

The Discussion of the Socio-Economic Significance of Minimum Wage Policy in Scientific Literature

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Նվազագույն աշխատավարձի քաղաքականության սոցիալ-տնտեսական նշանակության շուրջ առկա բանավեճը գիտական գրականության մեջ **Համբարձումյան Տիգրան Վ.**

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Ամփոփագիր. Տասնամյակներ շարունակ նվազագույն աշխատավարձի շուրջ բանավեճերը միշտ լարված բնույթ են կրել դրա ջատագովների, քաղաքականություն մշակողների և հետազոտողների շրջանում: Պատճառը նվազագույն աշխատավարձի առավելությունների և սահմանափակումների վերաբերյալ իրարամերժ մոտեցումներն են: Տվյալ աշխատանքում հեղինակը նպատակ է հետապնդել համապարփակ ձևով վերհանել և վերլուծել սոցիալ-տնտեսական այն գործոնները, որոնք ունեն վճռորոշ նշանակություն նվազագույն աշխատավարձի հիմնախնդրի ընկալման և դրա սահմանման գործընթացներում: Հեղինակի ուշադրության դիտակետում է նաև եղել նվազագույն աշխատավարձի սահմանման դրդապատճառների ուսումնասիրումը, ինչպես նաև նվազագույն աշխատավարձի քաղաքականության իրականացման հետևանքով առաջացող դրական և բացասական ազդեցությունների վերհանումը: Իրականացվել է նաև միջազգային տարբեր կազմակերպությունների կողմից կատարված հետազոտությունների ու հրապարակված զեկույցների հիմքով նվազագույն աշխատավարձի քաղաքականության վերլուծություններ: Արդյունքում կատարվել է եզրահանգում առ այն, որ ներկայիս քաղաքատնտեսական համակարգի պայմաններում նվազագույն աշխատավարձի քաղաքականության վերաբերյալ նախկինում առկա բացասական մոտեցումները ենթարկվել են դրական կերպափոխումների՝ այդպիսով արդարացնելով նվազագույն աշխատավարձի քաղաքականության նախագծման և իրականացման հրատապությունը և անխուսափելիությունը: Ավելին, նման դրական տեղաշարժը ստիպել է և՛ քաղաքականություն մշակողներին, և՛ վերլուծաբաններին վերանայել նվազագույն աշխատավարձի քաղաքականության ներդրման անհրաժեշտությունը ամեն մասնավոր դեպքի համար: Այնուամենայնիվ, նվազագույն աշխատավարձի քաղաքականության արդյունավետությունը ստուգող համապարփակ մոդել դեռևս գոյություն չունի: Կատարված ուսումնասիրությունները խիստ բևեռացված են և սպառնիչ չեն փոփոխականների համալիր վերլուծության տեսանկյունից:

Հանգուցարաներ՝ նվազագույն աշխատավարձ, սոցիալական բարեկեցություն, հանրային քաղաքականություն, արտադրողականության բարձրացում, սոցիալական արդարություն:

Дискуссия социально-экономического значения политики минимальной заработной платы в научной литературе

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Аннотация. На протяжении десятилетий споры о политике минимальной заработной платы всегда были интенсивными среди защитников, политиков и исследователей. Причина – противоречивые подходы к преимуществам и ограничениям минимальной заработной платы как инструмента политики для достижения социально желательных целей, таких как сокращение бедности или сохранение занятости. В данной работе автор ставит целью всесторонне выявить и проанализировать социально-экономические факторы, имеющие решающее значение в процессе понимания и определения проблемы минимальной заработной платы в современных обществах. Кроме того, автор акцентирует внимание на изучении стимулов установления минимальной заработной платы, а также на выявлении положительных и отрицательных последствий реализации политики минимальной заработной платы. В результате сделан вывод о том, что ранее негативные подходы к политике минимальной заработной платы претерпели положительные изменения в действующей политико-экономической системе, обосновав тем самым неизбежность и актуальность установления минимальной заработной платы. Учитывая обобщенный обзор международных данных, представляется, что

всеобъемлющей модели для проверки эффективности политики минимальной заработной платы не существует. Проведенные исследования сильно поляризованы и не являются исчерпывающими с точки зрения комплексного анализа переменных.

