

**THE IMPLICATION OF MINIMUM WAGE REGULATION ON  
EMPLOYMENT RATE IN SELECTED EUROPEAN COUNTRIES: A PANEL  
DATA STUDY**

**By**

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## ABSTRAK

Peranan dasar gaji minimum terus dibahaskan dan dipersoalkan sehingga kini dalam konteks kajian ekonomi antarabangsa dan sumber manusia. Penyelidikan ini meliputi kajian empirikal terdahulu dengan menyediakan beberapa bukti daripada ujian panel data dari tempoh 1999-2008 terhadap Populasi Bekerja bagi negara-negara terpilih di Eropah. Dalam kajian ini, pembolehubah bersandar adalah kadar pekerjaan dan diuji dengan pelbagai pembolehubah bebas yang kuat mewakili bekalan buruh dan sisi permintaan, bersama-sama dengan faktor institusi yang meliputi gaji minimum, penyertaan buruh dengan setiap tahap pencapaian pendidikan, produktiviti buruh dan tahap perlindungan pekerjaan. Model ekonometrik telah ditakrifkan dengan menggunakan *Pooled Ordinary Least Square*, *Fixed Effects (FE)* dan *Random Effects (RE)*. Seterusnya dilanjutkan dengan ujian tambahan *Hausman Test (HT)* bertujuan menentukan antara kesan rawak dan tetap bagi menguji dan menganalisis kesan gaji minimum pada pekerjaan secara umumnya di Eropah. Kesimpulan utama kajian ini boleh dirumuskan seperti berikut: i) gaji minimum telah memberi kesan positif ke atas pekerjaan di Eropah tahun 1999-2008, ii) kesan buruk bagi populasi perkerjaan biasanya paling terjejas pada buruh yang mana kurangnya pencapaian pendidikan dan iii) terdapat beberapa bukti bahawa keseragaman gaji minimum juga memberi impak buruk kepada pekerjaan disebabkan oleh faktor-faktor lain seperti produktiviti buruh dan program perlindungan pekerjaan. Akhirnya kertas kajian ini menyentuh beberapa dasar alternatif dan memberi tumpuan kepada implikasi dasar polisi penduduk yang bekerja di Eropah demi memastikan kestabilan ekonomi.

## ABSTRACT

The role of minimum wage policy continues to be debated and experienced in the literature on international and human resources economies. This paper extends the previous empirical studies on the issues by providing some evidence from panel data studies from period 1999-2008 on working population of selected countries in Europe. In this study, the determine dependent variable is employment rate and to be tested with various of strong independent variables which represent labor supply and demand sides, together with institutional factor that contains minimum wage, labor participation with each level of educational attainment, labor productivity and strictness of employment protection. The econometric model has been defined by using *Pooled Ordinary Least Square, Fixed Effects (FE), Random Effects (RE)*. In further extend *Hausman Test (HT)* test is needed to estimates random and fixed effects to check and analyze the impact of minimum wage on employment generally in Europe. The main conclusion of the study may be summarized as follows: i) minimum wage has had a positive impact on employment in Europe of year 1999-2008, ii) the adverse effect on working population are generally goes to labor with very least educational attainment and iii) there is some evidence that a uniform minimum wage may be particularly harmful to employment due other factors such as labor productivity and strictness of employment. Finally this paper draws some alternative policy implications for further studies to focus on the working population in Europe, to ensure the economic stability.

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## TABLE OF CONTENTS

### *Pages*

|                         |     |
|-------------------------|-----|
| PERMISSION TO USE.....  | i   |
| ABSTRAK .....           | iii |
| ABSTRACT.....           | iv  |
| ACKNOWLEDGEMENTS .....  | v   |
| TABLE OF CONTENTS ..... | vi  |
| LIST OF TABLES .....    | x   |
| LIST OF FIGURES .....   | xi  |
| ABBREAVIATIONS .....    | xii |

### CHAPTER ONE : INTRODUCTION

|                                    |   |
|------------------------------------|---|
| 1.1 Background .....               | 1 |
| 1.2 Problem Statement .....        | 4 |
| 1.3 Objective of the Study .....   | 7 |
| 1.4 Significant of the Study ..... | 7 |
| 1.5 Scope of the Study .....       | 9 |
| 1.6 Structure of the Study .....   | 9 |

## **CHAPTER TWO : MINIMUM WAGES AND LABOR FORCE**

### **COMPOSITION IN EUROPE**

|                                                           |    |
|-----------------------------------------------------------|----|
| 2.1 Introduction.....                                     | 10 |
| 2.2 Europe Minimum Wage Regulation .....                  | 11 |
| 2.3 European Nation Minumum Wage Characteristics .....    | 12 |
| 2.4 Education and Human Capital In Europe .....           | 16 |
| 2.5 Related Minimum Wage Issues and Trends in Europe..... | 20 |
| 2.6 Conclusion.....                                       | 22 |

## **CHAPTER THREE : THEORETICAL FRAMEWORK**

|                                                      |    |
|------------------------------------------------------|----|
| 3.1 Introduction.....                                | 23 |
| 3.2 Theoretical Framework.....                       | 23 |
| 3.2.1 Efficiency Wage Theory .....                   | 23 |
| 3.2.2 Shapiro and Stiglitz Model .....               | 27 |
| 3.2.3 Implicit-Contract Model .....                  | 30 |
| 3.2.4 Monopsony Competitive Labor Market Model ..... | 31 |
| 3.2.5 The Harris-Todaro Model.....                   | 33 |
| 3.3 Conclusion .....                                 | 35 |

