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

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Abstract. The paper examines the relation between the minimum wage and the at-the-risk-of-poverty rate, with special emphasis on female workers in Croatian and Slovenian labour market. Women are selected because of their large share among minimum wage recipients. The empirical analysis applies the panel regression model using the data between 2005 and 2014. Results indicate a weak negative relation between minimum wage and at-risk-of-poverty rate of employed women. This implies that the minimum wage policy makers need to carefully plan their decisions as well as to actively engage in a joint dialog among labour market stakeholders on the social nature of minimum wage, especially in relation to poverty, and its limitations.

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

1 Introduction

The historical role of the minimum wage was that of a social nature since the rationale of the minimum wage was to assure workers a decent wage   and therefore raising the incomes of poor or near-poor families (Neumark and Wascher 2002), contributing to reduction of wage inequality and poverty. 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 simplistic

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).

Objective of this study is to study the impact of the minimum wage increases on the poverty rates, especially on those of women. Women are selected because of their large share among minimum wage recipients and their disadvantaged position in the labour market compared to men . We will use time series analysis considering the 10-year time span from 2005 to 2014. After the introductory part, we examined the literature which considers interconnection between minimum wage and poverty. Our analysis covers to different but geographically close labour markets, i.e. Croatia and Slovenia, so following two sections cover minimum wage and poverty indicators in Croatia and Slovenia. We continue with the study of existence of relationship between our two main concepts, minimum wage and poverty. The final section concludes.

2 Literature Overview

Several studies, mostly for the US, show that only a small fraction of poor families have minimum wage earners; in these economies, the minimum wage is not an important instrument for bringing workers out of poverty. Gramlich (1976) is the first to explore the relation between the minimum wage and poverty. He shows that many minimum wage workers, especially teenage workers, are members of the higher-income families, concluding that "minimum wages will never have a strong redistributive effects" (Gramlich 1976, 445). Similarly, Card and Krueger (1995, 285) point out that the minimum wage is a "blunt instrument for redistributing income to the poorest families." Similar findings are reported by Burkhauser and Sabia (2007, 266), who find that "the majority of low-wage workers are not household heads … and even greater share are not poor household heads." In addition, Marx and Nolan (2012) show that there is a weak overlap between low pay and poverty, ranging from five to ten percent in most industrialized economies, confirming that poor households are generally not comprised of workers and that most low-paid workers live in household with more than one earner and of which they are not the primary earner.

There has been only little empirical research on the effects of the minimum wages on poverty, mostly showing that the minimum wage increases had no effect on poverty. Using the data for 1989 and 1991 for the US, Card and Krueger (1995) studied the effect of minimum wage changes on state poverty rates. The authors found that a higher fraction of workers affected by the increases of the minimum wage reduced poverty, however the effects became small and statistically insignificant when controls for changes in the employment and unemployment rates were included in the model. Burkhauser and Sabia (2007) upgraded the Card and Krueger study by studying the minimum wage changes during the 1988–2003 period, confirming that minimum wage reduced poverty, yet again the estimates became statistically insignificant when controls for male unemployment rates were added. Similarly, Müller and Steiner (2008) simulated the effect of the introduction of a nationwide legal minimum wage in Germany and showed that the minimum wage was ineffective in reducing poverty, mainly due to the existing system of means-tested income support. On the other hand, Addison and Blackburn (1999) found that minimum wage increases in the 1983–1996 period reduced poverty rates among junior high school dropouts.

Major drawbacks of studying the effect of minimum wage increase on poverty rates are that these results do not explain how the minimum wage affects poverty overall and disemployment effects are downplayed (Neumark and Wascher 2008).

The second group of studies analyze the minimum wage effects on poverty by examining family income changes. Neumark and Wascher (2002) studied the effects of minimum wages on the transitions into and out of poverty and found no evidence that minimum wages helped in reducing poverty. Their findings showed that, over a one- to two-year period, the minimum wage increased both the probability that poor families escaped poverty and the probability that previously non-poor families fell into poverty. Although the estimated increase in the probability to transition into poverty was larger, the difference was statistically insignificant. On the other hand, they found that minimum wages tend to boost the incomes of poor families that remain below the poverty line. Authors concluded that minimum wage increases to large extent resembled income redistribution among low-income families than income redistribution from high- to low-income families.

According to Fields and Kanbur (2005) there are some situations in which minimum wage increases the probability of entering poverty while in some other cases poverty rates can be decreased. Sometimes that interconnection does not exist. They strongly accentuated the fact that standard neoclassical model, in which raising minimum wage increases unemployment rate, is too simplistic. According to their model, that impact depends on four parameters:

- how high the minimum wage is relative to the poverty line (if minimum wage is above the poverty line, increasing minimum wage will increase also the poverty);
- how elastic the demand for labor is (elastic demand for labor increases poverty level)
- how much income-sharing takes place (income spillover on employed and unemployment while increasing minimum wage); [2]
- and how sensitive the poverty measure is to the depth of poverty (difference between poverty line).

Beside poor workers and low-wage employees, one other important group that is often analyzed are informal workers and effect that can be seen in terms of increasing minimum wage – "El Farol" effect (Freeman, 2010). If minimum wage increases in formal economy, it has an effect on informal part of the economy because minimum wage becomes the reference point for determining wages in the informal economy. This is an important case for countries, which have a high share of informal sector.

One of the rationales for the minimum wage is to redistribute earnings to low-paid workers (Freeman, 1996), thereby raising the incomes of poor or near-poor families and thus contributing to reduction of wage inequality and poverty (Neumark and Wascher 2002). Minimum wages therefore constitute an important pillar of minimum income protection for workers.

To summarize, the literature on the effects of the minimum wage on poverty offers little evidence of the effectiveness of this instrument as the anti-poverty measure. Among drawbacks of this literature are the facts that it does not explain the mechanism of how the minimum wage affects poverty, and that it downplays disemployment effects (Neumark and Wascher 2010).

