Assessment of economic and social impact of minimum wage on individuals

Using questionnaire survey method the social and economic impact of minimum wage on individual was analysed. The results show that minimum wage in Lithuania is too low and satisfy only part of its social and economic functions.

Keywords: minimum wage, unemployment, social impact, economic impact.

Introduction

Minimum wage depends on country’s macro and micro economic environment, cultural, historical and social contexts. Government sets the floor of the minimum wage. It is the amount of money employer must pay to his workers to meet their psychological and social needs and to ensure their well-being. Impacts of the minimum wage on individuals can be seen in both negative and positive aspects. It mostly depends on its level. For the few past years, the minimum wage and its appropriate level has been the issue debated by politicians and academic society. Until 2012, the minimum wage in Lithuania hasn’t been overviewed for four years. Recent changes (the minimum wage was increased) show that government gives great importance to this kind of controlling instrument of the labour market.

The minimum wage has two main functions, one of which is to reduce poverty and even foster economic growth. The other one is concerned with implemented disequilibrium in labour market; thus putting a wage floor above the equilibrium level will lead to a fall in employment.

The minimum wage is widely analysed in scientific literature. C. Brown, C. Gilroy, A. Kohen (1982), D. Card,

However, the importance of the minimum wage to society, the social and economic impact on individuals have not been analysed on a complex basis and lack generalisation of both positive and negative social and economic effects on individuals. The scientific problem remains not resolved in terms of trying to identify which economic and social functions of minimum wage more positive, or more negative performs minimum wage on individuals.

The aim of the research is to assess the impact of the minimum wage on individual underlying its social and economic functions.

To reach the aim of the research, the following goals were set:

- To reveal social and economic functions of the minimum wage on individuals.
- To analyse the minimum wage trends in Lithuania in the context of EU countries.
- To investigate what social and economic functions perform the minimum wage on individuals.

Methods of the research: to conceptualise the social and economic function of minimum wage, a comparative analysis of the present scientific insights and empirical research were carried out. To assess the social and economic impact of the minimum wage on individuals, a survey was conducted. There were 94 individuals interviewed. The survey findings were obtained using SPSS 16 software.

Conclusions of the survey can be summarised as follow: Lithuanian minimum wage is too low and this can explain why it is able to perform only a part of its social and economic functions; the minimum wage in Lithuania doesn’t allow satisfying the basic needs of an individual; individuals need additional social assistance; the minimum wage doesn’t motivate to work efficiently and this slows the development of the country. On the other hand, the minimum wage encourages workers to enter the labour market for being higher than many workers’ reservation wage.
Theoretical aspect of the economic and social minimum wage impact on individuals

Current attitudes towards wages appear to be quite broad. Wages payable to employees became one of a number of motivating factors with different impacts on decision making. Various pay systems are being designed to ensure economic profitability, social balance and efficient use of workers’ skills and competences.

MW means the minimum statutory wage level applicable in all spheres of employment (Vainienė, 2005). Therefore, the concept of the minimum wage is interpreted basing on its primary function, namely, to guarantee the minimum earnings ensuring physiological and social needs of an employed individual (Mačernytė – Panomariovienė, 2003). The minimum wage is aimed to guarantee consumption that would satisfy basic human needs.

However, MW is controversial for prohibiting free operation of the labour market and for being an artificial formation between demand and supply. An impact of MW depends on the number of people in a country paid the minimum wage (Rutkowski, 2003). The amplitude of MW effects in different groups of labour market participants mostly depend on the amount of MW which is measured taking into account the average wage, median value, economic situation and cultural context in a country. The higher is MW, the more noticeable it is. Therefore, minimum wage setting requires a well-balanced mechanism.

The economic impact of MW. MW can have both positive and negative effects in the labour market. It is an ambiguous value likely to have a twofold impact on the same element in the labour market. The minimum wage has an impact on employees,

![Table 1](image)

**Table 1**

The economic impact of minimum wages on individuals

<table>
<thead>
<tr>
<th>The positive effects</th>
<th>The negative effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee the right to a fair wage;</td>
<td>Unbalance labour supply and demand relationship;</td>
</tr>
<tr>
<td>Increase efficiency of low income workers;</td>
<td>Improve businesses that hire illegal labour, competitive position;</td>
</tr>
<tr>
<td>Reduce a too big difference in salaries;</td>
<td>Complicate business environment;</td>
</tr>
<tr>
<td>Increase the labour supply;</td>
<td>Cause an inflation surge;</td>
</tr>
<tr>
<td>Increase the purchasing power of workers;</td>
<td>Promote the growth of the informal sector;</td>
</tr>
<tr>
<td>Promote the growth of the national economy;</td>
<td>Cause “lighthouse” effect;</td>
</tr>
<tr>
<td>Increase the amount of tax revenue;</td>
<td>Reduce labour market flexibility;</td>
</tr>
<tr>
<td>Reduce the burden on state welfare benefits;</td>
<td>Not up for a specific number of household members;</td>
</tr>
<tr>
<td>Motivate productivity and efficiency;</td>
<td>Complicate the work of other workers;</td>
</tr>
<tr>
<td>Reduce the same jobs with different wages, inequality;</td>
<td>Reduce the competitiveness of enterprises in the international market;</td>
</tr>
<tr>
<td>Create competitive advantages of products in international trade.</td>
<td></td>
</tr>
</tbody>
</table>