Ключевые слова: Минимальная заработная плата, социальное обеспечение, государственная политика, повышение производительности труда, социальная справедливость.

For decades, the debate over the minimum wage has always been intense among its advocates, policymakers, and researchers. Classical political economists such as Adam Smith, David Ricardo, and Karl Marx shared the belief that, regardless of industry or type of work, there is a minimum level of wage acceptable to most workers. Although Smith and Ricardo, as proponents of liberal economics, did not encourage government intervention; even they realized that the labor force had to earn a high enough wage to survive [24]. Marx was in favor of a mandatory minimum wage since he believed that capitalists' profits came from the exploitation of labor. One of the main objections to the minimum wage in modern economics is that its existence is not secured by an economic basis. The model of traditional neoclassical economics argues that the costs of raising the minimum wage for society far outweigh the benefits. According to neo-classics, a policy that artificially raises salaries in order to assist some groups at the expense of others is simply ineffective. Even if the result of the salary increase is positive, the fixed costs will remain constant [19, pp. 773-802].

According to Richard Posner, there are two main theories of economic regulation. The first is the theory of "public interest", which claims that regulations are designed to rectify inefficient or unequal market practices such as monopolies and external influences. The second is the "capture" theory, according to which the adjustments are made in favor of the interest groups that try to maximize their income. That is, in one of the theories, the economic component of state regulation is considered, and in the other, the political one. Minimal wage policy, as an instrument of state intervention, is subject to many contradictions due to the theoretical duality noted above, which manifests itself in disagreements between economists and political scientists. However, if economists were once skeptical about the benefits of a minimum wage, today this opinion has somewhat altered. According to the new approach, raising the minimum wage is a desirable policy. Proponents of this policy dismiss the traditional preoccupation that the increase in minimum wage will reduce the employment among low-skilled workers that the increase is actually targeted. Recent economic research shows that the effects of raising the minimum wage are negligible or non-existent while raising the minimum wage has significant social

benefits. When labor markets are congested, companies can effectively ignore small increases in the minimum wage, allowing such increases to have an expected impact on wages. Nevertheless, there are several areas of research that periodically conclude that high minimum wages reduce opportunities for vulnerable people in certain situations. While the modern economy recognizes the link between extremely high minimum wages and unemployment because it sets prices above demand, the minimum wage can conversely increase employment and productivity due to the monopsony nature of labor markets and lack of bargaining power [6, 826-831].

The minimum wage is the minimum amount of salary that an employer is required to pay employees for work performed during a given period and it is not subject to deduction under collective or individual contracts [14]. The minimum wage is a universal obligation, regardless of the method of fixing it. The minimum wage may be established by law, by decision of the competent authority, by the wage council, industrial or labor courts or tribunals, as well as by enforcing the provisions of collective agreements by law [12, pp. 3-10].

Governments aim to protect low-income workers by introducing a minimum wage based on country-specific factors such as access to livelihoods, public welfare policies, labor market conditions, inflation rates, and other economic factors and trends. Decisions to introduce or increase the minimum wage are related to the following motives:

- *Fairness, reduction of inequalities.* The goal of the minimum wage is to reduce wage inequality between the lower and middle sections of the income distribution.
- *Poverty alleviation.* The minimum wage policy is often associated with poverty reduction, but in reality, it is considered ineffective in tackling poverty because it is less targeted at the needs of the poor.
- *Power Imbalance in employment relations.* The minimum wage mitigates the potential negative effects of power imbalances between enterprises and workers, which can lead to workers agreeing to lower-wage conditions for employment.
- *Incentives to work.* The minimum wage can foster employment if the minimum wage exceeds social welfare benefits. Moreover, raising the minimum wage can increase employee effort, as

both bonuses and the possibility to lose a job increase [17].

The minimum wage is determined by two groups of factors [22] (Table 1).