3 Minimum Wage and Poverty Indicators in Croatia and Slovenia

In this section we present minimum wage development and poverty indicators in Croatia and Slovenia.

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[2] Perfect income sharing is a situation the income is equal to wage that an individual has. Poverty will be increased if minimum wage increases in the situation when demand for labour elasticity is higher than 1.

3.1 Case study: Croatia

Croatian national Minimum Wage Law was introduced in July 2008. The law defined minimum wage level and process of its calculation and also the process of monitoring its implementation. Prior to 2008 the lowest monthly wage was regulated by collective agreement. Collective Agreement on Lowest Wage Level was set in 1998 by which it was determined that the lowest gross wage cannot be lower than the lowest basis for calculating pension and disability contributions. Until 2003 the Ministry of Finance defined the lowest basis with respect to the Law of Mandatory Insurance and calculated it as a product of last year average wage (from January to August) and 0.35 coefficient. In practice, the lowest monthly wage was identified as a minimum wage, yet that was not defined by specific law. As many workers were not covered by collective agreements and therefore Croatia recorded a high non-coverage with the lowest wage, it was necessary to introduce a statutory nation-wide minimum wage (Nestić 2010, 87).

Croatia introduced the minimum wage in 2008 with the adoption of the Minimum Wage Law, which stipulates that the right to a minimum wage have all workers who work in the Republic of Croatia. National minimum wage level is determined for a full-time employee (40 work hours per week), while the minimum wage level for a part-time employee can be determined as a proportion in relation to a full-time minimum wage. In 2013 a new Minimum Wage Law was introduced which changed the basis for determining minimum wage level and it was more relied on social indicators, at least for that first year of introduction. In the following years the Government, based on the Ministry of Work and Pension System' recommendation, determined a minimum wage level. We present the nominal gross minimum wage level in Croatia in Figure 1.

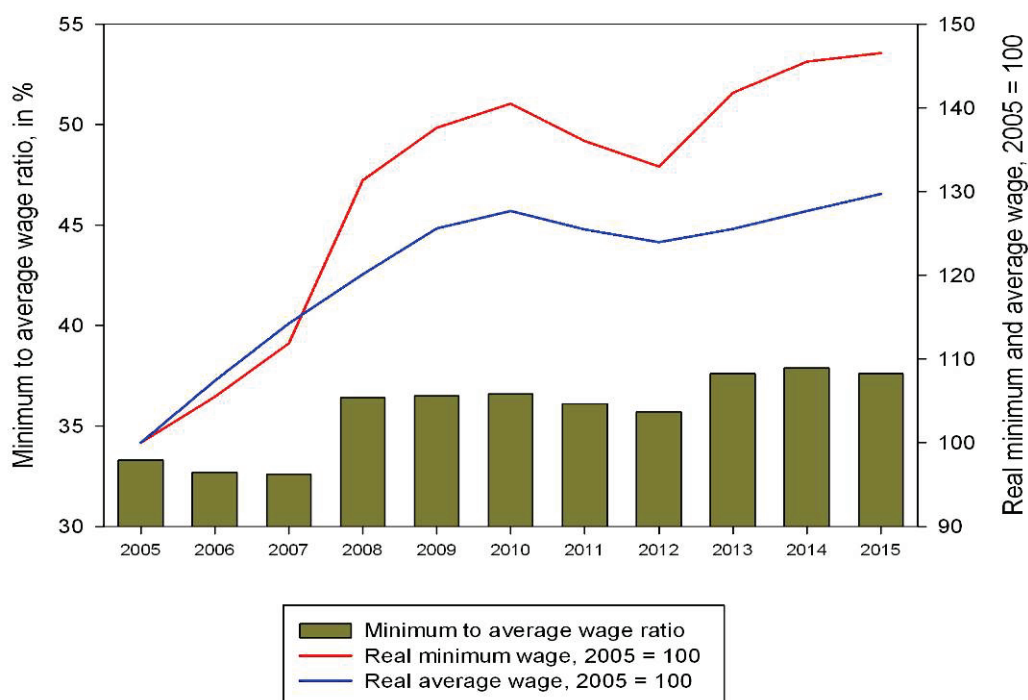**Figure 1**: Nominal gross minimum wage in Croatia (in Euro), 2005–2015
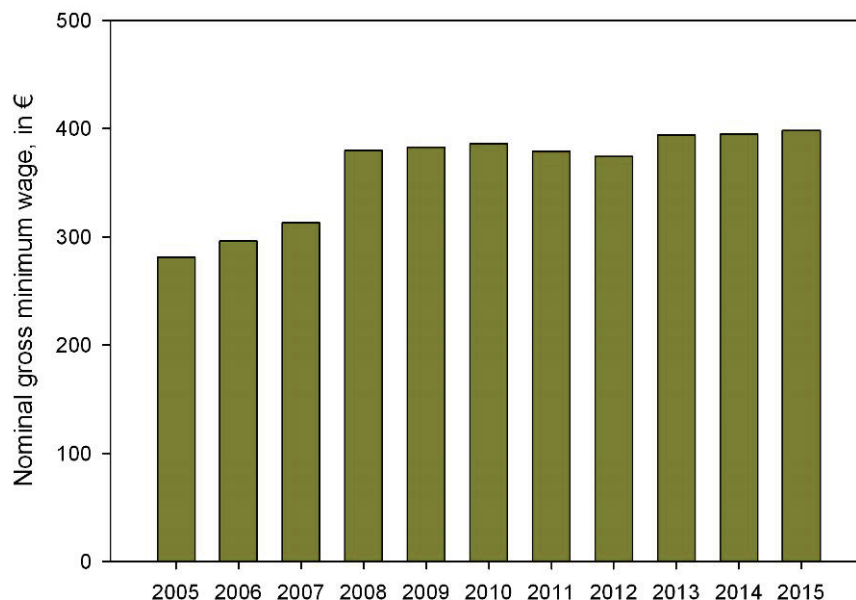
Source: Authors' calculation based on data from Statistical Office of the Republic of Croatia.