employers and the state; it can also have implications for inactive individuals. This value has an impact both on the overall national economy and specific individuals. Yet, the main function of the MW is to guarantee a fair wage to an employee. Negative effects are derivative ones. When determining the minimum wage, states should take all possible effects in account. The positive effects of the MW are more felt by MW recipients, while negative effects are usually suffered by undertakings in the form of growing costs. The effects for the state are indirect (through increased tax revenues and decreased social benefits). The negative effects, such as inflation, can be mitigated by the state with the help of fiscal policies. The economic impact of MW is summarised in table 1.

The twofold impact of MW can be best illustrated by a widely debated issue on the effects of this fixed value on unemployment. Economists’ opinions differ both in Lithuanian and foreign literature. One of them actively argue and provide researches evidencing that namely the MW influences the growing unemployment rates (for example, Stigler, 1946; Van Soest, 1989; Neumark, Wascher, 2007, etc.), while other authors either do not see any direct relation or, at least, do not find it to be important (Thompson, 2008, Brence, 2010; Card, Krueger, 1995, etc.). The empirical analysis of M. F. Thompson (2008) denies the statement that raising the minimum wage reduces unemployment. Having analysed one region in the United States, the author claims not having found a direct negative impact on employment change. M. F. Thompson (2008) suggests continuing empirical studies in the future in order to weigh the impact of MW and to carefully examine the regions and industries that may be negatively affected in terms of employment.

As labour markets have specific structure and greatly differ from other markets, these specific features determine the complexity of correlation studies for MW and unemployment levels, and different interpretation of findings. For example, in the United States of America, where job change is high and unemployment periods are short, low-paid workers effectively use the positive effects of MW. However, in Europe, where job search periods are long, there exists a greater risk and probability that MW will divide low-paid workers to winners and losers (Freeman, 1996). Therefore, even though researches conducted at certain points of place and time encouraged politicians or academic community to decide that MW didn’t have any or had extremely palpable effects on employment levels, this should not necessarily apply to all labour markets. Like M. F. Thompson (2008), L. Funk and H. Lesch (2005) argue that the impact of MW usually manifests in specific sectors and individual groups of workers.

*The social impact of MW.* Economic development is inseparable from social cohesion. G. Standing and D. Vaughan-Whitehead (1995) emphasise that the statutory minimum wage has been supposed to be an anchor of the social protection system and the wage structure, protecting the low-paid and those dependent on state benefits. Unfortunately, the level of MW has dropped to well below the subsistence level and has ceased to protect anyone becoming a measure against scarcity and poverty.

MW ineffectiveness can cause such social problems as decreasing household investments to human resources (i.e., education, health care, recreation and culture), growing emigration levels, crime,
ASSESSMENT OF ECONOMIC AND SOCIAL IMPACT OF MINIMUM WAGE ON INDIVIDUALS

The social impact of the minimum wage on individuals

<table>
<thead>
<tr>
<th>The positive effects</th>
<th>The negative effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide labour renewal;</td>
<td>Does not guarantee a positive impact on those who are working part-time;</td>
</tr>
<tr>
<td>Guarantee the right to a dignified life;</td>
<td>Create the conditions for poverty circle;</td>
</tr>
<tr>
<td>Make prevention against poverty;</td>
<td>Cause social problems;</td>
</tr>
<tr>
<td>Reduce poverty;</td>
<td>Does not provide training, opportunities for creativity.</td>
</tr>
<tr>
<td>Perform the function of social security;</td>
<td></td>
</tr>
<tr>
<td>Encourage inactive people to enter the labour market;</td>
<td></td>
</tr>
<tr>
<td>Promote social, political, cultural integration.</td>
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</table>

Table 2


and formation of a socially disadvantaged group (Gruževskis, Lazutka et al., 2009).

To summarise the effects of MW, it can be stated that strong and important social functions do not cause such weighty likely negative effects as is in the category of the economic impact. However, the improper size of MW may lead to social problems and impair the quality of life and social guarantees of the recipients of minimum wages (table 2).

The primary positive impact of MW in social area is associated with poverty reduction. Poverty reduction is implemented through the provision of such income which size would enable restoration of work forces and guarantee the right to dignified life. However, individuals receiving low wages for a prolonged time are gradually pushed to social exclusion, face social problems and thus have adverse effects on economic development.

