Minimum wage and financially distressed firms: another one bites the dust*

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Abstract

Since late 2014, Portuguese Governments adopted ambitious minimum wage policies. Using linked employer-employee data, we provide an econometric evaluation of the impact of those policies. Our estimates suggest that minimum wage increases reduced employment growth and profitability, in particular for financially distressed firms. We also conclude that minimum wage increases had a positive impact on firms' exit, again amplified for financially distressed firms. According to these results, minimum wage policies may have had a supply side effect by accelerating the exit of low profitability and low productivity firms and, thus, contributing to improve aggregate productivity through a cleansing effect.

Keywords: minimum wages, financially distressed firms, productivity
JEL Classification: *J38, L25*

1 Introduction

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Dependent Variable:	Euros			
Model:	(1)	(2)	(3)	(4)
Variables				
(Intercept)	24.71***			
	(1.125)			
log(dist_km)	-1.029***	-1.029***	-1.226***	-1.518***
	(0.1580)	(0.1581)	(0.2045)	(0.1282)
Fixed-effects				
Year		Yes	Yes	Yes
Destination			Yes	Yes
Origin				Yes
Fit statistics				
Observations	38,325	38,325	38,325	38,325
Squared Correlation	0.05511	0.05711	0.16420	0.38479
Pseudo R^2	0.18502	0.18833	0.35826	0.59312
BIC	4.85×10^{12}	4.83×10^{12}	3.82×10^{12}	2.42×10^{12}

Clustered (Origin & Destination) standard-errors in parentheses
*Signif. Codes: ***: 0.01, **: 0.05, *: 0.1*