As can be seen from Figure 2, Croatia recorded the highest annual nominal minimum wage increase in 2008 (the minimum wage increased for 19.5 % in reference to 2007) when the new Minimum Wage Law was introduced. On average, the annual minimum wage growth rate was 3.9% from 2005 to 2015. Minimum wage legislation in 2008 and 2013 had also strongly increased the minimum wage to

average wage ratio – from 2008 onwards the ratio is around 35%. Moreover, we can also observe that the real minimum wage in Croatia recorded a higher growth rate than average wage.. That difference in growth rates was the highest in 2008 and 2013 when the minimum wage legislation was introduced and later changed.

Figure 2: The ratio between the minimum and average gross wage, real minimum wages and real average gross wages in Croatia, 2005–2015
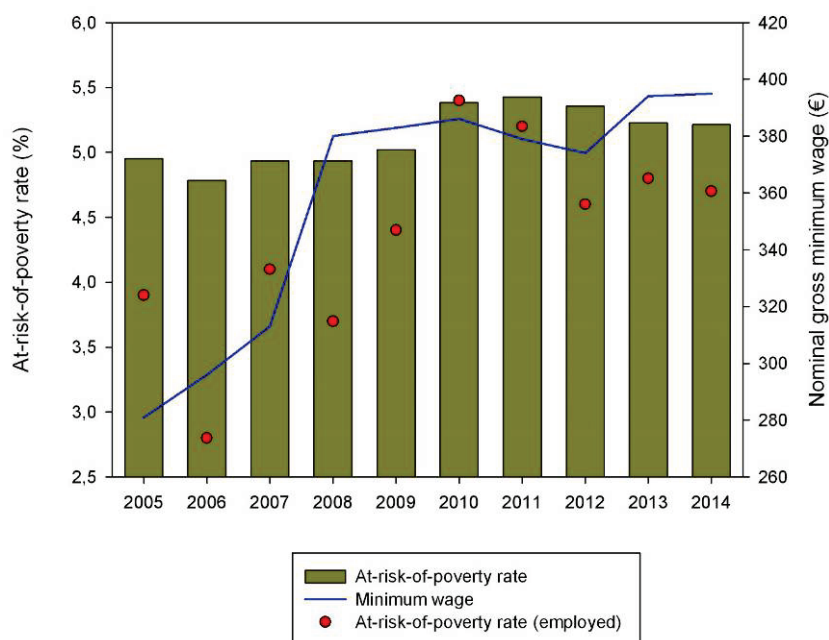

Source: Authors' calculation based on data from Statistical Office of the Republic of Croatia.

Another important indicator of the minimum wage policy are minimum wage recipients, i.e. their share in the total number of employed, including their profile, as well as minimum wage sectors' distribution in an economy. By analyzing different sources in Croatia (eg.,individual report on receipts, taxes and contributions (IRR) and data coming from the official survey by National Statistical Office (monthly surveys for employers, Labour Force Survey - LFS)), we observe great differences in the percentage of minimum wage recipients - the estimations range from 3% (source is IRR) to 13% (source is LFS). Minimum wage sectors in Croatia, i.e. sectors in which more than 15% of sector's workers are minimum wage recipients, are the following private sectors: textile and clothes industry, wood and furniture industry, construction and security industry.

Since minimum wage is for low wage workers often the only source of income, one of the main declaring goals of minimum wage policy is reducing poverty among workers and enhancing the life quality. In that context it is important to observe poverty indicators in comparison to minimum wage level and their developments in Croatia.

Figure 3: At-risk-of-poverty rate and minimum wage, 2005–2014, Croatia

Source: Authors' calculation based on data from Statistical Office of the Republic of Croatia.

As seen in Figure 3, despite of increasing minimum wage levels through observed time period, at-the-risk-of-poverty rate is increasing.[3] Same trend can be seen for at-the-risk-of poverty rate of employed people. This descriptive fact can lead to the conclusion that the minimum wage is not the only tool in combating poverty among workers.

3.2 Case study: Slovenia

In Slovenia, a legally mandated minimum wage was introduced in 1995. The concept of the minimum wage replaced the system of "guaranteed wage" – a relic from the socialist past that relied on solidarity to guarantee the payment of minimum wages. The 1995 minimum wage law reflected the consensus among social partners to raise the prevailing minimum gross earnings to about 40 percent of the average national gross wage. It is estimated that at the time of introduction, the minimum wage de-facto increased by 48 percent. Since 1995, minimum wage legislation has undergone numerous changes, most of them concerning the level of the minimum wage and the adjustment mechanism of the minimum wage to macroeconomic parameters (Kresal 2001, Brezigar Masten et al. 2010).

The most substantial changes in minimum wage legislation were introduced with the February 2010 Law on Minimum Wages. First, the law strongly increased the amount of the minimum wage – from 597 EUR to 734 EUR gross, or by 22.9 percent (see Figure 4) – to correspond to the value of the minimum consumption basket per person (see IMAD 2013). Second, the law altered the adjustment mechanism of the minimum wage to macroeconomic parameters. The new law introduced automatic, full indexation to consumer price index growth – and allowed for additional increases to reflect wage, employment or GDP growth. Because of the unprecedented rate of increase, the February 2010 law

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[3] At-risk-of-poverty rate is a percentage of persons with the equivalised income below the at-risk-of-poverty threshold. The threshold is calculated for the population as a whole and is expressed in the terms of the equivalised income taking into account the size and content of a household.

stipulated that employers could apply for a gradual transition – consisting of three discrete jumps – to the new mandated minimum wage, to be completed by December 31st, 2011.

