

The impact of the minimum wage on employment. The case of Albania _____

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Abstract

***Purpose:** This paper examines the impact of minimum wage adjustments on wages and employment dynamics in Albania. Utilizing the standard competitive model, an escalation in the minimum wage is anticipated to lower employment levels. Specifically, the two-sector model suggests that a rise in the minimum wage would decrease employment within the covered sector while potentially increasing it within the uncovered sector, particularly in developing countries where the latter sector holds a substantial portion of employment.*

Methodology: *The research draws on secondary sources, analysing existing literature and previous studies investigating the correlation between minimum wage adjustments and employment levels. Findings have been varied regarding the minimum wage's impact on employment, with some indicating a decrease in employment levels or an increase in unemployment due to minimum wage hikes. However, studies specifically focusing on Albania are scarce.*

Data were collected on minimum wage adjustments and unemployment levels from 2017 to 2022 to assess the relationship between minimum wage changes and unemployment rates, aiming to ascertain whether minimum wage regulations have positively influenced unemployment reduction.

Findings: *Analysis of the collected data reveals a trend in Albania where increases in the minimum wage correlate with decreases in unemployment.*

Value: *This paper recommended that it is necessary for a more in-depth analysis to be made about the impact of occasional changes in the minimum wage level. It is also recommended that the government consult with business analysts and economic experts and with the businesses themselves so that the change in the minimum wage does not negatively affect the economic development of the country.*

Keywords: *minimum wage, employment level, unemployment, analysis*

Introduction

The minimum wage law encompasses regulations that forbid employers from hiring workers for compensation below a specified minimum wage threshold per hour, day, or month. More than 90% of all countries have some form of minimum wage legislation. Most countries around the world have some form of minimum wage. Policymakers have often argued that raising the minimum wage increases the incomes of low-income workers, and therefore can be used as a tool to reduce poverty and inequality. In some situations (e.g., with monopsonistic firms), a moderate increase in minimum wages can increase the incomes of low-income workers without causing job losses. Some also argue that wage increases can improve worker productivity because they lead to increased work effort, reductions in labour turnover, and more on-the-job training. The question of how the minimum wage affects employment remains one of the most studied and controversial topics in labour economics, with a corresponding disagreement in the political sphere. In this part of the paper, a general presentation of the problem in question will be made. However, some empirical findings have shown that higher minimum wages lead to lower employment. Minimum wages have been a controversial topic among policymakers and economists around the world. The evidence on the effects of employment is quite mixed.

The purpose of the paper: Governments use minimum wage laws to ensure a basic quality of life for all citizens within a state's borders. These laws attempt to improve an individual's position in the economy. The minimum wage aims to ensure equal economic conditions for citizens. Governments can use minimum wage laws to force companies to pay all individuals equally, regardless of race, creed, sex, or other characteristics. Understanding minimum wages will help us understand how this factor affects employment, further recognizing the impact it can have on a country's economic growth. So, the purpose of this paper is to research the effects of the minimum wage on the level of employment in the Republic of Albania.*7

The main objectives of the paper

The main objective of the paper is to explain the effects of the minimum wage on employment levels, specifically among workers in general without any specific skills.

Specific objectives

- To explain and understand the concept of the minimum wage.
- Understand how minimum wage laws affect employment.
- Identify and analyse how minimum wage laws affect employers' decisions about how many workers they choose to hire.
- The paper aims to explain the effects of the minimum wage on the labour market in Albania.
- Hypothesis: The minimum wage has a positive impact on reducing unemployment.
- The main question raised in this paper is: How does the minimum wage affect the level of unemployment?

Literature review

The minimum wage is the least amount of money an employer is legally obligated to pay their workers for the work they do within a certain period. This amount cannot be reduced by any agreement made between the employer and the employee or a group of employees. (ilo.org, 2013).

The primary objective of minimum wage enforcement is to protect workers from receiving unreasonably low wages. They serve as a means of ensuring that the benefits of social progress are distributed fairly and equally among all individuals, while also ensuring that employees receive a minimum wage that is sufficient for

their basic needs. The minimum wage can also be used as part of a wider strategy to fight poverty and reduce inequality, particularly by promoting the principle of equal pay for equal work, regardless of gender. The concept of the minimum wage belongs to the mandatory nature of ensuring a certain level of wages, regardless of the method used for their establishment. Minimum wages can be set through legislation, authoritative decisions, wage boards, wage councils, or even through court decisions. In addition, minimum wages can be enforced by giving legal force to the terms set out in collective agreements.