## **CHAPTER FOUR : LITERITURE REVIEW**

|                                                           |    |
|-----------------------------------------------------------|----|
| 4.1 Introduction.....                                     | 36 |
| 4.2 Empirical Evidence .....                              | 36 |
| 4.2.1 Lower Poverty, Increase Unemployment Rate .....     | 36 |
| 4.2.2 Higher Unemployment Rate, Increase Poverty .....    | 37 |
| 4.2.3 Educational Attainment of Labor Participation ..... | 38 |

|                                                              |    |
|--------------------------------------------------------------|----|
| 4.3.4 Implication towards Covered and Uncovered Sectors..... | 39 |
| 4.2.5 Reservation Wages.....                                 | 42 |
| 4.2.6 Labor Market Institution and Productivity.....         | 43 |
| 4.3 Conclusion .....                                         | 45 |

## **CHAPTER FIVE : DATA AND METHODOLOGY**

|                                                          |    |
|----------------------------------------------------------|----|
| 5.1 Introduction.....                                    | 46 |
| 5.2 Sources of Data.....                                 | 47 |
| 5.3 Model Specification and Technique Data Analysis..... | 47 |
| 5.3.1 Pooled OLS Estimation.....                         | 50 |
| 5.3.2 Fixed and Random Effects.....                      | 51 |
| 5.3.3 Hausman Test.....                                  | 52 |
| 5.4 Conclusion .....                                     | 53 |

## **CHAPTER SIX : RESULT AND ANALYSIS**

|                                                                      |    |
|----------------------------------------------------------------------|----|
| 6.1 Introduction.....                                                | 54 |
| 6.2 Descriptive Analysis of Dependent and Independent Variables..... | 54 |
| 6.3 Panel Data Setting.....                                          | 55 |
| 6.4 Results of Pooled Regression.....                                | 56 |
| 6.5 Results of Fixed Effects .....                                   | 58 |
| 6.6 Results of Random Effects.....                                   | 59 |
| 6.7 Results of Hausman Test.....                                     | 60 |
| 6.12 Conclusion.....                                                 | 62 |

## **CHAPTER SEVEN : CONCLUSION AND POLICY IMPLICATION**

|                              |    |
|------------------------------|----|
| 7.1 Conclusion.....          | 63 |
| 7.2 Policy Implications..... | 64 |
| 7.3 Limitation of Study..... | 66 |
| 7.4 Suggestions.....         | 66 |

|                 |  |
|-----------------|--|
| REFERENCES..... |  |
|-----------------|--|

|                                |  |
|--------------------------------|--|
| APPENDIX -DATA AND RESULT..... |  |
|--------------------------------|--|

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## LIST OF TABLES

|           |                                                                              |    |
|-----------|------------------------------------------------------------------------------|----|
| Table 2.1 | Statistic for Country Variation between Labor Productivity<br>and Employment | 21 |
| Table 6.1 | Descriptive Analysis of Dependent and Independent Variables                  | 54 |
| Table 6.2 | Results of Pooled OLS Regression                                             | 56 |
| Table 6.3 | Results of Fixed Effects                                                     | 58 |
| Table 6.4 | Results of Random Effect                                                     | 59 |
| Table 6.5 | Three Different Estimator of Employment Rate Equation.                       | 60 |

## **LIST OF FIGURES**

|            |                                                                                                                |    |
|------------|----------------------------------------------------------------------------------------------------------------|----|
| Figure 2.1 | National Minimum Wage in Europe 2012                                                                           | 14 |
| Figure 2.2 | Job Earning in Each Level of Education in Europe                                                               | 17 |
| Figure 2.3 | Composition of Employment by Economic Activity                                                                 | 18 |
| Figure 2.4 | Percentage 25-26 year olds in Employment by Level of Education (2009)                                          | 19 |
| Figure 3.1 | Relationship between Wages and Efficiency                                                                      | 24 |
| Figure 3.2 | Efficiency Wages                                                                                               | 26 |
| Figure 3.3 | Expression of Value Expected Equation                                                                          | 30 |
| Figure 6.1 | Employment wage Trends on selected countries in Europe from year 1999-2008 (after minimum wage implementation) | 61 |

## **ABBREVIATIONS**

|      |                                                       |
|------|-------------------------------------------------------|
| UK   | United Kingdom                                        |
| EU   | European Union                                        |
| ILO  | International Labor Organizational                    |
| MW   | Minimum Wage                                          |
| OECD | Organization for Economic Cooperation and Development |
| GDP  | Gross Domestic Product                                |
| MRPL | Marginal Revenue Product of Labor                     |
| EPL  | Employment Protection Legislation                     |
| KILM | Key Indicator of the Labor Market                     |
| OLS  | Ordinary Least Square                                 |
| RE   | Random Effect                                         |
| FE   | Fixed Effect                                          |
| HT   | Hausman Test                                          |
| CLM  | Classical Linear Model                                |
| BLUE | Best Linear Unbiased Estimation.                      |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

A system of minimum wages comes along with other criteria of economic and social policy address to reduce pay differential for a standard decent living in some places. There are varieties of factors influence wages, but basically the more money you gain at jobs, the greater ability to afford living cost and meet the needs. Likewise, there are many other factors need taken into consideration before setting the wage like wage differential, elasticity of demand, political power and other impact as well as incentives to get jobs, wage equality and so on. Many countries in Europe operate statutory or collectively determined minimum wage rate. The rate of minimum wage is regularly adjusted to reflect developments in labor market. The amount is not necessarily to be updated every year, nor does an adjustment always result in wage increase. However, binding minimum wages are in place in several union and occupations. Based on 2013 data that has been updated by *Eurostat*, the highest minimum wage can be found in Luxembourg, starting in year 2012 with 1,290.21 euro monthly. It consistently increases on average 48.67 euro in each year within 12 years policy implementation. Countries like Netherlands, France, Belgium, Ireland and United Kingdom (UK) follow this ranking with wages more than

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