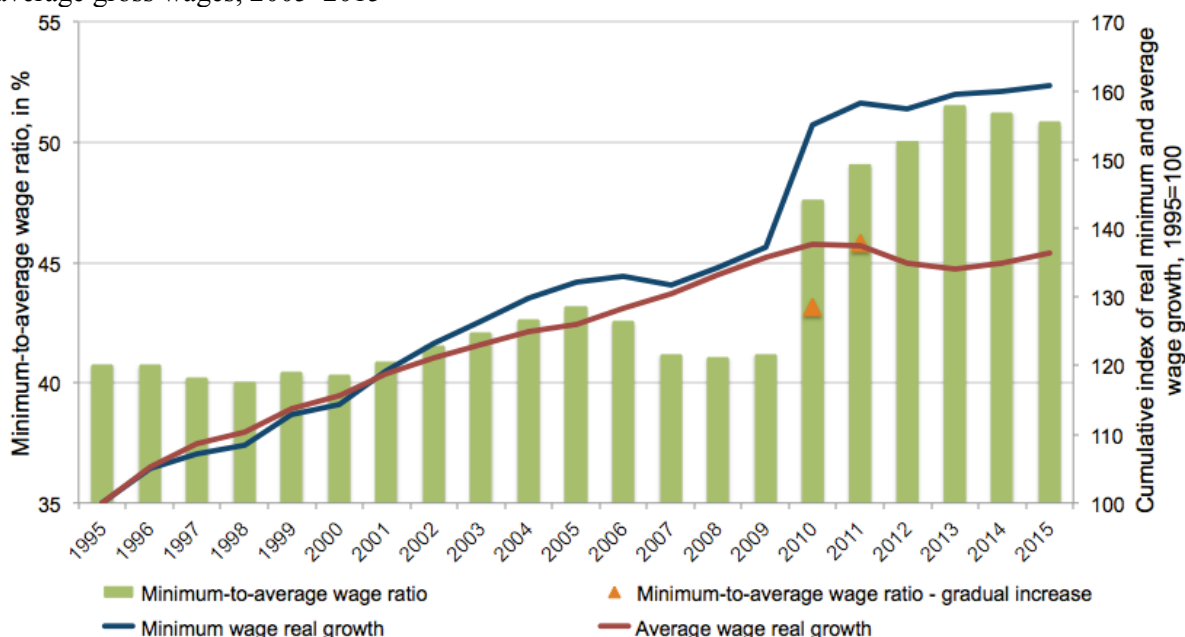**Figure 4**: Gross minimum wage in Slovenia in €, 2005-2014
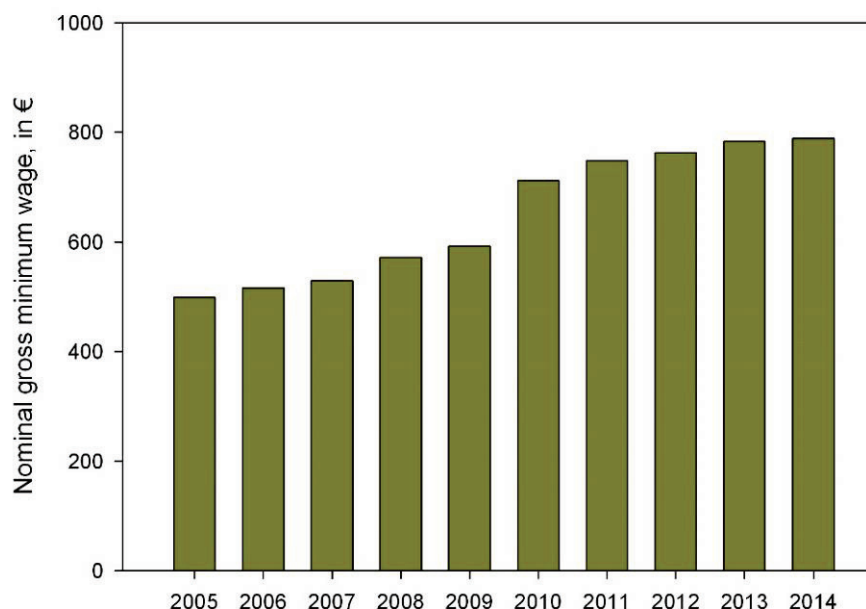
Sources: Authors' calculation based on data from Statistical Office of the Republic of Slovenia.

The February 2010 Minimum Wage Law strongly increased the ratio between the minimum and the average nominal wage and helped the real minimum wage grow much faster than average real wage. In 2009, the ratio between the minimum and the average nominal gross wage was 41.2 per cent, and it increased to 47.6 per cent in 2010 (or to 43.2 for firms with gradual adjustment schedule), to 49.1 per cent in 2011 (or to 45.8 for firms with gradual adjustment schedule), to 50 per cent in 2012 and to 51.5 per cent in 2013. In 2014 the ratio decreased to 51.2 per cent, in 2015 to 50.8 per cent in 2015 (Figure 5). Moreover, the February 2010 Minimum Wage Act created a huge divergence of growth between real minimum gross wage and real average gross wage. Compared to 2009, by 2015 the minimum wage in real terms increased by 33 per cent (by 22.5 per cent in 2010 alone if taking into account regular minimum wage – see Figure 1). In contrast, reflecting the decline of general economic activity as well as austerity measures in the public sector, the real average wage recorded growth only in 2010, when it grew by 1.8 per cent, to be followed by small, steady decreases during 2011–13.

The March 2010 increase of the minimum wage brought Slovenia to the forefront among the EU countries by the ratio of the minimum to the average wage. Among all 21 EU Member States that mandate a national minimum wage, in 2014 this ratio was the highest in France (49.5 per cent), followed by Slovenia (49.4 per cent) and Luxembourg (47.6 per cent). Slovenia's ratio exceeded the average of all 21 EU Member States by nine percentage points – in most countries, this ratio ranged between 30 and 40 per cent. Slovenia held second place, again behind France, also by the ratio of the minimum to the median wage. Among all EU countries with mandatory minimum wage Slovenia recorded the highest increase in the minimum-to-average wage ratio between 2009 and 2014 (23.2 per cent), followed by Romania (16.1 per cent) and Hungary (15.5 per cent), whereas in seven EU countries this ratio decreased.