It is important to view and implement minimum wage systems as part of a larger strategy that works in conjunction with other policies aimed at promoting employment and reducing income inequality. A few measures can be taken, such as pro-employment policies, social welfare programs and the encouragement of sustainable business practices, to address these issues holistically.

The purpose of the minimum wage is different from collective agreements as it sets a level for wages, while collective bargaining enables the negotiation of wages that exceed the established minimum.

The bulk of the empirical literature on developing countries shows that raising the minimum wage has negative effects on employment” (Card & Krueger, 1994). However, there are also some studies that have questioned these findings and have shown that the effects of the policy on employment can be zero and even positive in cases where businesses have some monopsonistic power over the labour market. The effect of the minimum wage on an economy will depend on the degree of compliance with the law and on the specific characteristics of the labour market in each country. In the case of industrialized countries, the literature shows that there is usually a negative effect on the demand for less skilled workers, but the debate about the methodologies used in these studies and the conclusions drawn from them continues. In developing countries, where informal employment is widespread, the consequences of minimum wage policies differ significantly compared to what can be predicted in developed economies. This is largely because minimum wage regulations in developing countries are not only more binding, but they tend to be enacted at higher rates, thus affecting a larger portion of the workforce. (Maloney & Nunez, 2003).

Research on the impact of unemployment and demand in less developed countries has produced uncertain results, like those seen in developed countries. The findings of a study on Latin America using data from manufacturing companies in Mexico and Colombia indicated that the firms responded to rising wage costs between 1981 and 1987 by reducing their workforce.” (Bell, 1997). In Colombia, the increase in the minimum wage caused significant industrial job losses in the country, estimated at between 2 and 12 percent of all jobs in the sector. “In terms of elasticity, a 10 percent increase in the minimum wage reduced jobs for low-skilled

workers by 1.5 percent to 3.3 percent and for high-skilled workers by 0.3 percent to 2.4 percent” (Bell, 1997).

In Mexico, the findings of the Bell study were inconclusive. He showed that when the real minimum wage fell by 45 percent, there was no effect on employment in the manufacturing sector. This result reflected the minimal effectiveness of the minimum wage, which is set at low levels relative to the overall average wage” (Bell, 1997). Furthermore, the businesses sampled were large companies offering high wages, usually higher than the minimum wage. “In Chile, increases during the period 1996–2005 resulted in higher unemployment, although actual job losses were less than 0.32 percent per year (Grau & Landerretche, 2011).

Cunningham’s research showed that the implementation of higher minimum wage rates in Brazil from 1996 to 2001 led to a decrease in employment opportunities, especially for lower-wage workers. However, in Mexico during the period between 1988 and 1998, no correlation was observed between an increase in minimum wage rates and an increase in overall unemployment rates. (Cunningham, 2007).

One explanation for the minimal effects on employment is that businesses were able to adjust their prices in response to rising labour costs. It was easier for them to raise prices during periods of inflation like the years used for this study (1982–2000). Although in developing countries such as Brazil minimum wage policy applies to both the public and private sectors, there is evidence that the government does not respond to minimum wage increases to the same extent as the private sector. In a comprehensive analysis conducted by Lemos in 2007, using extensive monthly data obtained from household surveys spanning nearly two decades (1982–2000), it was found that the minimum wage in Brazil did not have any detrimental effect on employment levels neither in general economy or when specifically divided into public and private sectors. This implies that the implementation of minimum wage policies in Brazil did not result in any adverse consequences on employment opportunities during the short-term period under investigation. (Lemos S., 2007).

However, jobs were lost in the private sector and gained in the public sector in the long run, suggesting an inelastic demand for labour. Growth in the public sector would largely offset the contraction in the private sector, with the net result that the minimum wage had very little effect on the overall economy. The empirical literature on developing countries has also looked at the adjustments that businesses have made depending on their size and cost structure. In a study conducted by Gindling and Terrell, they investigated the impact of changes in the minimum wage on employment levels in Honduras. This analysis was conducted using panel data spanning 1990 to 2004. (Gindling & Terrell, 2003).

