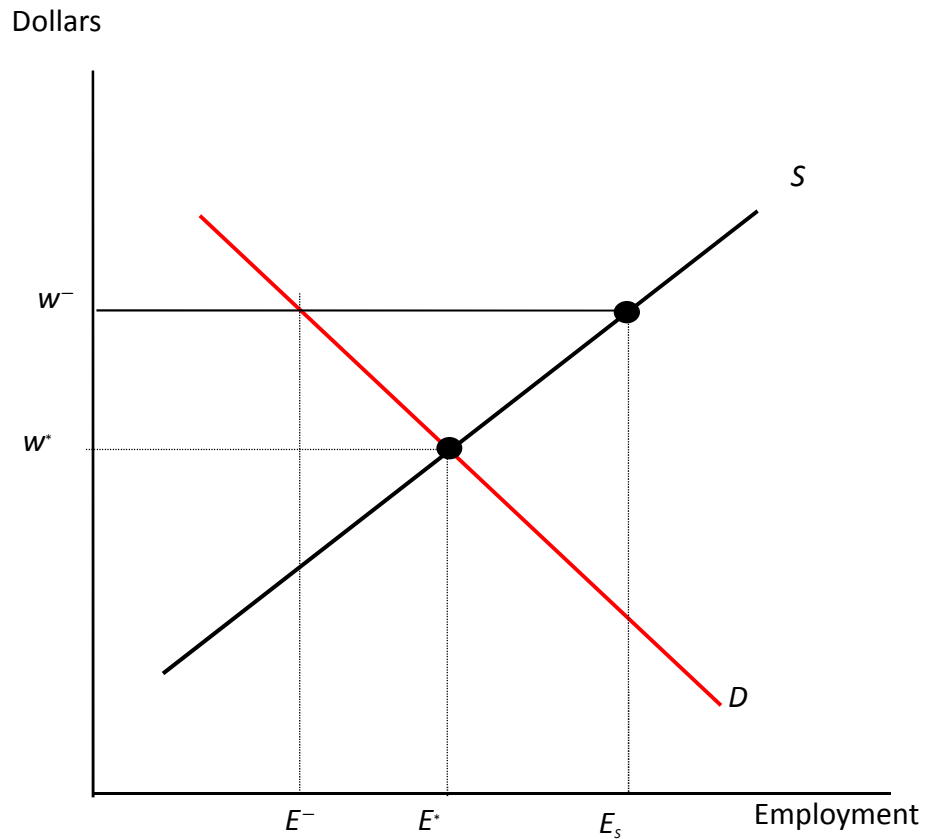


Minimum wages

- Theory
- What do we know?
- Minimum wages from a Swedish perspective

The Impact of the Minimum Wage on Employment



A minimum wage set at w^- forces employers to cut employment (from E^* to E^-). The higher wage also encourages ($E_s - E^*$) additional workers to enter the market. The minimum wage, therefore, creates unemployment.