Figure 5: The ratio between the minimum and average gross wage, real minimum wages and real average gross wages, 2005–2015
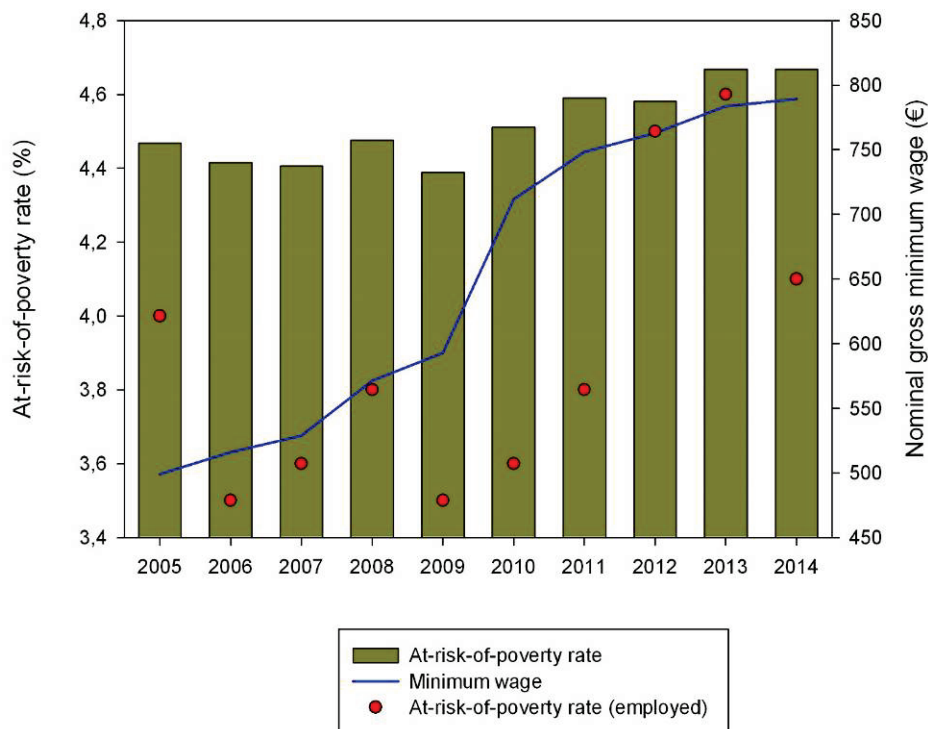

Sources: Authors' calculation based on data from Statistical Office of the Republic of Slovenia (2014) and overview of minimum wage legislation.

It comes as no surprise that in the wake of February 2010 Minimum Wage Law, the number of minimum wage earners more than doubled. In February 2010, there were 17,552 minimum wage earners – 2.7 percent of total workforce, and in March 2010 that number increased to 43,325 – 6.7 percent of total workforce. The number of minimum wage earners increased also in subsequent years so that in 2013, on average, there were 50,569 minimum wage earners – 8.3 percent of the workforce. The vast majority of minimum-wage earners (84 percent in 2013) were employed in the private sector. As regards sector of activity, almost 80 percent of all minimum wage earners was employed in four industries: manufacturing (31 percent), retail (18 percent), other business services (15 percent) and construction (12 percent). All together, market services employed 68 percent of all minimum wage earners (data for December 2013).

Figure 6 presents the at-risk-of-poverty rate and minimum wage development in Slovenia through the 2005–2014. We can observe a slight fall in the at-risk-of-poverty rate in 2009, especially among employed, nevertheless in future years at-risk-of poverty rate increased, despite the increases of the minimum wage. This increase was even more pronounced among workers employed. Based on the descriptive statistics, we can not claim that there is a relation between minimum wage increase and poverty rates.

Figure 6: At-risk-of-poverty rate and minimum wage, 2005–2014, Slovenia

Sources: Authors' calculation based on data from Statistical Office of the Republic of Slovenia.

Important indicator for studying the relation between minimum wage and poverty is the ratio between minimum wage and poverty threshold in net values for single person household. As can be seen from Figure 7, the minimum wage in Croatia after its introduction in 2008 exceeds the poverty threshold, while in Slovenia this is not the case – in 2014 minimum wage presented around 90 % of the poverty threshold value. These data are in favor of arguments of the proponents of minimum wage, who state that the minimum wage is a tool against poverty; however it must be noted that not all minimum wage earners are in single person household. Many of them are part of the households with persons earning higher wages, so the poverty threshold is not significant in their case. For example, in Croatia 62 % of minimum wage recipients are married, 48 % live in rural areas, 90 % of them do not want to work more hours, so obviously they have other means of income, probably from other household members, to rely on.