Importance of the size of minimum wage for individuals. As it was mentioned above, the amplitude of the MW impact on different groups of labour market participants mainly depends on the relative size of the minimum wage. In general, a distinction can be made between two extremities: low or high level of the minimum wage.

A low minimum wage prevents operation of functions for which it was fixed and introduced in a country. Without producing positive effects (guaranteeing the right to a fair wage and reducing poverty), MW manifests negatively in social terms leading to various social problems. Disadvantages of the low MW have a greatest impact on social and economic life of individuals (through impeded integration to society, amount of purchasing power), but have less implication for undertakings. As labour market participants are closely interrelated, impacting on one group brings effects for another group. This can be best seen in the relationship between an individual and the state. For example, if the former faces social problems, the latter suffers heavier burdens of social benefits; if an individual loses the job decreasing employment reduces the amount of collected taxes and impedes economic development.

A relatively high MW does not only
cause any negative social impact, but completely prevents the likelihood for such impact to occur. However, this refers only to individuals in jobs. High MW creates conditions for a negative economic impact to appear, one aspect of which is encumbering business conditions to such an extent that an enterprise cannot afford to hire a labour unit. This aspect is so strong that it is likely to wipe out the positive impact by pushing an individual outside the labour market. As a result, the obviously seen positive MW impact will be relevant to a smaller number of individuals. State is also involved in this process of balancing supply and demand, as all effects of the impact are reflected in the social and economic dynamics of the country.

Accordingly, at a given moment, the above-discussed impact of MW is differently manifesting in economic and social life subject to the economic status of the state. Therefore, it is reasonable to conduct special studies aimed at assessing minimum wages in different groups of MW recipients and MW payers. The central problem in connection with the minimum wage is to find an optimal balance between benefits and costs at a certain place and time. Only correctly set MW size is capable of ensuring the maximum operability of functions and preventing negative consequences. All these problems might be attributed to further research areas. Yet, it is extremely relevant and important to explore into the impact on MW recipients, as a sustainable economic development of a country and its economic and social stability are integral and starts with ensuring well-being for individuals.

**Minimum wage trends in Lithuania in the context of EU**

The economic and social impact on labour market participants can be different at different points of place and time. In order to investigate the impact of MW in Lithuania on individuals at a present moment, this section describes the conducted study of the economic and social impact of the minimum wage. The aim of the study: to analyse the economic and social impact of MW on individuals in Lithuania. The quantitative study consists of two parts.

The first part contains a comparison of changes in MWs in the Member States in 2000 - 2013. This allows assessing Lithuania, as the MW payer, in the context of other Member States. Then the Lithuanian MW is assessed in the light of the trends in the dynamics of macroeconomic indicators of the country in 2007 - 2012 in order to find out the changes in the national economic situation after the last adjustment of the minimum wage. The second part describes findings of a survey of recipients of minimum or lower wages.

**Analysis of minimum wage changes in the context of the European Union in 2000 - 2013.** According to the data provided by Eurostat, the Statistical Office of the European Union (2013), there was an upward trend in the minimum wages of the Member States in 2000 - 2013. The change in the minimum wage ranges from 3 EUR (e.g., Romanian MW was 69 EUR and 72 EUR in 2004 and 2005 respectively) to 247 EUR (e.g., the minimum wage in the UK was 1,242 EUR and 995 EUR in 2008 and 2009 respectively). There are four countries exhibiting less dynamic minimum wages in comparison with other Member States which have remained stable for the last several years. According to the Eurostat
data of January 2013, Ireland is still paying the minimum wage fixed in 2008. In Lithuania, last set in 2008, the minimum wage was raised only in August 2012. In Bulgaria and Estonia, MW was raised in January 2012 after being stable for 3 and 4 years respectively. From 2000 to 2013, the biggest increase in the minimum wage is seen in Luxembourg (by 683 EUR) and Ireland (by 506 EUR); Bulgaria, Romania and Lithuania are demonstrating the lowest increase in MW during the period at issue (by 121 EUR, 132 EUR and 184 EUR respectively) (Fig. 1). In 2000, the difference in MW in Luxembourg and Bulgaria exceeded 30 times. Although the difference was rapidly shrinking, it has still remained at the level of 12 - 13 times. This difference is determined by difference historical and economic experience of the two countries.

Lithuania appears in the group of EU countries with the lowest and very rarely adjusted MW. Basing on these data, the paper raises a question as to whether such static and low MW in the context of the Member States is effective and performs the main functions attributed to it.

