish experts and international organizations, such as the World Bank or OECD.[25] Similarly, a step in the right direction would be a much lower minimum wage for labour market entrants[26], including not only newcomers but also people returning to the labour market. As a result, the most vulnerable groups would be protected against (long-term) unemployment.

Case Study #5: Lithuania

Lithuania introduced a monthly minimum wage in 1991, just after declaring independence. The aim was to protect the real income of residents.[27] From 2000 to 2014, the minimum wage was increased nine times, from 430 to 1035 Litas. The most evident increases took place in the period between 2004 and 2008 (from 430 to 800 Litas) and between 2012 and 2014 (from 800 to 1035 Litas). Ever since its introduction, the minimum wage in Lithuania has been increasing alongside average wage, as well as the growth of the economy as a whole.[28]

Among the advocates of minimum wage in Lithuania are the President Dalia Grybauskaitė[29],
the Lithuanian Social Democratic Party[30], the Homeland Union – Lithuanian Christian Democrats[31], the Labour Party[32], Lithuania's labour unions[33], the Lithuanian Confederation of Industrialists[34] and, some Lithuanian economists[35] and scholars[36].

Among the opponents of a minimum wage in Lithuania are the Liberal Movement party[37], Lithuanian youth organizations (such as the Lithuanian Youth Council and the Lithuanian Liberal Youth)[38], the Regional Association of Small and Medium Enterprises[39], the Lithuanian Free Market Institute (LFMI)[40] and some Lithuanian economists[41].

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[23] Agnieszka Kaminska and Piotr Lewandowski. "The effects of minimum wage on a labour market with high temporary employment," IBS Working Paper No. 7, 2015. Available at: https://ideas.repec.org/p/ibt/wpaper/wp072015.html.
[24] Aleksandra Majchrowska and Zbigniew-Zółkiewski, "The impact of minimum wage on employment in Poland," in Investigaciones Regionales, No. 24, July 16, 2012, pp: 211-39. Available at: http://www.aecr.org/images/ImatgesArticles/2012/12/10_Aleksandra_Majchrowska,_Zbigniew.pdf.
[25] Broniatowska P., Majchrowska A. and Zolkiewski Z., Wynagrodzenie minimalne w Polsce. Czy powinno być zróżnicowane regionalnie?, 2013. Available at: http://bazekon.icm.edu.pl/bazekon/element/bwmeta1.element.ekon-element-000171251103.
[26] Currently the first time job seekers in Poland can by law for a period of one year be paid at 80 percent of the minimum wage.
[27] Government Decision on the Minimum Standard of Living, Minimum Wage and Other Minimum Rates of January 9, 1991, No I-924. Available at: https://www.e-tar.lt/portal/lt/legalAct/TAR.038218A53730
[28] Social Map of Lithuania by The Ministry of Social Security and Labour of the Republic of Lithuania. Available at: http://www.socialiniszemelapis.lt/index.php?1262538155
[29] BNS: Dalia Grybauskaitė is in Favour of Increasing the Minimum Wage (2014). Available at: http://www.delfi.lt/verslas/verslas/d-grybauskaite-pritaria-minimalios-algos-kelimui.d?id=66382970#ixzz3TJCak650
[30] MP Birutė Vėsaitė: Social Democrats Support Labour Unions on Minimum Wage Increases (2011). Available at: http://www3.lrs.lt/pls/inter/w5_show?p_r=618&p_d=116891&p_k=1

Minimum wage increases in Lithuania have been detrimental to the financial standing of businesses, especially small ones, and have led to bankruptcies. As a matter of fact, following an increase in the minimum wage from 700 to 800 Litas in January 2008, the number of initiated bankruptcy proceedings increased by 38.7% in the first half of 2008 and by as much as 50% in the second half of the year. Similarly, after increases in the minimum wage in 2012 and 2013, the number of insolvent companies significantly increased. The 2012 increase in minimum wage was followed by an increase of 28% in the number of initiated bankruptcy proceedings in the following year, while the 2013 increase in the minimum wage was followed by an increase of 21% in the number of initiated bankruptcy proceedings the following year.[42]