Figure 7: Minimum wage to poverty threshold (net) for single person household, 2005 – 2014, Croatia vs. Slovenia
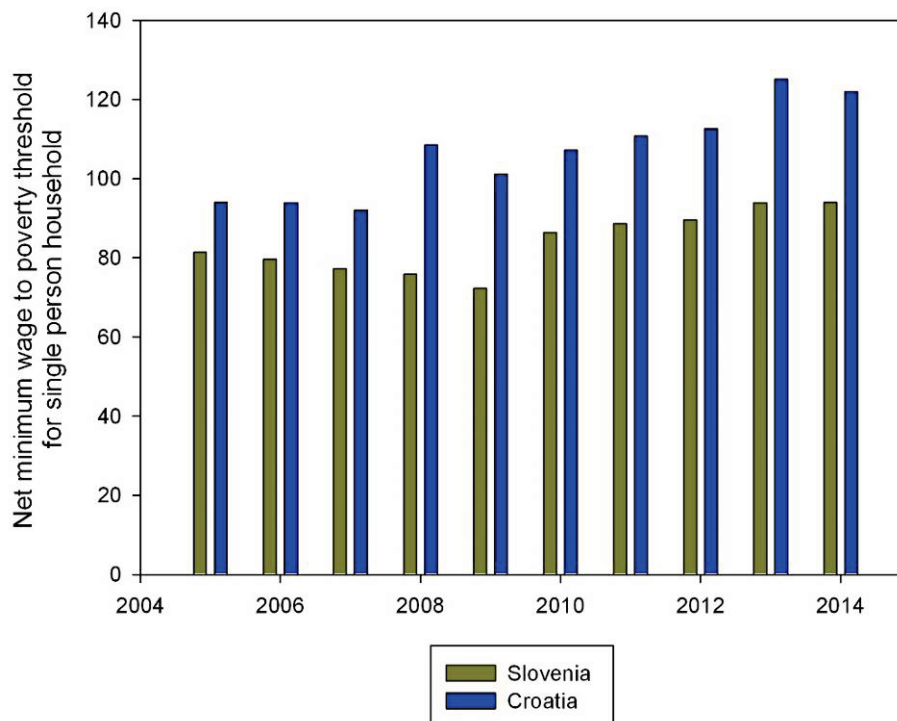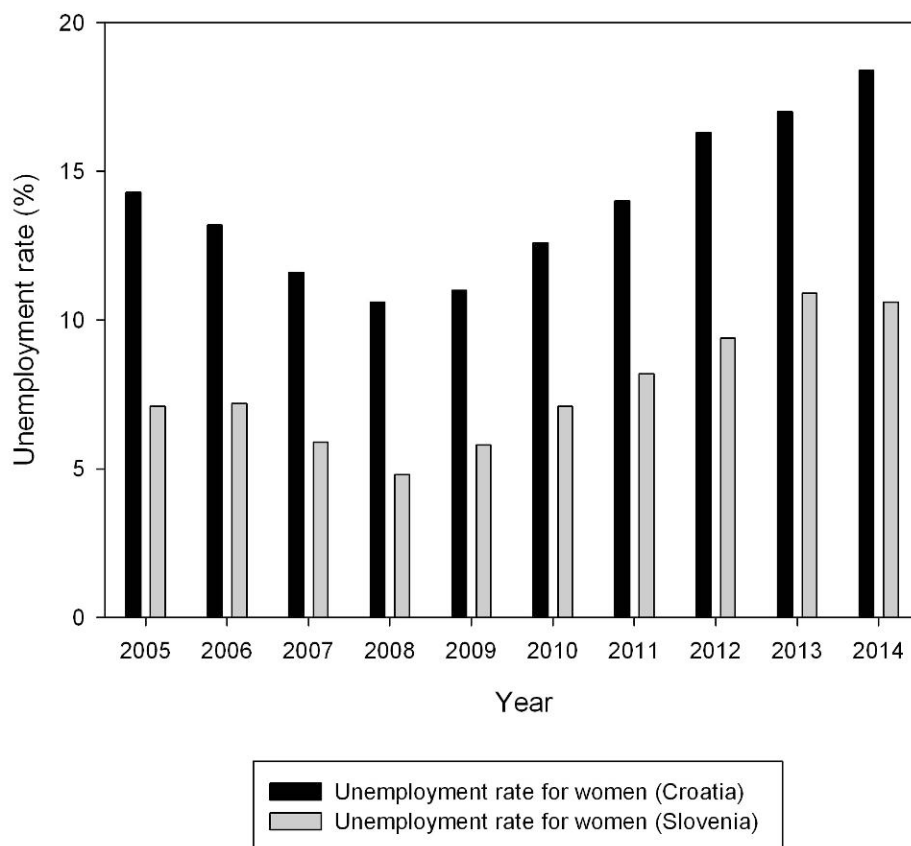

Sources: Authors' calculation based on data from Statistical Offices of the Republic of Slovenia and the Republic of Croatia.

3.3 Women at the Croatian and Slovenian labour market - the comparison

Data on the structure of employed, both in Slovenian and Croatian labour market, show that women workers present around 45 % of the total number of workers. On the other side, unemployment rate for women is higher than that of male workers and it can be seen that Croatian labour market brings more unemployment risk for women than Slovenian labour market – in 2014, the unemployment rate for women in Croatia was 18.3 %, while in Slovenia 10.6 % (see Figure 8).

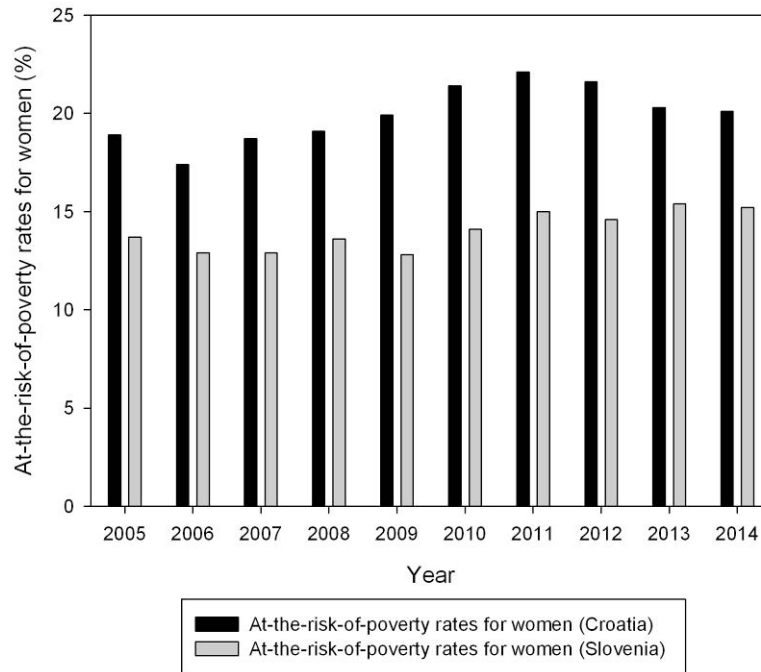**Figure 8:** Unemployment rate for women, Croatia and Slovenia, 2005–2014

Sources: Authors' calculation based on data from Statistical Offices of the Republic of Slovenia and the Republic of Croatia.