Assessment of the Lithuanian minimum wage in the context of the trends in the dynamics of macroeconomic indicators in 2007 - 2012. In 2007 - 2012, the Lithuanian economy was exposed to the global financial crisis. The resulting downturn influenced the deceleration of economic development, worsening of the business environment, shrinking of investments, and fall in trade volumes and domestic consumption. Although in 2008 the average annual GDP change was still positive, it fell by 15.8 % in the third quarter of 2009 (Fig. 2). The consumer price index (year-on-year in per cent) kept growing from the

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*Fig. 1. The absolute changes of minimum wage in the EU, 2000 - 2013*

*Note: figure developed by the authors, based on the data provided by European Union’s statistical office Eurostat (Monthly minimum wages, 2013).*
Paralysis of production and consumption led to a decrease in the number of jobs. During the period of issue, the unemployment rate grew more than by 3 times (from 4.3% to 13.2%), expenses for social security increased by 6 billion litas (Lithuanian economic and social development in 13/02, 2013; and Social security in Lithuania in 2010, 2012). The rate of unemployment recorded in 2010 was 17.8%. Accordingly, almost every fifth Lithuanian resident was unemployed during that period.

Increased labour supply determined changes in the average wage in the country (Fig. 3). The average gross wage/salary was palpably growing both in the public and private sectors in 2007 - 2008. However, the decelerated GDP growth resulted in a

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**Fig. 2.** CPI and GDP changes in Lithuania, 2007 - 2012

*Note:* figure developed by the authors, based on the statistics provided by the Lithuanian Department of Statistics at the Government of the Republic of Lithuania (Economic and Social Development in Lithuania, 2013).

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**Fig. 3.** The average monthly wage and the minimum wage in Lithuania, 2007 - 2012

*Note:* Figure developed by the authors, based on the statistics provided by the Lithuanian Department of Statistics at the Government of the Republic of Lithuania (Economic and Social Development in Lithuania, 2013).
wage decrease in the whole country in 2009 and 2010. The average salaries in the public sector remained the highest throughout the whole period at issue, while the private sector was exposed to greater perturbations. At the same time, the minimum wage set for the whole economy at the beginning of 2008 was not adjusted during the given period.

In the context of such macroeconomic changes, it can be stated that MW is detached from economic developments and does not reflect the labour market price. To that end, the empirical analysis is aimed at identifying whether the static minimum wage is still capable of performing its functions and does not cause negative effects on individual and, at the same time, on the state.

Belonging to the group of countries with the lowest fixed MW and having not increased it for five years Lithuania is falling outside the EU context. This confirms the reasonableness of concerns about the impact and efficiency of the minimum wage. It is necessary to analyse whether the static minimum wage is still performing its basic functions.

Assessment of the Lithuanian minimum wage in the context of the trends in the dynamics of macroeconomic indicators in 2007 - 2012. In 2008 - 2010, Lithuania was exposed to dramatic changes: rapid GDP growth was replaced by a sharp decline; inflation changes dramatically reduced the purchasing power. Paralysis of production and consumption led to a decrease in the number of jobs. According to the data of the Lithuanian Department of Statistics (2013), during the period of issue, the unemployment rate grew by 13.5 % and expenses for social security increased by 6 billion litas. Changes in the average wage reflected developments of the national economy. Expectations of people who overcame the global financial crisis, but still live in post-crisis conditions, to receive higher wages are logic and reasonable, particularly when the average wage rose in 2011 (Lithuanian economic and social development 13/01, 2013), but the minimum wage remained unchanged during the period at issue. It can be therefore stated that MW is detached from economic developments and does not reflect the labour market price. To that end, the empirical analysis seeks to identify whether such static minimum wage is still capable of performing its functions and does not cause negative effects on individual.

Methodological basis for the organisation of the research on the economic and social impact of minimum wage on individuals

On the basis of the analysis of theoretical data, a quantitative research method (questioning) was selected to reveal the economic and social impact of MW on individuals. The questionnaire consists of 4 main parts (table 3) of aspects of the MW impact which act directly on MW recipients. The questionnaire includes 16 questions (5 open-ended, 9 closed-ended and 2 Likert-scale questions scoring from 1 (strongly disagree) to 5 (strongly agree)).

The questionnaire begins with checklist questions: the first one is asked to find out whether a respondent belongs to the research sample, and the second one is to assess the portion of respondent’s financial resources represented by his/her wage/salary; questions 11 and 12 are required for the analysis among different groups of MW recipients. The
Asta KAMANDULIENĖ, Giedrė PAULUSKAITĖ