On the other hand, Harrison and Scorse found much more modest effects of minimum wage increases in the Indonesian textile industry during the 1990s. “According to their estimates, a 10 percent increase in the minimum wage for

workers in foreign and export firms in Indonesia would cause a 1.2 to 1.8 percent reduction in employment, while in small companies the effect was insignificant, mainly due to low compliance with the law” (Harrison & Scorse, 2022).

A more recent study of the situation in Indonesia with data from firms for the period 1996-2003 found moderate effects on employment, with job losses of less than 1 percent after a 10 percent increase in the minimum wage. “The introduction of higher minimum wages has had a significant impact on employment, particularly for workers who have less experience and are employed in non-manufacturing sectors or small businesses.” (Carpio & Pabon, 2017). This means that, prior to the increase in the minimum wage, small companies, which typically engaged in labour-intensive activities and had little market power, were forced to lay off less-skilled workers to avoid bankruptcy. “In Vietnam, it was found that during 2006-2010 the minimum wage had a negative effect on employment in domestic companies, but none in larger enterprises.” (De Carpio, Nguyen, Pabon, & Wang, 2015).

In recent years, the minimum wage in Albania has changed continuously, undergoing occasional early increases to increase welfare and reduce poverty in unemployment measures. In 2022, as seen above, it changed twice, from July 1, 2022, the minimum wage was ALL 32,000, while in “starting from the September 2022 period, the minimum monthly basic wage, nationwide for employees, mandatory to implemented by any legal or natural person, local or foreign, is 34,000 ALL (VKM no. 604, dated 14.09.2022) (alprofitconsult.al, 2022). The next change would be in 2023. From April of 2023, the minimum wage would reach 40,000 ALL. Starting from April 2023, the minimum monthly basic salary, nationwide for employees, mandatory to be implemented by any legal or natural person, local or foreign, is 40,000 ALL. (VKM no. 113, dated 01.03.2023) (alprofitconsult.al, 2023).

The Albanian government has decided to increase the minimum wage to stop the waves of immigration and to motivate citizens not to leave the country, also to encourage increased competition. However, experts have their doubts and have been sceptical about the effects that this gradual increase in the minimum wage will have. Changing the minimum wage so frequently, specifically 6 times in a decade, twice in the past year alone, puts business in a difficult position at a time when inflation is running at 7%. The initiative has been criticized for not consulting the business sector and the National Labor Council, as well as for the lack of a complete study. Experts have also expressed concern that these frequent adjustments run counter to standards set by European Union countries, which typically allow one to two minimum wage adjustments over a four-year period.

Experts in the field of economics warn that the increase in the minimum wage will bring additional financial responsibility for businesses, including payments for social and health insurance for their employees. These sudden and poorly

researched changes can create difficulties for businesses to adapt, especially during a crisis where inflation is high and exceeds 7%.

Increasing wages in private companies can lead to an increase in informal practices, which can result in corruption, exploitation, and risky financial behaviour. The government has not taken sufficient measures to combat informal practices, including the flow of informal funds that have already affected the exchange rate, exports, and remittances. This issue has not been adequately studied or addressed and there seems to be a lack of real effort to understand the underlying problems.

According to INSTAT, almost one fifth of all wage earners in the country are classified as minimum wage workers. Experts predict that the increase in the minimum wage will have a significant impact on the state, estimating 15 million euros in contributions to the insurance fund for social and health coverage. This increase is also expected to have consequences for the pension scheme, which has struggled over the past three decades to maintain a balance between contributors and beneficiaries. However, it is important to note that while raising the minimum wage presents certain challenges, it is not the only solution to address fundamental issues within the pension system. (Zëri i Amerikës, 2023).

There is a significant relationship between the rate of youth population growth and the youth unemployment rate. A 1% increase in the youth population rate can increase youth unemployment by 2.73%. (Çerpja, T&Kola, F, 2022)

According to the data presented, the increase in both the minimum wage and the average wage has generally led to an increase in unemployment. In a lapsi.al report in 2023, it is stated that in the fourth quarter of 2022, the average salary reached 66 thousand ALL, marking a significant increase of 10.8%, which is the highest since 2019. INSTAT statistics reveal a notable growth of 18.2% in the agricultural industry, surpassing the minimal growth observed in the public administration sector, which had only a 6.2% increase. Despite this, the financial sector remains the industry with the highest average income in the economy. In terms of unemployment, the figures suggest a slight increase of 2.5% from the previous quarter in the fourth quarter of 2022. However, it is important to note that as of January 2021, the unemployment rate has decreased from 11.8% previously and has maintained historically low levels. (lapsi.al, 2023).