As regards the at-risk-of-poverty rates for women (see Figure 9), there is a great difference between Croatia and Slovenia for the entire period studied. The at-risk-of-poverty rates for women in Croatia was around 18 % till 2009, and increased to 21,4 % in 2014, which can be explained by deteriorated economic situation due to economic crisis. An increase in the at-risk-of-poverty rates for women in the time of crisis can be observed also in Slovenia, nevertheless, the at-risk-of-poverty rates for women reached 15 % in 201, which is below the EU-28 average and 5 percentage points below the rate recorded in Croatia.

There is no great differences between Croatia and Slovenia when comparing the at-risk-of poverty rates of employed women (see Figure 10). Till 2009 Slovenia recorded higher at-risk-of-poverty rates for employed women, whereas in 2010 the trend reversed, increasing the at-risk-of-poverty rate of employed women in Croatia, which can be explained by the decrease of the economic activity due to effects of the economic crisis. Nevertheless, in 2012 the at-risk-of-poverty rate of employed women increased also in Slovenia, reaching the rate level in Croatia. In 2014, the at-risk-of-poverty rate of employed women amounted 3.5 % in Croatia, whereas in Slovenia 3.2 %.

Figure 9: At-the-risk-of-poverty rates for women, Croatia and Slovenia, 2005–2014

Sources: Authors' calculation based on data from Statistical Offices of the Republic of Slovenia and the Republic of Croatia.

Figure 10: At-the-risk-of-poverty rates for employed women, Croatia and Slovenia, 2005–2014
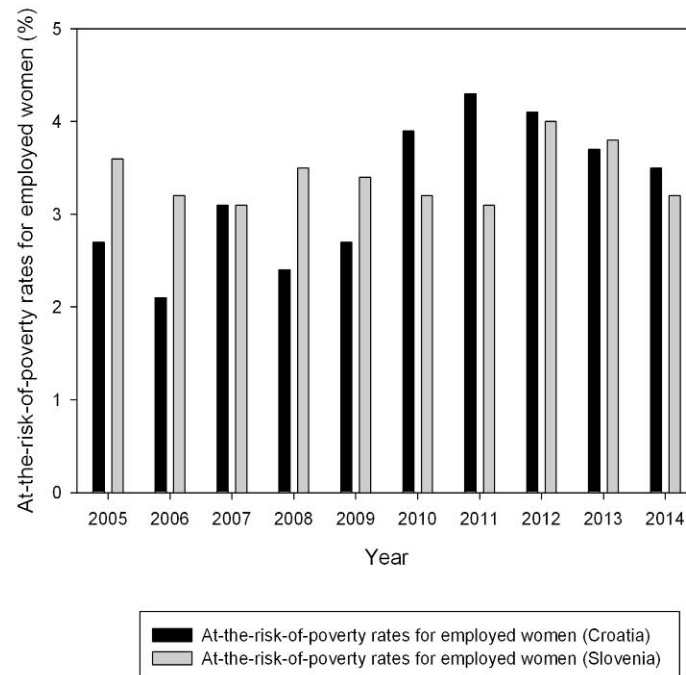
Sources: Authors' calculation based on data from Statistical Offices of the Republic of Slovenia and the Republic of Croatia.
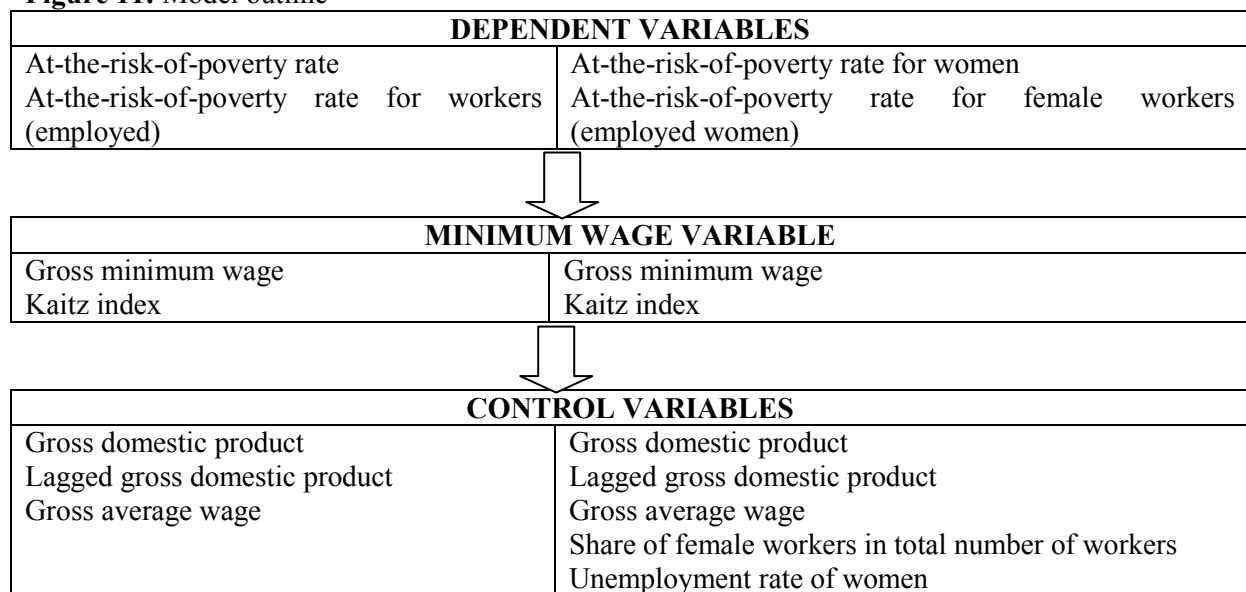
4 Analysis of the relation between minimum wage and at-the-risk-of-poverty rate

In this section we focus on the relation between minimum wage and the at-the-risk-of-poverty rates of women, by which we focus on women. First we present methodological framework and continue with presentation of results.