The structure of the questionnaire

<table>
<thead>
<tr>
<th>Purpose of the question (question number)</th>
<th>Setting research sample attribution (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting a relative share of minimum wage in cash assets and effects on the purchasing power (2)</td>
<td>Setting a number of minimum wage users in a household (11)</td>
</tr>
<tr>
<td>Assessment of the impact of difference between working full-time and part-time (12)</td>
<td>Determination of the number of receiving minimum wage and social assistance (3)</td>
</tr>
<tr>
<td>Setting a reserve wage (4)</td>
<td>Minimum wage impact on productivity, efficiency, labour supply and business conditions (5; 6)</td>
</tr>
<tr>
<td>Assessment of ensuring the right to a fair wage (7)</td>
<td>Assessment of the impact of differences in wages on education (8.1) and discrimination (8.3)</td>
</tr>
<tr>
<td>Assessment of the minimum wage impact on the informal sector labour supply and demand (8.2; 8.4)</td>
<td>Assessment of the minimum wage impact on labour market flexibility and fair wages (8.5)</td>
</tr>
<tr>
<td>Identification of the purchasing power of employees and the consumer basket (9)</td>
<td>Assessment of poverty prevention and poverty reduction (10.1)</td>
</tr>
<tr>
<td>Minimum wage assessment in the light of the social security function (10.2)</td>
<td>Assessment of the right to ensuring dignified life (10.3)</td>
</tr>
<tr>
<td>Assessment of social integration of respondents with minimum wages (10.4)</td>
<td>Assessment of the minimum wage impact on reducing social problems (10.5; 10.6; 10.7)</td>
</tr>
<tr>
<td>Assessment of wage effects on educational opportunities (10.8)</td>
<td>Characteristics of the respondents (education, age group, location and sex) (13; 14; 15; 16)</td>
</tr>
</tbody>
</table>

economic part (questions 3 to 9) includes questions intended to assess the decisive economic impact of MW. The second part of questions includes the analysis of the social impact (question 10). The final four questions are intended to provide demographic data about respondents.

Research sample. According to the data of the Lithuanian Department of Statistics (2012), 215.6 thousand individuals received minimum or lower wages in Lithuania in October 2011. The number interviewed respondents (the size of the research sample) was calculated using the Paniotto’s formula to ensure the reliability of the survey (Kardelis, 2002): 

\[ n = \frac{1}{\Delta^2 + 1/N} \]

where: \( n \) is the sample size; \( \Delta \) is the permissible error; \( N \) is the population size; \( n = 1/(0.1^2 + 1/215600) \), where \( n = 100 \) workers. With the permissible error being 10 %, at least 100 workers should be questioned in order to draw reliable conclusions.

Organisation of the research. The questionnaire survey was conducted in March – April 2011. An electronic version of the questionnaire was made public on Internet, placed at <http://apklausa.lt/f/apklausa-skirta-gaunantiems-minimalu-darbo-uzmokesti-fsjg8bq/answers>. The rest of the respondents were recruited as a convenience sample and, therefore, represent a non-probability sample. The research sample included individuals with minimum or lower wages.

The statistical data analysis was carried out using SPSS version 16.0 and Microsoft Office 2010 software package. The results were calculated and analysed on the basis of:

- Descriptive statistics: to identify the frequency and percentage of categories;
- Spearman correlation coefficient – to identify the relationship if the assumption of normality is not satisfied;
- Shapiro Wilk test for normality of variances;
- Chi-squared test - to determine the significance of the difference in variances;
- Fisher’s exact test – to compare the dispersions of two characteristics;
- Non-parametric Mann-Whitney U test – to compare two independent samples;
- Non-parametric Kruscal-Wallis test – to compare more than two samples.

Statistical hypotheses are tested when level of significance is 0.05: significance level of p > 0.05 – statistical difference is insignificant; p < 0.05 – statistical difference is significant. The data is illustrated in charts for better understanding and visual representation.

Characteristics of the research sample

During the survey, 94 questionnaire forms were handed out and another 46 were filled out by Internet users. 113 questionnaires were found to belong to the research sample and meet the set requirements for filing in the questionnaire forms. The respondents were represented by 69 % of women (N = 78) and 31 % of men (N = 35). Young individuals (from 20 to 29) accounted for the majority of the respondents (49.9 %) receiving MW. Most of the respondents live in rural areas (N = 70) and have higher or secondary education (31 % and 30.1 %, respectively). Differences in education are more obvious within the groups: 40 % of total rural respondents have acquired secondary education, while 53.5 % of urban respondents have higher education.

The analysis of the household composition reveals that respondent usually live in four-member families (33.6 %) with two working and two studying members. The biggest household consisted of 6 persons (4.4 %).

Analysis of the research results

The households of the respondents mainly consisted of one or two wage earners. Accordingly, the portion of earnings from wages/salaries accounted for 50 % or 100 %. There is no statistical difference between male or female bread-winners. The hypothesis that the minimum wage does not guarantee the coverage of household expenses is confirmed, inter alia, by the fact that social assistance is usually provided to families with more than two members or families with only one working member. The arguments of H. Her, M. Kazandziska (2011) and L. Žiogelytė (2011) are also confirmed that in developing countries, where to Lithuania is to be attributed, MW should be geared to the basic household needs rather than to the subsistence needs of an individual. Otherwise, MW does not ensure the adequate purchasing power for families receiving minimum wages and this, in turn, increases social expenses of the state.