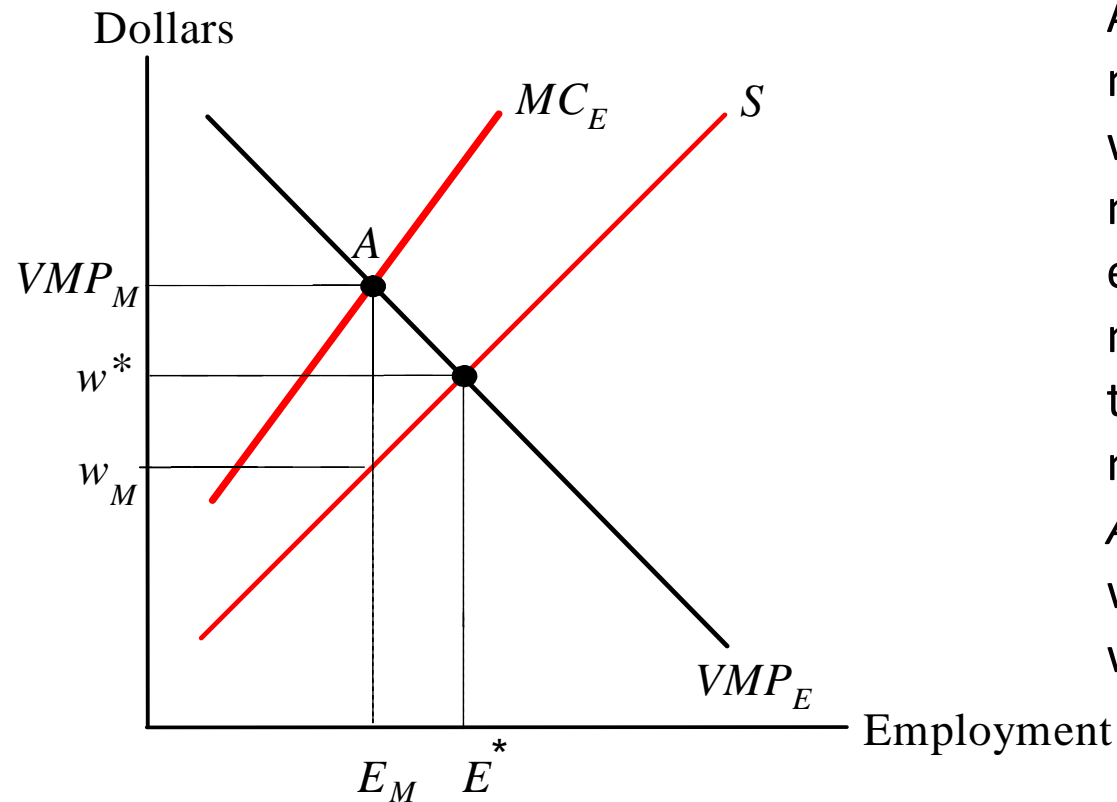
Noncompetitive labor markets: (monopsony)

- Monopsony market exists when a firm is a lone buyer of labor (acting as a sole employer of labor in the market)
- Such a firm must increase wages to attract more workers

Nondiscriminating monopsonist

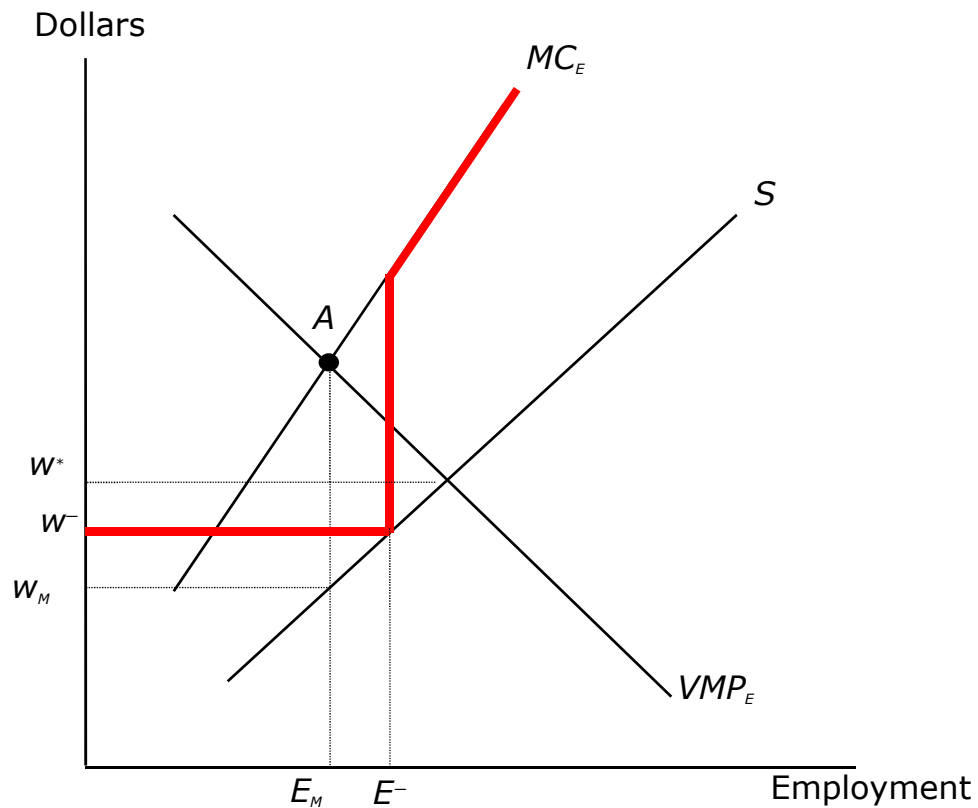
- Must pay all workers the same wage, regardless of each worker's reservation wage
- Must raise the wage of all workers when attempting to attract more workers
- Employs fewer workers than would be employed if the market were competitive

