

Can Minimum Wage eliminate Poverty? Case Study of Croatian and Slovenian Labour Market

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The historical role of the minimum wage was that of a social nature since it was introduced in order to protect the most vulnerable groups in the labour market. Minimum wage policy nowadays goes beyond its social character and it is an important economic and political question. In this paper we will focus on the social nature of the minimum wage instrument and explore the extent to which the minimum wage helps in reducing poverty in Croatia and Slovenia, especially the poverty among women workers.

The literature on the minimum wage impact on poverty is very extensive, but still we cannot extract unambiguous conclusions. Gramlich's first empirical study from 1976, which focuses on examining correlation between minimum wage and poverty, concludes that *"minimum wages will never have strong redistributive effects"* (Neumark, Wascher, 2008: 144). The discussion about the minimum wage and poverty interconnection yields opponents and proponents in terms of accepting minimum wage as a part of the social policy. The most common argument of opponents (Burkhauser, Sabia, 2007: 263) is that the poor are not, in some larger scale, part of the labour market, concluding that minimum wage is an insignificant instrument to help them exit from deprivation. Those among the poor who are working (poor workers) can also be excluded from minimum wage influence due to law of non-compliance and atypical work arrangements. On the other side, supporters of the minimum wage as a social policy instrument, believe that low-wage jobs are characterized by poor working conditions, lack of fringe benefits and low job security for which minimum wage can act as a partial compensation (Devereux, 2007: 900). According to some authors, who delineated from the neoclassical model and its assumptions, minimum wage and poverty have an inverse relationship (Lustig, McLeod, 1997: 63), while according to others there is no concrete evidence that minimum wage helps poor families or those with low income (Neumark, Wascher, 2008: 179). Based on these mixed opinions and results, we can conclude that it is necessary to further develop an empirical and theoretical discussion of the social role of minimum wage.

Our study will examine the influence of the minimum wage variable (expressed in nominal and real net and gross terms, but also as a ratio to the average wage) on poverty risk rate, with special emphasis on women in Croatian and Slovenian labour market, with the inclusion of control labour market variables (unemployment rate, participation rate, wage level) and demographic variables (specific labour market groups to population ratio). Women are selected because of their large share among minimum wage recipients. We will use time series analysis considering the 10-year time span from 2005 to 2014. Results indicate the need for minimum wage policy makers to carefully plan their

¹ This work has been fully supported by the Croatian Science Foundation under the project number 9481 Modelling Economic Growth - Advanced Sequencing and Forecasting Algorithm. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the authors and do not necessarily reflect the views of Croatian Science Foundation.

decisions as well as the need to actively engage in a joint dialog among labour market stakeholders on the social nature of minimum wage and its limitations.

Keywords: minimum wage, poverty, at-risk poverty rate, social policy, women

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