

The Minimum Wage and Wage Inequality in Slovenia

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Minimum wage policy presents an important tool for boosting the share of income accruing to the lowest paid workers. The empirical evidence shows that, not surprisingly, minimum wage hikes most directly affect wages of workers at the bottom of the wage distribution, but also wages that are higher up in the wage distribution via spillover effects. This effect has led several authors to conclude that minimum wages also have an important role to play in reducing wage inequality in developed countries.

The paper aims to analyze how a dramatic 22.9% minimum wage increase in Slovenia in March 2010 affected wage inequality. This minimum wage increase was considerably larger than previous minimum wage adjustments in the period after the minimum wage was introduced in 1995 and was implemented following a dramatic drop in economic activity. Following the minimum wage increase, Slovenia had the second-highest ratio of the minimum wage relative to the average wage in the EU. Moreover, by 2014, the number of minimum wage recipients had more than doubled.

The empirical analysis of the effects of minimum wage increase on wage inequality is based on an exceptionally rich, administrative matched employer-employee panel database, covering all workers and firms in Slovenia over 2005–2015 period. Universal coverage of workers and detailed data of their employment presents an important value added of the analysis in the field. To study the effect of the minimum wage increase on wage inequality, we used two key methodological tools. First, we calculated certain percentile ratios reflecting inequalities at selected points of the distribution – the 90:10 ratio, the 90:50 ratio, the 50:10 ratio and the Gini coefficient. Secondly, we performed analysis using the Lorenz curve for wage rate distribution.

We find that the minimum wage increase in March 2010 largely contributed to the fall in wage inequality. The effect was stronger among young workers and less educated workers or workers in low-skill occupations. These groups are characterized to be found at the bottom of the wage distribution, where the minimum wage have the biggest impact. With regard to the firm type, the fall in wage inequality was more pronounced in small and unincorporated firms and those operating in market services.

Keywords: minimum wage, wage distribution, wage inequality, interdecile ratios, Gini coefficient, labor market, Slovenia