The average reserve wage (the lowest wage rate at which a worker would be willing to accept a particular type of job) indicated by the respondents was 947.96 LTL. There being no logical correlation found between individuals employed on a full-time basis and those working part time and the amount of reserve wage, a more in-depth analysis is required to answer the question why the indicated amount
exceeds the minimum wage. However, the data obtained give grounds to state that many of MW recipients also receive illegal additions to wages, thus hiding a part of taxes payable to the public budget.

The lack of strict position against illegal (unofficial) work among respondents is also confirmed by their frequent agreement to the statement “If I lost job, I would agree to work illegally” (strongly agreed by 68.6 % of men and 46.2 % of women). Accordingly, increasing MW in Lithuania to such an extent that would significantly reduce the number of jobs vacancies would, in turn, considerably improve the competitive position of undertakings hiring illegal workforce.

Another statement relating to illegal (unofficial) work covered the direct and indirect experience of the respondents in “envelope payment” practices. The percentage share of those who tended to agree (a total of 50.5 % of those who “strongly agreed” and “partly agreed”) to a certain extent confirm the existence of grounds to conclude that official MW recipients also receive unofficial payments in addition.

Bearing in mind that the issue of MW raise was widely debated during the period of the research; the analysis of respondents’ behavioural trends appears to be highly relevant in this context. It was found out that the increased minimum wage would improve motivation and efforts to work (72.6 % would work much or slightly better), particularly in persons aged from 20 to 49. On the other hand, reduction of the minimum wage wouldn't have equal significance for labour efficiency, but the respondents would rather look for new jobs (86 % of urban residents and 57.1 % of rural residence).

Amounts indicated by the respondents as necessary to cover the basic needs ranged from 400 LTL to 2,500 LTL, with dominating amounts of 1,000 LTL and 1,500 LTL (20.4 % each). The analysis of relevant portions of the consumer basket revealed that average expenses per person in all household groups exceeded the amount of wage per person. This confirms the previous conclusion that the households with one wage-earner face most difficulties to cover expenses. As the amounts required to cover the basic expenses could have been influenced by the number of members in a household, the analysis is further broken down by this category (Fig. 4). Although differences in the mean values are not statistically significant (p = 0.068), there is a correlation between the growing number of household members and the growth of

![Fig. 4. Respondents’ desirable minimum net wage to cover the minimum cost averages by household size](image-url)
average amounts necessary to cover the basic expenses (Spearman correlation coefficient = 0.202, p = 0.032).

Thus, the households appearing in the most complicated financial situation are those with part-time workers receiving lower wages than the set MW. In case of two persons working for the minimum wage (27.4 %), the amount of wages exceeds the average of basic expenses, especially if there are children in the family and the tax-exempt amount of income is applied. Accordingly, in families with more than one person working, the amount of wage is sufficient for average expenses to cover the basic needs.

Most of respondents’ expenses are food expenses and expenses for housing maintenance; health care, recreation, cultural events and additional needs account for the least expenses. This reveals the limited character of the minimum wage - it is not sufficient for more diversified consumption, as most of the wage amount goes to satisfy physiological needs only. Respondents’ liabilities account for around 4-8 % of expenses irrespective of the number of household members.

The main two analysed aspects of the MW economic impact are as follows: first, the respondents’ answers confirm that MW guarantees equal pay for work of equal value; the minimum wage set in Lithuania performs the function of protection against inadequately low wage. The respondents, usually male ones, agreed that MW protects from likely intentions of employers to pay very low wage. Accordingly, the minimum wage exerts certain pressure on employers. This certainly encumbers business conditions and confirms the argument of I. Veltov and E. Virbickas (2006) that MW is a negative factor in the liberalisation of labour relations, particularly in difficult economic times. However, bearing in mind insufficiently strong trade unions in Lithuania, the mentioned limitation of labour market flexibility should be currently seen as a positive factor necessary for employed individuals in Lithuania. This impact ensures higher purchasing power of MW recipients.

There are more people living in poverty and scarcity in rural areas as compared to urban territories (strongly or partly agreed by 57.2 % and 34.9 % respectively). The higher is the number of household members, the greater is poverty risk. This not only demonstrates that the Lithuanian minimum wage does not ensure poverty prevention and the right to dignified life, but reasserts being not geared towards wage-earners in the family.

The minimum wage amount does not ensure the well-being of MW recipients. The respondents are not only disappointed about their wage (strongly or partly agreed by 72 %), but also are negative about state’s efforts to provide financial and social guarantees (strongly or partly agreed by 68.1 %). The most disappointed appear to be young individuals under 29 years old. In turn, this can lead to a reduction in labour supply or efficiency.

The analysis of the relative components of average expenses revealed that most of the expenses are to cover the basic needs, while expenses for recreation and culture are very insignificant. Although the minimum wage is supposed to ensure social, cultural and political inclusion, 72 % of the respondents reported being unable to integrate in social life due to too low wage.