Table 1

<i>Economic</i>	<i>Social</i>
1. Change in the value of industrial output at constant prices	1. Change in the proportion of children attending school
2. Changes in the proportion of GDP in agriculture, manufacturing, and services	2. Changes in the level of literacy
3. Changes in GDP per capita at constant prices	3. Changes in the number of schools / hospitals per capita
4. Changes in the value of foreign trade at constant prices, changes in unemployment and poverty	4. Changes in access to selected community facilities (drinking water, markets, schools, hospitals, postal services, fire services, police services)

Several countries with higher living standards, such as Austria [10] and the Nordic countries, do not have a statutory minimum wage. In those countries the collectively agreed or bargained wages prevail, which offset the lack of a minimum wage, directly or indirectly involving almost all workers [13].

According to the World Bank, many countries try to improve the welfare of low-wage earners by imposing a minimum wage, but this policy does not always work. Theoretical and empirical predictions of the impact of the minimum wage have so far yielded conflicting results, depending on the country, the source of the minimum wage fluctuations, and the methods of analysis [3].

One of the benefits of the minimum wage is the increase in labor productivity and labor efficiency. In general, raising the minimum wage can have a positive impact on the purchasing power of workers, thereby increasing their consumer spending and, in turn, stimulating aggregate demand and economic growth. C. Collins believes that a cost-benefit analysis is required to assess the potential benefits of raising the minimum wage. To take advantage of the increase in the minimum wage and minimize costs, a gradual increase in the minimum wage is endorsed. For instance, in the case of balanced adjustments to the minimum wage over the next 20 years, the effects of unemployment could be recouped, in the meantime maximizing quality of life and productivity. As a result, in the case of a small increase in the minimum wage, the macroeconomic benefits will outweigh the costs of rising unemployment [8].

According to Heather Boushey's research, the implementation of the minimum wage can have the following favorable results:

- According to various economic estimates, raising the minimum wage will lift millions of working families out of poverty, greatly supporting

the breadwinners and their children. However, governments also need to provide a full package of benefits for affordable and quality health care and housing for low-wage workers.

- Economic research shows that higher minimum wages do not cause higher unemployment, but at the same time increase productivity and solve the problem of income inequality [4].

Despite the above-mentioned advantages and the positive shift of opinions, there is still a large amount of research in the literature, which categorically denies the expediency of the minimum wage policy and its economic efficiency. Disadvantages are the deviations deriving from the introduction of the minimum wage in the labor market, which leads to high unemployment, high labor costs for businesses, and increased employment in the informal economy. The reasons for these negative effects are:

- Excessively high minimum wages can lead to the unemployment of low-skilled workers, while more skilled and highly productive workers who are not directly affected by the minimum wage policy are more preferable to employers in terms of labor cost and value-added. Moreover, as companies seek to increase their productivity because of wage increases, employees can be replaced in the medium term through automation [16]. On average, a 10% increase in the minimum wage reduces the employment of low-skilled workers by 1.5%. According to a study by the Organization for Economic Co-operation and Development (hereinafter referred to as the OECD), a 10% increase in the minimum wage reduces adolescent employment by 1-4% [21]. According to a study by researchers at the University of Washington, a two-stage increase in the minimum wage in Seattle to \$ 13 led to a reduction in working hours in low-paid

jobs by 6-7%, while hourly wages increased by 3%, resulting in a decrease in total wages in 2016 for an average of \$ 74 [18]. A recent report from the Congressional Budget Office also states that raising the minimum hourly wage from the current \$ 7.25 to \$ 15 would result in the loss of 1.4 million jobs [9].

- Numerous scientific studies show that, even without employment or other effects, raising the minimum wage is not designed to reduce poverty. The problem is that the correlation between earning a low hourly wage and living in poverty is weak because most of the low-wage workers live in non-poor families, and most working poor already has a higher-than-minimum wage. [5, pp. 262–281]. The fact that the poor are mostly unemployed or do not work full time, on the one hand, and the existence of more favorable working conditions, on the other hand, make the minimum wage rate simply useless.