To offset the increased labour costs of a minimum wage increase, some businesses in Lithuania have cut jobs or shifted to part-time employment. According to Statistics Lithuania, after an increase in the minimum wage in 2003, the number of full-time workers increased by 4%, whereas the number of part-time workers increased by as much as 34.9%, compared to 2002. Similarly, when the minimum wage was raised twice in 2007, the number of part-time workers surpassed the number of full-time workers by 5.5%.[43] According to a LFMI survey, increases in the minimum wage in 2012 and 2013 affected all companies regardless of their financial situation or proportion of workers earning the minimum wage. However, there was a greater negative impact on business with financial problems and those with a large number of workers on a minimum wage.[44] The survey also showed that the minimum wage increases negatively affected 33% of businesses, because 35% of enterprises had to abandon investment plans, 15% had to replace full-time job contracts with part-time employment and 17% had to cut jobs. In addition, according to Lithuanian Labour Exchange, the minimum wage increase in August 2012 led in one year to 5,200 new individuals registered as unemployed, totalling to 25,600. A year after the increase, the number of unemployed increased by 3,800 and reached a total of 39,000.[45]

[31] BNS: Discussions on Increasing Minimum Wage are Turning into Poker: Andrius Kubilius – 850, other conservatives – 900, Artūras Zuokas – 1,000 Litas (2012). Available at: http://www.15min.lt/verslas/naujiena/finansai/diskusijos-del-minimalios-algos-didinimo-virsta-pokeriu-andrius-kubilius-850-kiti-konservatoriai-900-arturas-zuokas-1-000-litu-662-213430

[32] Loreta Graužinienė to BNS: The Labour Party will Seek an Increase the Minimum Wage (2014). Available at: http://kauno.diena.lt/naujienos/verslas/ekonomika/l-grauziniene-darbo-partija-sieks-mma-didejimo-658633#.VP14m_msWU4

[33] Fuks Erika. Is the Request to Increase the Minimum Wage Real: Possible Scenarios (2013). Available at: http://www.delfi.lt/verslas/verslas/ar-realus-prasymas-didinti-minimalia-alga-galimi-scenarijai.d?id=63484538

[34] The Industrialists will Support the Proposal to Increase the Minimum Wage (2015). Available at: http://lpk.lt/lt/naujienos/mma-2

[35] Gitanas Nausėda: After Increasing the Minimum Wage to 1,509 Litas, Introduction of the Euro Will Be Discredited (2014). Available at: http://www.lrt.lt/naujienos/ekonomika/4/33226/g._nauseda_pakelus_mma_iki_1509_lt_euro_ivedimas_bus_diskredituotas

[36] Romas Lazutka: Minimum Wage can be Different According to Age (2011). Available at: http://www.delfi.lt/verslas/verslas/rlazutka-minimalia-alga-galima-butu-diferencijuoti-pagal-amziu.d?id=45828499

[37] "Valdžia nutarė didinti MMA" in ELTA (June 20, 2012). Available at: http://ekonomika.tv3.lt/naujiena/valdzia-nutare-didinti-mma-26857.html

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Case Study #6: Hungary

The level of minimum wage in Hungary is proposed by the National Economic and Social Council and set annually by a government decree. The first minimum wage was introduced in Hungary on 1 March, 1989 and set at 3700 HUF.

The most vocal advocates of the minimum wage in Hungary are major political parties (Fidesz - Hunharian CIvis Union, Hungarian Socialist party - MSZP and Jobbik) and labor unions (National Confederation of Hungarian Trade Unions - MSZOSZ, National Federation of Workers' Councils – MOSZ and The Forum for the Co-operation of Trade Unions - SZEF).

For many years no organization opposed the minimum wage. However, in recent years, the Hungarian Free Marker Foundation, a free market think tank, has been vocal about the negative effects of the minimum wage.

In Hungary, many economists argue that the minimum wage, which is higher than the productivity level, leads to new unemployment.[46] Analyzing the 2001 minimum wage increase in Hungary, the Hungarian central bank (2009) found negative effects with regard to employment.[47] The same conclusion was drawn in a study by Kertesi and Köllő (2004), which found that the 2001 raise in minimum wage led to a decrease in employment rate of at least 3.5 percent among small businesses of 5-20 people, while also employees at the minimum wage were twice as likely to lose their jobs in the second quarter of 2001.[48]

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Conclusions

The decades-long enforcement of a minimum wage has had effects, but not those that its proponents have claimed. Instead of helping low-skilled and entry level workers, minorities, youth and the unemployed, a minimum wage—when set above the productivity level—ends up harming them by suppressing job opportunities. As such, rather than curing poverty and income inequality, the minimum wage is creating it.

Reason for its failure is that minimum wage laws do not create new resources and, hence, do not create new jobs, spur economic growth or raise the wellbeing of all people.

Contrary to the belief of many, minimum wages do not distribute income from employers to workers, but from workers who lose jobs to workers whose pay is increased as a consequence of the minimum wage.

Rather than pursuing policies such as minimum wage that create winners and losers among the workforce, policymakers should focus on policies that generate economic growth to the benefit of all.

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