The questions of the social part of the questionnaire are summarised by respondents’ opinion about social exclusion. The respondents (~66 %), particularly university graduates, tend to agree belonging
to a different social group than those with higher wages/salaries. MW caused limitations on education are mainly felt by young individuals willing to improve their qualifications. Basing on the argument in the economic part with regard to wage differentiation on the ground of education, it can be concluded that qualification improvement serves as an important factor for receiving higher wage/salary. Yet, this opportunity is limited by the minimum wage. There is a great experience- and qualification-based differentiation, and the minimum wage is incapable of reducing it.

To sum up the research findings, it can be concluded that individuals receiving minimum earnings appear to be in a complicated economic situation. The research results are reflected in the table 4 of the current economic and social impact of the minimum wage on the individual in Lithuania.

The identified aspects of the positive MW aspects on the individual are mainly derivatives and do not ensure the operation of the main functions of the minimum wage. The primary reason for the manifestation of the negative MW impact is too low purchasing power. MW recipients need assistance from the state for being unable to maintain their households. The reserve wage exceeds the actually received wage. As a result, individuals accept the job only if they are paid unofficial (illegal) additions in parallel. This revealed obvious shortcomings in official labour relations. A degree of tax hiding and tolerance to partly legalised jobs is very high. Individuals are disappointed not only about the amount of wage, but also about social security policy pursued by the government through the minimum wage. Too low MW leads to the formation of a separate social group, dissatisfaction about wages/salaries and, at the same time, about the whole economic and social policy of the government. MW recipients

The economic and social impact of minimum wage on the individual in Lithuania: the research results

<table>
<thead>
<tr>
<th>Satisfied functions (positive impact)</th>
<th>Social impact</th>
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<tbody>
<tr>
<td>MW ensures equal wage for work of the same value; MW protects against lower wages (protective function).</td>
<td>MW increase productivity and motivation to work.</td>
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<table>
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<tr>
<th>Not satisfied functions (negative impact)</th>
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<td>MW does not provide rehabilitation and recovery of labour, doesn't meet psychological needs (low purchasing power covers only part of the minimum physiological needs); MW recipient needs social assistance from state; MW positive impact does not include part time workers. MW creates conditions for the development of the informal economy and unfair competition.</td>
<td>MW does not prevent poverty; MW does not ensure dignified life; MW does not provide the social, cultural and political integration; MW pronounces social exclusion and social problems; MW increase social exclusion and social problems; MW does not encourage integration into the labor market; MW does not provide training, opportunities for creativity.</td>
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</table>
are worried about their economic perspectives and situation in the labour market, their consumption levels are lower, they feel vulnerable, experience poverty and scarcity. This, in turn, causes new social problems and points to the signs of income inequality. The respondents are disappointed and feel excluded from higher-paid individuals. This impedes the sustainable development of the country, prevents achievement of the goals of social cohesion and halts the progress in the economic development of the country.

All the above-mentioned results lead to one conclusion that the current amount of the minimum wage is too little to suffice the performance of most of the functions through which the MW is expressed. The primary essence of the minimum wage has been completely denied by the respondents as ineffective. Therefore, still sounding public debate should lead to raising the minimum wage by at least 100 LTL. This amount should ease life to MW recipients at least to a certain extent and would get closer to the amount per person required for the satisfaction of basic needs. If many employed individuals continue satisfying their basic needs only, the country’s development and economic growth will be halted. On the other hand, a greater MW increase would constitute a too heavy burden for small- and medium-sized enterprises, cause tension in public finance and reduce labour demand. A slight increase in the MW would reduce the tension between low-paid individuals, and would also pull the MW out of the current stagnation, thus necessitating looking for measures to improve labour efficiency. On the other hand, the MW amount should be reviewed and adjusted by the government at least once a year taking into account economic processes in the country and preventing the minimum wage from becoming a static and ineffective value.

Bearing in mind that MW is an important factor for a big portion of the population, it is necessary to carry out further analyses of MW impacts on individuals. For example, it is necessary to investigate into the possible role trade unions could play in relation to the MW amount and the amplitude of its effects for individuals. Increase of the minimum wage should be followed by a study of financial situation of undertakings in order to identify how undertakings cope with increased labour costs. As it was mentioned, it is vital to identify the reasons for employers to keep up only partly legalised jobs and to what extent this influences the national budget. These are the further trends for research.

Conclusions and recommendations

The analysis of the MW concept from theoretical prism leads to the conclusion that this amount is fixed by the state to ensure physiological needs and well-being of employed individuals. In scientific literature, the identified MW impact is divided into two types: economic and social functions. The economic function of MW is geared to the guarantee of the purchasing power of individuals. This value has an indirect impact on the state where the optimal amount of the minimum wage contributes to better collection of taxes and economic growth. The social function of the minimum wage is intended to reduce social exclusion and poverty levels in the country. However, subject to the economic status of the state at a given moment, the MW functions can manifest both in the
positive and negative dimension depending on the MW size. High MW guarantees performance of the target functions, but can also lead to severe negative economic consequences primarily due to the risk of pushing an individual outside the labour market. Recipients of low MW are exposed to social problems that can have adverse effects on the country's economic and social dynamics.