Research methodology

The focus of this chapter is the explanation of the methodology that was used to carry out this study. The evaluation analysis was done based on different literatures and data. Qualitative methods consist in the use of secondary sources, which includes literature from various studies, books, and articles.

Research design is a plan of activity based on the research objective and guides the selection of the source and types of information. Koda defines research design as arranging the conditions for collecting and analysing data in a way that aims to combine the relevance of the research purpose with economy in procedure (Koda, 2006). The study used a case study design to analyse the effects and relationships between the minimum wage and the unemployment rate in Albania. Due to the objectives of this research, a quantitative approach methodology was applied. The goal of the research is to review the impact of minimum wage levels on the level of unemployment, therefore this quantitative part of the research served as analytical work to make the whole topic a little more comprehensive.

This paper focuses on studying the effect of the minimum wage on employment, collecting, and reviewing the existing literature related to these variables. Also, the study aims to study and explain how the minimum wage has changed in Albania by examining changes in the level of unemployment.

This study is based on secondary data on minimum wage and unemployment rate time series to explain any relationship that may exist between these variables. The annual data for the above variables were used from 2017 – 2022. They were accessed on the official website of the statistics institution and state institutions.

The study was conducted to assess the importance of the minimum wage in the level of the effect it has on the increase in unemployment. This was achieved by testing the following hypothesis: Hypothesis: “The minimum wage has a positive impact on reducing unemployment.

Analysis and findings

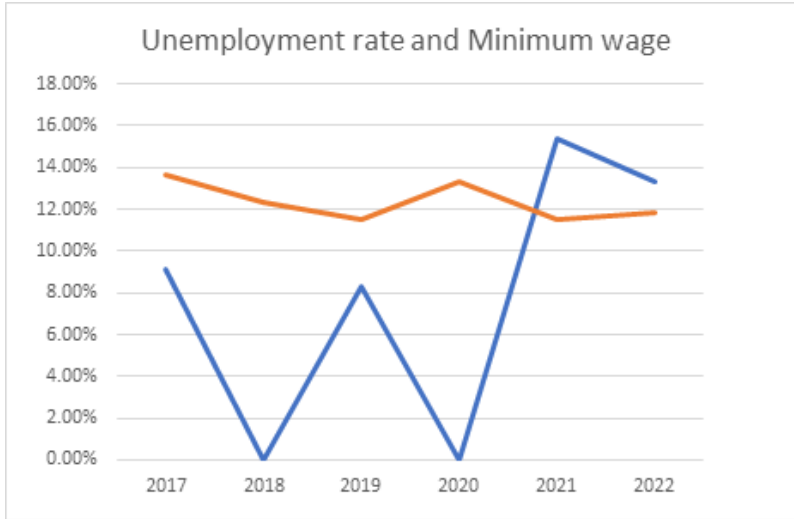
The research question in this study is whether a change in the minimum wage among other factors will influence unemployment. Specifically, can raising the minimum wage increase the unemployment rate? The economic relationship between the minimum wage and unemployment was analysed using data for the Republic of Albania for the period 2017-2022, due to the availability of statistical data. The data were accessed on the official website of statistics and on the official websites of state institutions such as the Ministry of Finance (MOF).

TABLE 1: Minimum wage and unemployment rate 2018-2022 (INSTAT)

Minimum Wage and Unemployment rate 2017-2022			
Year	Paga minimale	Rritja e pagës minimale %	niveli I papunisë
2017	24000	9.10%	13.62%
2018	24000	0%	12.30%

2019	26000	8.3%	11.47%
2020	26000	0	13.33%
2021	30000	15.4%	11.50%
2022	34000	13.3%	11.81%

CHART 1: Unemployment rate and minimum wage relationship



As can be seen at first glance, a trend that is observed is a decrease in unemployment when the minimum wage increases. The way this happens can take many forms. Increased consumer spending: Workers with higher wages tend to spend more money, which can increase demand for goods and services and create new jobs. Workers with relatively low wages tend to have a high propensity to consume.

Reduced poverty: A higher minimum wage can lift many workers out of poverty and reduce income inequality, which can lead to a more stable and robust economy.