The Hiring Decision of a Nondiscriminating Monopsonist



A nondiscriminating monopsonist pays the same wage to all workers. The marginal cost of hiring exceeds the wage, and the marginal cost curve lies above the supply curve. Profit maximization occurs at point A ; the monopsonist hires E_M workers and pays them a wage of w_M .

The Impact of the Minimum Wage on a Nondiscriminating Monopsonist



The minimum wage may increase both wages and employment when imposed on a monopsonist. A minimum wage set at w_- increases employment to E_- .

Effect on employment depends on level of initial wage when monopsony power

- When the wage is below the market wage, employment increase with an increase in the minimum wage.
- When the wage is above the market wage, employment falls with an increase in the minimum wage.

Search and matching framework

Similar results as in the monopsony model

- A higher wage stimulates search inducing employment to increase.
- A higher wage reduces job creation as more expensive to hire.

First effect can dominate when w is low, but the second effect always dominates when w is high.

Empirics (international studies)

- Numerous studies, varying results
- Most studies carried out in low minimum-wage countries (legislated minimum wages)
- Majority of studies find that minimum wages reduce employment. The effects are not very big though. A 10 percent increase in the minimum wage reduce employment by 1-3 percent.
- More clear results that minimum wages reduce employment in high minimum wage countries (France, Sweden, etc). Also larger effects (comparing France and US.)

US studies, comment

- The first studies showed negative employment effects of minimum wages.
- In 1990s new approach focusing on fast food restaurants. For example Card and Krueger. Natural experiments. Partial equilibrium. Less negative, zero, and even positive effects on employment from minimum wages.

