MINIMUM WAGE POLICY EFFECTS ON ECONOMIC GROWTH

By

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ABSTRACT

The purpose of this study is to examine the relationship between minimum wage policy and economic growth for the period 2000 – 2005. To achieve the objective, we estimate a growth model by employing the panel ordinary least square (OLS) and panel estimated generalized least square (EGLS) method. A sample consists of 61 countries with and without minimum wage and 33 were used in this study. For the minimum wage measure, we used minimum wage dummy, excess wage and minimum wage ratio to GDP as separate variables. We also include additional variables namely initial GDP, population growth, investment, trade openness, government expenditure and gross enrolment ratio. The results of the study show that, first, countries with minimum wage policy have higher economic growth. Second, the level of minimum wage does not affect economic growth for the countries that have the minimum wage policy. Based on the findings, countries should implement minimum wage policy since it would increase income for the worker and at the same time have positive effect on economic growth. The results also support the minimum wage policy that will be implemented in Malaysia.
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TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Page</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PERMISSION TO USE</td>
<td>i</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>ix</td>
</tr>
</tbody>
</table>

CHAPTER ONE : INTRODUCTION

1.1 Introduction 1
   1.1.1 Overview of the Minimum Wage 3
   1.1.2 Recent Trends of Minimum Wage 5
1.2 Problem Statement 10
1.3 Objectives of the Study 12
   1.3.1 General Objective 12
   1.3.2 Specific Objective 12
1.4 Significance of the Study 12
1.5 Structures of the Study 13

CHAPTER TWO : LITERATURE REVIEWS

2.1 Introduction 14
2.2 Theoretical Review 14
2.3 Empirical Evidences 17
   2.3.1 Minimum Wage and Growth 17
   2.3.2 Minimum Wage and Employment 20
   2.3.3 Minimum Wage and Other Effects 28
2.4 Conclusion 30

CHAPTER THREE : METHODOLOGY

3.1 Introduction 31
3.2 Theoretical Framework 31
3.3 Empirical Model 33
   3.3.1 The Dependent Variable 34
   3.3.2 The Independent Variable 37
3.4 Model Specification 42
3.5 Sample Description 43
<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>Trends in Minimum Wage</td>
<td>7</td>
</tr>
<tr>
<td>Table 3.1</td>
<td>Expected Effect of Variables</td>
<td>42</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Summary of Descriptive Statistics</td>
<td>47</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Summary of Descriptive Statistics II</td>
<td>48</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Correlation Coefficients in the Case Where Minimum Wage is the Dummy Variable</td>
<td>49</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Correlation Coefficients in the Case Where Minimum Wage is the Excess of Minimum Wage over Average Wage</td>
<td>50</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Correlation Coefficients in the Case Where Minimum Wage is the Ratio of Minimum Wage to Average Wage</td>
<td>51</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>Panel OLS Regression Results for GDP Growth Rate and Minimum Wage Dummy</td>
<td>52</td>
</tr>
<tr>
<td>Table 4.7</td>
<td>Panel OLS Regression Results for GDP Growth Rate and Excess Wage</td>
<td>53</td>
</tr>
<tr>
<td>Table 4.8</td>
<td>Panel OLS Regression Results for GDP Growth Rate and Minimum Wage Ratio</td>
<td>54</td>
</tr>
<tr>
<td>Table 4.9</td>
<td>Panel EGLS Estimation Results for Equation 1</td>
<td>57</td>
</tr>
<tr>
<td>Table 4.10</td>
<td>Panel EGLS Estimation Results for Equation 2</td>
<td>60</td>
</tr>
<tr>
<td>Table 4.11</td>
<td>Panel EGLS Estimation Results for Equation 3</td>
<td>62</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1</td>
<td>Monthly Minimum Wage by Region (USD), 31 December 2008 (97 countries)</td>
<td>8</td>
</tr>
<tr>
<td>Figure 1.2</td>
<td>Minimum Wage-fixing Mechanisms by Region, 2009 (105 countries)</td>
<td>10</td>
</tr>
<tr>
<td>Figure 2.1</td>
<td>The Competitive Labour Market</td>
<td>16</td>
</tr>
<tr>
<td>Figure 3.1</td>
<td>Empirical Framework (Model 1)</td>
<td>35</td>
</tr>
<tr>
<td>Figure 3.2</td>
<td>Empirical Framework (Model 2)</td>
<td>36</td>
</tr>
<tr>
<td>Figure 3.3</td>
<td>Empirical Framework (Model 3)</td>
<td>37</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>BLUE</td>
<td>Best Linear Unbiased Estimation</td>
<td></td>
</tr>
<tr>
<td>CPS</td>
<td>Current Population Survey</td>
<td></td>
</tr>
<tr>
<td>COTU</td>
<td>Central Organization of Trade Unions</td>
<td></td>
</tr>
<tr>
<td>EGLS</td>
<td>Estimated Generalized Least Square</td>
<td></td>
</tr>
<tr>
<td>ENROL</td>
<td>Gross Enrolment Ratio</td>
<td></td>
</tr>
<tr>
<td>EW</td>
<td>Excess Wage</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
</tr>
<tr>
<td>GOVEXP</td>
<td>Government Expenditure</td>
<td></td>
</tr>
<tr>
<td>GR</td>
<td>Growth Rate</td>
<td></td>
</tr>
<tr>
<td>GSP</td>
<td>Gross State Product</td>
<td></td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organization</td>
<td></td>
</tr>
<tr>
<td>INIGDP</td>
<td>Initial GDP</td>
<td></td>
</tr>
<tr>
<td>INV</td>
<td>Investment</td>
<td></td>
</tr>
<tr>
<td>MEF</td>
<td>Malaysia Employees Federation</td>
<td></td>
</tr>
<tr>
<td>MW</td>
<td>Minimum Wage</td>
<td></td>
</tr>
<tr>
<td>MWD</td>
<td>Minimum Wage Dummy</td>
<td></td>
</tr>
<tr>
<td>MWRATIO</td>
<td>Minimum Wage Ratio</td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
<td></td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
<td></td>
</tr>
<tr>
<td>POPG</td>
<td>Population Growth</td>
<td></td>
</tr>
<tr>
<td>OPEN</td>
<td>Trade Openness</td>
<td></td>
</tr>
<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
<td></td>
</tr>
</tbody>
</table>
1.1 Introduction

‘Why, when the economist gives advice to his society, is he so often coolly ignored? He never ceases to preach free trade...and protectionism is growing in the United States. He deplores the perverse effects of minimum wage laws, and the legal minimum is regularly raised each 3 or 5 years.’ – George Stigler, cited in Rustici (1985).

According to international standards, the minimum wage is the lowest monetary value which may be paid to workers in a region and a point of time, either through existing acts or through collective bargaining. In some countries the minimum wage is determined by law, while in others it is determined through dialogue or negotiation, or through collective agreements between workers and employers. The minimum wage has the purpose of safeguarding the income and living conditions of workers who are considered to be the most vulnerable in the labor market.

The minimum wage has long been a controversial issue since its passage in the Fair Labor Standard Act of 1938. Most of the economists argue that the minimum wage may price out low-skilled workers, discriminate against minorities, and cause unemployment to rise. However, its supporters typically argue that it actually can reduce poverty and increase the income of the lowest-paid workers.
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REFERENCES


