Minimum Wage: Does it Improve Welfare in Thailand?

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The minimum wage constitutes a key labor market policy instrument in both developed and developing countries. In developing countries, where tax bases are limited and hence resources for other labor market policies (e.g., active labor market policies) are scarce, minimum wages are used even more often with an objective of lifting the fortunes of low-skilled workers and poor individuals.

Although there is broad consensus in the academic literature on the positive impact of the minimum wage on average wages, its effects on employment are still heatedly debated. Some authors argue that the standard textbook analysis of the minimum wage, which predicts disemployment effects, is at odds with the evidence, which shows few signs of increased joblessness after minimum-wage increases in developed countries. Instead, they interpret the empirical evidence as supportive of monopsonistic behavior in the labor market, whereby minimum-wage raises help to compress the wage distribution at the bottom without reducing employment. Other authors argue that the literature tilts in favor of those studies that find a negative employment effect.

The academic focus on how minimum-wage increases affect employment contrasts with policy makers’ emphasis on how minimum-wage legislation would affect income distribution. In fact, the literature studying the impact of the minimum wage on poverty or on income and consumption inequality is much scarcer than the literature studying its impact on employment, and it mostly focuses on developed economies. Interestingly, most studies find that disemployment effects tend to concentrate among the low-skilled, thereby casting doubt on the effectiveness of using minimum-wage policy as a lever to reduce poverty. Additionally, minimum-wage workers are often not the most disadvantaged in developing countries; on the contrary, formal minimum-wage workers are protected by labor policy, while workers in the informal sector often earn below the minimum wage. Therefore, it is in principle unclear whether the minimum wage constitutes the right tool for reducing inequality and, ultimately, for alleviating poverty.

Our research (Del Carpio, X., Messina, J. and A. Sanz-de-Galdeano (2014), “Minimum Wage: Does it Improve Welfare in Thailand?” IZA Discussion Paper No. 7911, Bonn) contributes to this debate by conducting a fairly comprehensive examination of the impact of changes to the minimum-wage level in Thailand from 2001 through 2011. In particular, we assess the impact of the minimum wage on employment, wages, household poverty and consumption per capita.

During the period of analysis, the minimum wage in Thailand was set by province, introducing a great variability of minimum wages across the country and over time. These various provincial minimum wages were set following a complex, two-tiered system that involved near-continual negotiations between tripartite committees at the provincial and national levels. Such a complex negotiation process introduced a great deal of arbitrariness in the minimum wages set. Decision making responded more to imbalances in bargaining power between employers and employees and to the central government’s desire to maintain provincial status quo than to a careful process of planning and targeting. As a result, variation of the minimum wage over time and within provinces was, to a large extent, exogenous to changes in the local labor market. Hence, we use a difference-
in-difference strategy to identify the causal impact of minimum-wage changes on labor market and household outcomes—a strategy that is not likely to suffer from the common endogeneity biases found in many previous studies.

We find that minimum wage increases also increase actual wages generally, and they do so more for female and young workers than for prime-aged male employees. The estimated elasticities are in the range of 0.25–0.5, depending on the subgroup analyzed, and the average elasticity for the general population of full-time formal sector employees is 0.36. Importantly, we do not find evidence of minimum wage increases pushing workers into the uncovered sector (comprising self-employed and unpaid family workers). However, some negative effects of the minimum wage are also detected: it reduces the probability of being employed, especially among women and elderly workers, although the estimated impacts are small.

At the aggregate level, the positive impact of the minimum wage on actual wages more than compensates for the negative effects on employment. Back-of-the-envelope calculations suggest that, even evaluating employment losses as zero wages, a 10 percent rise in the real minimum wage would have resulted in an increase of 2.6 percent in the wage bill. However, these gains are not uniformly distributed across the population: medium- and high-skilled workers benefit the most from a minimum-wage increase.

This conclusion is confirmed by our analysis of the impact of the minimum-wage increases on consumption per capita at the household level (see Figure 1). Although such an impact is always positive—suggesting that consumption increased more in those provinces where minimum wages grew faster—the largest gains from minimum-wage rises are observed around the 6th decile of the consumption per capita distribution. In fact, the minimum wage increased inequality at the bottom half of the distribution, and our estimates are inconclusive about the scope of minimum wages for poverty reduction in Thailand.

**Figure 1: Impact of Thai Minimum Wage along Distribution of Real Per Capita Household Consumption**

![Figure 1: Impact of Thai Minimum Wage along Distribution of Real Per Capita Household Consumption](image)

*Note: Quantile regression estimates (solid lines) and their associated confidence intervals (dotted lines) are plotted. The dependent variable (per capita real household consumption) is measured in logs, and so is the real daily minimum wage. Control variables include household heads’ characteristics (male dummy, age, age$^2$/10, married dummy, education, and labor market status indicators); a municipal area dummy; information on household composition (size and indicators for the presence of household members younger than 15 and older than 59 years old); and the log of real per capita GDP per province and year.