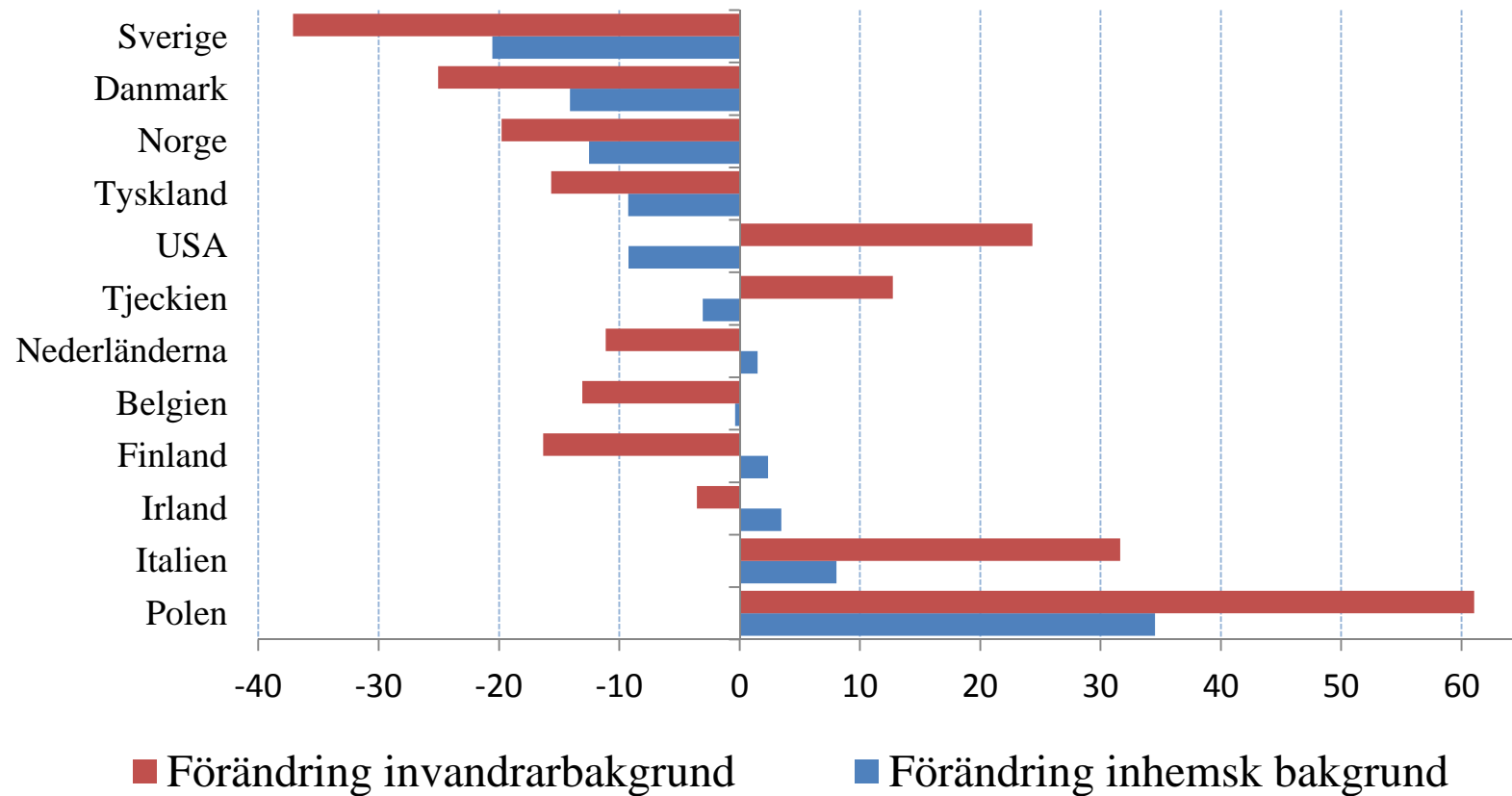
Swedish perspective

Based on a report on wages and wage formation in Sweden (2016) (AER 2016).

Challenges on the Swedish labour market:

- Drop in skill/performance/education
- Increased immigration where average skill/performance/education lower

Change in average reading skill points IALS 1994–98 and PIAAC 2012. red: foreign born, blue: born in country