Raising the minimum wage can also induce low-skilled people to seek a job in the informal economy, where wages are even lower. Although minimum wage legislation should apply to all employees, it is difficult to enforce in an informal economy. The situation is worse in developing economies, where informal sectors sometimes reach enormous proportions. Therefore, the role of the minimum wage in developing countries as a means of creating social welfare is much more dubious. According to the 2020 report of the World Employment Organization, almost 40% of wage earners worldwide are involved in informal employment. According to the World Bank, as of 2017, the share of the informal economy in Armenia was estimated at 35% of GDP, in Azerbaijan – at about 40%, in Georgia – at 57% [25]. Employees with informal employment are more likely to suffer from a non-comprehensive minimum wage policy than those who are formally employed. The minimum wage policy affects the earnings of workers in the informal sector. The wages of informal workers are determined by the level of the minimum wage, known as the "lighthouse effect". Informal workers are more likely to find themselves at a low level of wage distribution, earning their living in illegal conditions. Raising the minimum wage and enforcing it universally can mitigate the negative effects of informal employment, including labor poverty and household inequality [14].

The minimum wage can stimulate the growth of jobs outside the sphere of policy influence, which will reduce wages in those spheres. Such areas are, for example, retail and small businesses in general, which will have to reduce additional benefits and on-the-job training [26, pp. 5-13]. Minimum wages can also affect higher-paid employees, who will also demand higher wages for their higher productivity and skills, thus increasing overall costs.

In Jim Blasingame's view, any increase in the minimum wage, in fact, harms the sector it aims to help, especially young novice employees. The main reason is that for decades employers have controlled the impact of minimum wage growth by reducing start-up jobs through a variety of organizational tricks. Today, however, technological advances have made it possible for all employers to opt-out of low-level wages in favor of low-maintenance, non-taxable innovative devices or software. According to a survey conducted among small businesses, 82% of respondents said that the state should not set wage rates. Meanwhile, to the question of how the increase of the minimum wage will affect their business, 76% answered: "Not at all". The reason is that they already pay higher than the minimum wage and have legal ways to circumvent the conditions established by the minimum wage policy to the detriment of unskilled workers [1]. Proponents of the minimum wage argue that the situation with employers is much more complicated. There can be a monopsony in the labor market when the market power of the sole employer determines the amount of salary. Although in practice it is difficult to imagine the existence of a single employer in large labor markets, market failures such as asymmetric information, imperfect mobility, and the personal element of labor transactions can pay off for some companies [2, pp. 86-112].

Findings by several researchers show that the minimum wage is more closely linked to political inclinations than to economic conditions, and this may further distort economic incentives, which can be economically detrimental in the long run. Researchers consider that the political composition of the legislature is a better indicator of the likelihood of a future increase in the minimum wage than the rise in the cost of living [11, pp. 57-67].

Studies conducted by D. Neumark and O. Nizalova have shown that setting a mandatory minimum wage distorts employees' stimulus for work and training decisions, leading to long-term negative consequences [20].

The scope of many minimum-wage analyses is sometimes severely narrowed, in particular, they limit the employee-employer relationship to two factors: wages and employment. In this type of analysis, the impact of the minimum wage on employee well-being is simplified. If the salary increases and the employee remains employed, such models assume that the employee is in a better position. In practice, however, employment relationships have very subtle but important characteristics. Important factors are flexible working hours, and a fast or slow pace of work, which may require more or less mental energy. Other factors include the institution of

compensation, which may include or exclude health insurance, pension and other payments, employment location, and promotion opportunities [7]. In many cases, the above variables are not included in the scope of research papers due to their computational difficulties and subjective nature.

In conclusion, there is no comprehensive model to test the effectiveness of the minimum wage policy. The ongoing research in this area is polarized and not comprehensive in terms of multivariate analysis of variables. If one part points out the fact that this policy is not economically effective, the other part of the research, on the contrary, refutes that belief. Nonetheless, as the previously hardened negative attitude of economists towards the minimum wage policy has undergone some positive transformations recently, the topic has gained new relevance, where the research component is more case-specific.

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