The analysis of the Lithuanian minimum wage in the context of other member States, as contained in this research, gives grounds to conclude that Lithuania is not only among the countries with the lowest MW, but also among those demonstrating the lowest absolute change of MW from 2000 to 2013. The static character of the MW set in Lithuania has been also confirmed in the analysis of Lithuanian macroeconomic indicators in 2007 - 2012. During the period at issue, dramatic fluctuations of the country's GDP were influenced by the global financial crisis. During the crisis, the unemployment rate has reached 17.8 %, public expenses for social security increased by 6 billion litas in the environment of decreasing purchasing power of consumers and reducing average wages/salaries. These data confirmed the hypothesis that the Lithuanian MW is static and does not reflect the labour market price and overall economic situation in the country.

The research has shown that MW fails to perform its basic function to ensure the physiological and social needs of employed individuals; it gives too low, inadequate purchasing power. MW in Lithuania does not meet these economic functions: does not provide rehabilitation and recovery of labour, doesn’t meet psychological needs, MW recipient still needs social assistance from state; MW creates conditions for the development of the informal economy and unfair competition. Minimum wage does not meet these social functions: does not prevent poverty, does not ensure dignified life does not provide the social, cultural and political integration, pronounces social exclusion and social problems, does not encourage integration into the labor market, does not provide training, opportunities for creativity. Single wage-earner families and rural households appear to be in the most complicated financial situation where MW recipients live in scarcity and poverty. In most cases, households with more than two members need assistance from the state. This also confirms the MW’s failure to perform its main economic functions and too low amount thereof. The research has shown that negative impact is dominating while positive impact of MW is too week. It was established that the positive MW functions existing in Lithuania, i.e., protection against lower wage, promotion of labour efficiency and guarantee of equal pay for equal work, are insufficient for the material operation of MW functions.

Taking into account that the current MW fails to perform its basic functions due to insufficient purchasing powers provided, it is recommended to continue gradual rising of the MW subject to GDP changes and decreasing unemployment. The improving economic situation in the country creates conditions for increasing the MW and promoting the performance of its primary functions. The research findings have confirmed that social problems can only be reduced if consumption opportunities for MW recipients are improved; so-far excluded individuals are integrated in social life, are not dissatisfied about the amount of wage, and have
opportunities to raise their qualifications. The state will be able to create conditions for the sustainable economic development only by enhancing social cohesion.

To confirm the results and conclusion of the research, further research should be developed in the direction enabling to answer problem issues relating to the identification of MW impacts on business conditions and competitiveness of undertakings; the identification of impacts of social exclusion of MW recipients on public revenues and expenses; the increase of the role of trade unions in the process of setting the amount of MW in Lithuania; the assessment of the impact of unofficial (illegal) additions to wages/salaries on the public budget.

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Minimalaus darbo užmokesčio (MDU) ir neapmokestinamųjų pajamų dydžio (NPD) didinimo poveikis


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ASSESSMENT OF ECONOMIC AND SOCIAL IMPACT OF MINIMUM WAGE ON INDIVIDUALS

sia – ištumti individą iš darbo rinkos. Žemas MDU neatlieka socialinių funkcijų. Atsižvelgiant į tai, kad Lietuvoje iki 2012 m. rugpjūčio mėn. MDU nebuvo koreguojamas daugiau nei ketverius metus, straipsnyje kelia klausimas, ar šis dydis vis dar atlieka jam priskirtas funkcijas ir kaip jis veikia darbuotojus, gaunančius minimalų darbo užmokestą.

Straipsnyje, remiantis anketinės apklausos metodu, praktiškai nagrinėjamas ekonominis ir socialinis MDU poveikis jo gavėjams. Gauti rezultatai atskleidė, jog MDU Lietuvoje šiuo metu yra per mažas, todėl neatlieka jam priskiriamų ekonominį ir socialinių funkcijų. Pagrindinis MDU trūkumas – jam suteikta per maža perkamoji galia, todėl nėra užtikrinami būtiniausi darbuotojo poreikiai. MDU gavėjams dažnais reikalinga papildoma valstybės parama, šis dydis nematyvuoja dirbti. Tai apsunkina ne tik individų, bet ir visos valstybės vystymąsi, nes stabdoma šalies ekonominė plėtra. Tyrimo duomenys leidžia teigti, jog esamos socialinės problemas Lietuvoje gal būti sumažinamos didinant MDU. Tą didinama socialinė šaulų sudarydavo sąlygas darniam ekonominiam šalies vystymui. Padidėjusį perkamojo galia galėtų didinti šalies vartojimą, mažinti valstybės socialines išlaidas ir šešelinės ekonomikos dalį.