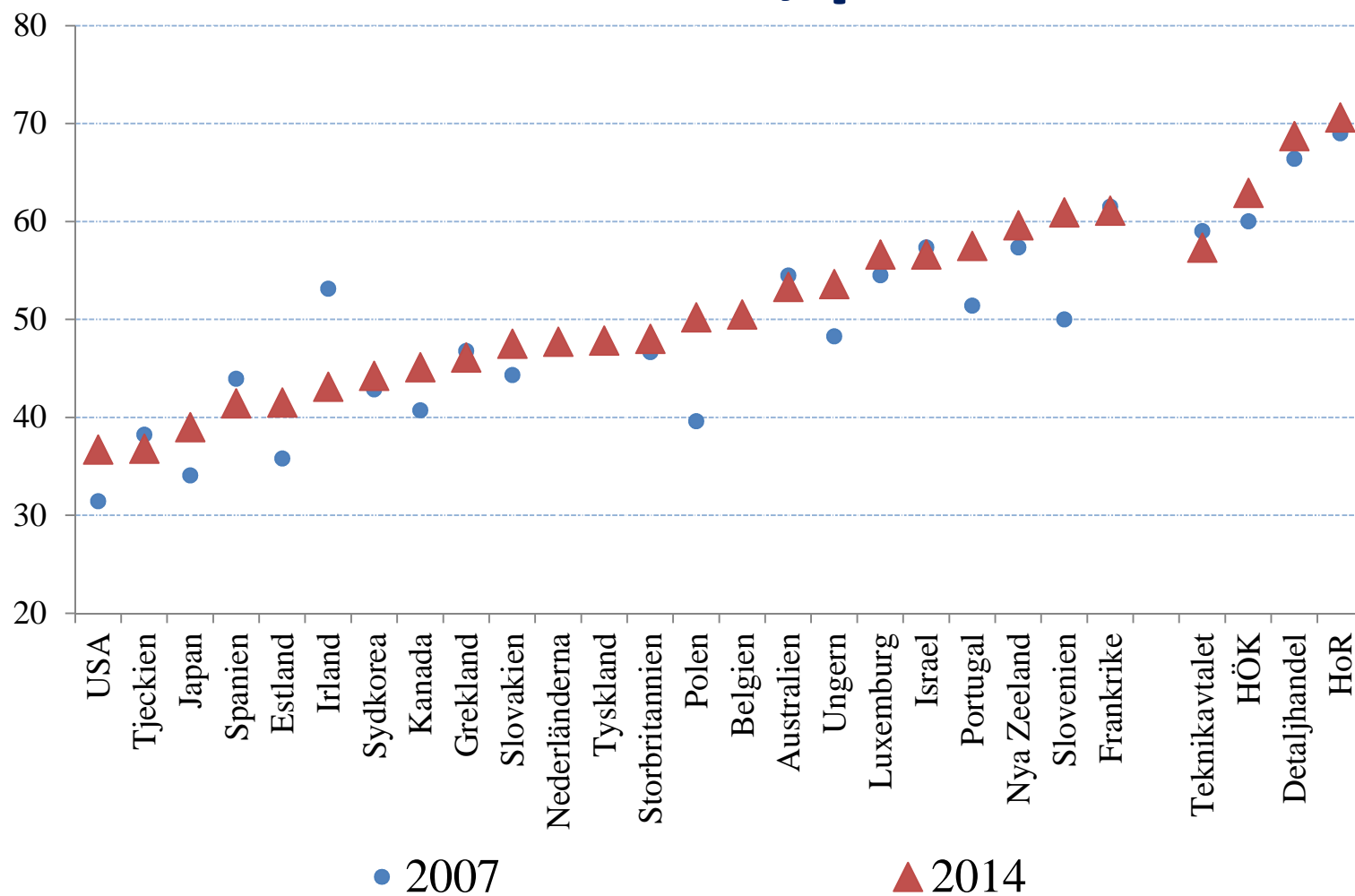


Employment rate based on reading skill scores

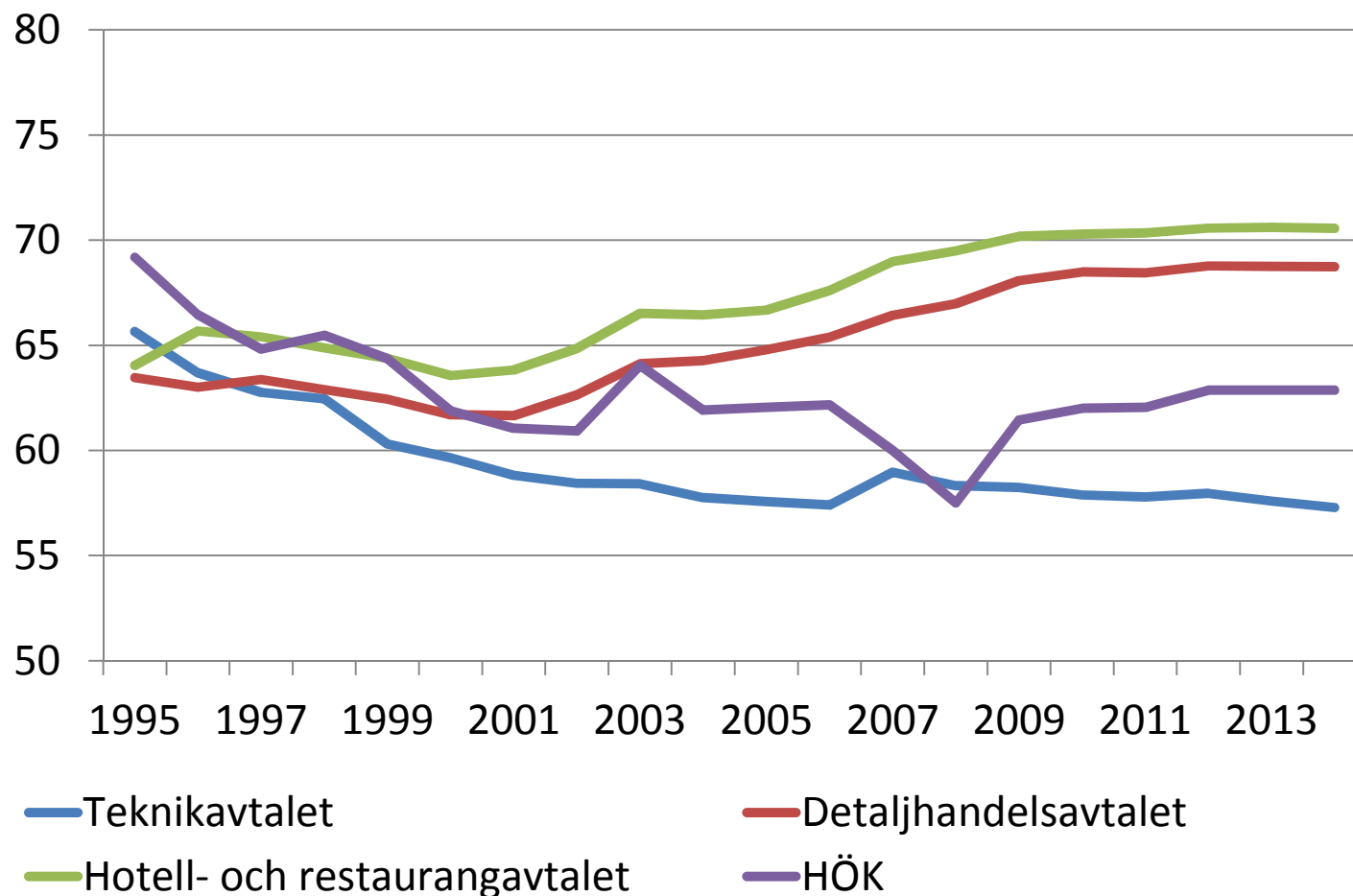
IALS 1994 och PIAAC 2012, procent

	Level 1	Level 2	Level 3	Level 4	Relative employment rate level 1/level 3
IALS	47	62	71	71	0,66
PIAAC	51	70	79	86	0,65

Minimum wage bite in different countries, percent



Minimum wage bite in four different agreements on the Swedish LM



How will a change in the minimum wage affect employment?

- **Theory:**

- Increased minimum wages increase employment if initially low.
- Increased minimum wages reduce employment if initially high.

Swedish empirical studies

- Six studies
 - one with focus on refugees
- Majority of studies find negative employment effects of higher minimum wages (more so than international studies)
 - four out of six (two with zero effects)
- Negative composition effects
 - higher minimum wages reduce employment for workers with less attachment to the labour market (even in the studies that find zero effects on the number of separations)

Overview of the the empirical studies for Sweden

Studie	Grupper och tidsperioder	Sysselsättningens sammansättning	Nyanställningar	Avslutade anställningar	Sysselsättning
Edin och Holmlund (1994)	Ungdomar 1972–1991				-
Skedinger (2006)	Hotell och restaurang 1979–1999		-	+	-
Eliasson och Nordström Skans (2014)	Offentlig sektor 2003–2011	JA. Lägre betyg/Högre betyg	-	0	-
Forslund med flera (2014)	Fem fallstudier 2001–2010	JA. Lägre betyg/Högre betyg		0	
Lundborg och Skedinger (2014)	Flyktingar, inrikes födda ungdomar, 1998–2007				-
Skedinger (2015)	Detaljhandeln 2001–2005	JA. Minimalön/ Lön högre än minimalön		+	

Tendencies to under-estimate the true effects of minimum wages

- Focus on separations does not provide the full picture
 - hires are also important
- Potentially different effects on unemployment if weaker or stronger workers are separated...
- Current studies captures short run effects
 - In LR easier to substitute capital for labour
 - Creation of new markets