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Minimum wages and employment in Swedish hotels and restaurants

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Abstract

This paper considers the effects of union-bargained minimum wages on transitions into and out of employment in the hotels and catering industry over the period 1979–99. This industry is characterised by a high fraction of unskilled labour input, high worker turnover and binding minimum wages. The empirical approach identifies workers affected by real minimum wage increases and decreases, respectively. Job separations and accessions for the treatment groups are then contrasted to the outcomes for control groups, with wages marginally above those of the treatment groups. Unlike previous studies, this paper also considers same-period transitions for same-wage workers who are unaffected by minimum wage changes. This procedure should help to control for unobserved differences between high- and low-wage workers and is made possible by the diversified minimum wage structure of the industry. According to the results, job separations tend to increase with rising minimum wages (except for teenagers during 1993–98). The evidence regarding accessions is less conclusive.

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1. Introduction

The employment effects of minimum wages have been subject to extensive empirical scrutiny for decades. In recent work, two different approaches can be identified. The first one considers net worker flows and the overwhelming majority of the studies belong to this category. The second approach deals with gross worker flows. The influential studies by Card and Krueger (1994, 1995), on U.S. fast-food restaurants, are examples of the net flows approach, as are the British studies by Dickens et al. (1999) and Machin and Manning (1994), and Neumark and Wascher (1992), on U.S. data, although the evaluation methodologies differ in other respects. None of these studies, except Neumark and Wascher (1992), find strong negative employment effects from minimum wage increases, and some even suggest small positive effects.[1]

This paper follows a line of analysis, in which gross worker flows are considered, used by Abowd et al. (2000a, 2000b) on U.S. and French data, Askildsen et al. (2000) for Norway, Currie and Fallick (1996) and Zavodny (2000) for the U.S., Kramarz and Philippon (2001) for France, and Stewart (2004a, 2004b) on U.K. data. The evidence in these studies is mixed. While most find non-negligible negative employment effects from minimum wages, Askildsen et al. (2000) and Stewart (2004a, 2004b) do not. The gross flows approach, which requires longitudinal micro-data on individuals, offers the advantage of allowing employment adjustment to minimum wages to be disaggregated into hirings and separations, rather than net changes in the total number of employed.

The gross flows approach identifies workers affected by real minimum wage increases and decreases, respectively. Job separations and accessions for the treatment groups are then contrasted to the outcomes for control groups, with wages marginally above those of the treatment groups. The validity of the method hinges, *inter alia*, on the assumption of comparability of treatment and control groups. Even in the absence of a minimum wage, the control group is likely to exhibit fewer separations and accessions. It is argued that a higher degree of comparability is achieved in this study than in previous analyses. This is due to the unusual quality and detail of the data set employed, covering workers in the hotels and catering industry. The rates within the chosen industry are differentiated by age, region, occupation and experience.

A diversified structure is typical for labour markets with union-bargained minimum wages. Although differentiation of rates depending on region and age occur also in statutory systems, industry-, occupation- and experience-specific rates are less common (OECD, 1998). Unlike previous papers using the gross flows approach, this study makes use of the diversified structure in order to identify unaffected workers with the same wages as workers assumed to be affected by increasing or decreasing minimum wages. In addition, the unaffected workers are located in the same industry and have experienced minimum wage changes in the same direction as the affected workers.[2] These unaffected

[1] Dolado et al. (1996) summarise findings regarding European labour markets. Edin and Holmlund (1994), the only previous study on Swedish data, report negative employment effects for teenagers in manufacturing.

[2] In their respective pseudo-experiments based on homogeneous minimum wages, Abowd et al. (2000b), Kramarz and Philippon (2001) and Zavodny (2000) consider workers who have experienced minimum wage changes of the *opposite* direction during *other* time periods.