4.1 Methodology and data

We test the relationship between minimum wage and at-the-risk-of poverty rate for workers in general and specifically for female workers, since women are one of the most vulnerable groups in the labour market. In addition, they occupy a higher share in the total number of minimum wage recipients. Our analysis examines the effect of the minimum wage variable (expressed in real gross terms but also as the ratio to the average wage, i.e. as a Kaitz index) on the at-the-risk-of-poverty rate. We apply panel regression analysis, by which we include also the following control variables: gross domestic product, lagged gross domestic product, average wage, unemployment rate and share of female workers in total number of workers. The panel analysis includes data for 2005 –2014 both for Croatia and Slovenia. The model applied is presented in Figure 11.

Figure 11: Model outline

DEPENDENT VARIABLES	
At-the-risk-of-poverty rate	At-the-risk-of-poverty rate for women
At-the-risk-of-poverty rate for workers (employed)	At-the-risk-of-poverty rate for female workers (employed women)

MINIMUM WAGE VARIABLE	
Gross minimum wage	Gross minimum wage
Kaitz index	Kaitz index

CONTROL VARIABLES	
Gross domestic product	Gross domestic product
Lagged gross domestic product	Lagged gross domestic product
Gross average wage	Gross average wage
	Share of female workers in total number of workers
	Unemployment rate of women

Data for the analysis were obtained from the statistical offices of the Republic of Slovenia and Croatia. Kaitz indexes were calculated using the statutory minimum wage levels in both countries and data on average wages (data on the later were obtained from statistical offices).

4.2 Results

Firstly we applied fixed panel data analysis with differentiated variables that were not stationary according to unit root test (Levin-Lin-Chu for common unit roots and Im, Pesaran, Shin and Fisher for individual root). Tables 1-3 indicate that variables with lag length equal and higher than 1 were not stationary after which we applied first or second difference in order to make them stationary. Second step was the panel regression analysis.

Table 1: Levin-Lin-Chu test in levels

Variable name	Lag length	t-statistics	Probability value
At-the-risk-of poverty rate	1	0.19426	0.5770
At-the-risk-of-poverty rate for workers (employed)	1	–0.97315	0.1652
At-the-risk-of-poverty rate for women	1	–0.25421	0.3997
At-the-risk-of-poverty rate for female workers (employed women)	0	–1.69164	0.0454
Gross minimum wage	1	–0.89348	0.1858
Kaitz index	1	0.01200	0.5048
Gross domestic product	0	–2.15984	0.0154
Gross average wage	0	–4.51444	0.0000
Share of female workers in total number of workers	0	–3.19148	0.0007
Unemployment rate of women	2	2.27887	0.9887

Table 2: Levin-Lin-Chu test in first differences

Variable name	t-statistics	Probability value
At-the-risk-of poverty rate	–4.24882	0.0000
At-the-risk-of-poverty rate for workers (employed)	–4.45158	0.0000
At-the-risk-of-poverty rate for women	–3.66644	0.0001
Gross minimum wage	–2.57425	0.0050
Kaitz index	–3.24578	0.0006

Table 3: Levin-Lin-Chu test in second differences

Variable name	t-statistics	Probability value
Unemployment rate of women	–1.51844	0.0645

Table 4 presents the results of the relation between minimum wage variables and poverty indicators. Results indicate that there is no statistically significant relationship between minimum wage variables and poverty indicators for the entire population or implicitly for women. However, we find a negative relationship between minimum wage variables (both gross minimum wage and Kaitz index) and at-the-risk-of-poverty rates for employed women. This implies that an increase in the minimum wage or its ratio to the average wage could decrease the risk of poverty for employed women. This finding suggests that the minimum wage should be considered in shaping poverty policies.

Table 4: Panel regression analysis results, 2005–2014

Model	Dependent variable	Minimum wage variable	Coefficient (standard error)
I	At-the-risk-of poverty rate	a. Gross minimum wage	0.009 (0.006)
		b. Kaitz index	0.070 (0.110)
II	At-the-risk-of-poverty rate for workers (employed)	a. Gross minimum wage	0.002 (0.004)
		b. Kaitz index	0.034 (0.076)
III	At-the-risk-of-poverty rate for women	a. Gross minimum wage	0.0002 (0.005)
		b. Kaitz index	−0.018 (0.087)
IV	At-the-risk-of-poverty rate for female workers (employed women)	a. Gross minimum wage	−0.010* (0.003)
		b. Kaitz index	−0.169* (0.041)

Note: Robust standard errors in parentheses.
Statistical significance: $*p < 0.01$; $** p < 0.05$; $*** p < 0.1$

Nevertheless, we should keep in mind that these are only preliminary findings based on aggregate data. A more in-depth analysis using micro data should be applied in order to make relevant and robust conclusions on the relation between minimum wage and poverty.

5 Conclusion

The objective of this paper is to discuss the minimum wage as a tool for poverty reduction and analyse whether there is a relation between minimum wages and poverty indicators in Slovenia and Croatia. The estimates of the panel regression results show that there is a weak negative relation between minimum wage and at-risk-of-poverty rate of employed women, however a further empirical analyses using the micro data are needed to confirm the robustness of this finding.

The minimum wage can be seen as a broad social theme, related to standards of fairness. An important question is what would happen if there would be no minimum wage? Would working conditions deteriorate? Minimum wage is a notion of decent wage, a signal to the whole society that can also be a reference point for general wage policy. It assigns minimum value of work even if it interferes with price mechanism, which, according to neoclassical economist, can have adverse effects. But neoclassical context is to narrow for a discussion about minimum wage. Research that were conducted so far mostly agree that the minimum wage has a positive effect on wages in the lower part of the wage distributions, and also spillover effects to wage higher up the wage distribution. This raises the questions, who actually benefit from minimum wages. According to Kaufman, the rationale for minimum wage legislation can be seen in 4 areas:

- eliminate low labor standards that harm workers;

- eliminate low labor standards that interefere with attainment of full employment and sustainable economic growth;
- eliminate low labor standards that have disputed between employees and employers as a consequence which affects economic activity;
- prevent unrestrained competition from further lowering labor competition in affected industries.

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