Improved worker productivity: When workers are paid a fair wage, they can be more motivated and productive, which can boost overall economic growth. Efficiency wage theory approaches the issue from this perspective. Reduced worker turnover: Higher wages can make it more attractive for workers to stay in their jobs, reducing the need for employers to constantly hire and train new workers.

Improved work incentives: A higher minimum wage increases hourly wages from work rather than remaining economically inactive. However, it is important to note that too large an increase in the minimum wage could lead to inflation, reduced profits for businesses and potentially reduced job opportunities as companies look to cut costs.

In the increase of the minimum wage in 2019 from 24,000 ALL to 26,000 thousand ALL, we have a decrease in unemployment from 12.3% to 11.47%. So, unemployment has decreased by 0.83%. Meanwhile, from 2019 to 2020, the minimum wage in the Republic of Albania has not changed, remaining at 26,000 ALL, on the other hand, the unemployment rate has increased from 11.47% in 2019 to 13.33% in 2020. We are talking here about an increase of 1.86%. From 2020 to 2021, the minimum wage has changed, reaching the value of 30,000 ALL, and unemployment has also decreased again to the level of 11.50%. So, with the increase in the minimum wage, unemployment has decreased by 1.83%. From 2021 to 2022 the minimum wage has changed again, even as mentioned above, in 2022 the minimum wage in Albania has known two changes from time to time. Where in April from 30,000 ALL it reached 32,000 ALL, then within the year it reached 34,000 ALL, while unemployment recognized a slight increase, 11.81%. But the factors that may have influenced the level of unemployment may be different and not limited to the minimum wage, given that Albania has experienced a series of crises one after the other which have affected the country's economy, including fluctuations in the levels of employment.

First, the earthquake of 2019, the economic damages and the reconstruction process which is not yet finished. Secondly, the pandemic caused by Covid19. Due to the coronavirus many people lost their jobs, and many businesses were forced to lay off their employees. Then the crisis caused by the war, where inflation has increased day by day. Thus, businesses cannot afford to keep the same number of employees in such periods. All these factors and others that were not mentioned in this part of the paper may have influenced the level of unemployment in the Republic of Albania from 2017 to 2022.

Conclusions

A wide range of labour market interventions promise to expand job opportunities and raise incomes for one group at the risk of reducing the employment opportunities of other groups. In the case of the minimum wage, academic debate continues regarding the existence and size of these trade-offs. But assuming some trade-offs exist, the normative question of whether a higher minimum wage represents a fair and desirable intervention in the labour market depends on the positive question of which workers benefit and which do not. This positive question has received little attention from otherwise voluminous literature on the impact of minimum wage policies.

Minimum wage levels can affect different economies and countries depending on how they fit into the labour market. This paper examines whether the minimum

wage affects employment through a discrete change in its level or whether it is reflected over time. Much of the previous literature on this topic has assumed that an increase in the minimum wage would result in a relatively rapid employment adjustment. Many have taken the lack of such a finding as an indication that the minimum wage has minimal effects on employment, however there are theoretical reasons to believe that this change may be slower.

Minimum wage means a minimum limit below which no employee can be paid. In general, the minimum wage is determined by the legislation of the countries. In Albania, the minimum wage has recently changed to respond to the economic crisis and high inflation that the country is experiencing.

The statistical data show us that with the increase of the minimum wage, employment fluctuated, having decreases and increases at low levels.

The hypothesis that was raised was that the increase in the minimum wage affects the increase in the level of unemployment. The analysis shows a not very strong relationship between them, however, at the levels that the model fits, it showed us that the hypothesis is not true, the increase in the minimum wage does not affect the increase in employment.

And yet there are limitations around this work. First, there are not many studies that explain the relationship between minimum wages and the level of employment in the case of Albania. Also, the years considered in the framework of this study are not sufficient. It is recommended that further, more extensive studies be conducted to test the effect that the minimum wage has on employment.

The first important area for further research regarding the effects of the minimum wage on employment in Albania is how the minimum wage policy affects the welfare of workers in the informal sector, given the high proportion of workers in the uncovered sector. It is recommended that more in-depth analysis be made about the impact of occasional changes in the minimum wage level. Thirdly, it is recommended that the government consult with business analysts and economic experts and with the businesses themselves so that the change in the minimum wage does not negatively affect the economic development of the country.

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