

The Economic Impact of Minimum Wage Increases on Entry-Level Employment. The Case for Romania

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Abstract. *Debates on the impact of the minimum wage on the labor market are extensive and complex, highlighting both the potential for income growth and the risk of reducing opportunities for young, low-skilled or inexperienced workers. This article aims to analyze the impact of wage increases on entry-level employment, focusing on the number of employees aged 15-24. The specialized literature outlines this dichotomy between the benefits and challenges of raising the minimum wage, presenting mixed empirical evidence regarding its effects. One viewpoint is that increasing the minimum wage may have a positive effect on employment rates and productivity, in contrast, other research highlights the rising labor costs that discourage employers. This study employs quantitative data covering the period 2014-2023, sourced from National Institute of Statistics, Eurostat and the World Bank. The article applies a log-log regression model estimated using the ordinary least squares (OLS) method, with the dependent variable represented by the number of employed individuals in the 15-24 age group, serving as a proxy for entry-level employment. The independent variables include the youth unemployment rate, the minimum wage (RON), the inflation rate and GDP growth. The econometric model was implemented in Python, enabling the application of log-log regression and the examination of the relationship between minimum wage increases and youth employment. The study's results suggest a negative elasticity between youth employment and minimum wage growth. Furthermore, the unemployment rate negatively affects youth employment, while inflation rate and GDP growth do not exhibit a statistically significant relationship with the dependent variable. This article contributes to the labor market literature, emphasizing the need to balance the pace of minimum wage increases with policies that support and integrate workers into entry-level positions.*

Keywords: minimum wage, youth, entry-level, employment, unemployment rate, Python.

Introduction

The minimum wage issue has gained significant momentum over the past decade, driven by the aim of balancing social equity with economic growth. Interest in establishing an adequate minimum wage intensified after the 2008 financial crisis, highlighting the potential risks of social exclusion and an impressive shortage of skilled workers. This event gradually encouraged the European Union to take actions and identify gaps in the field of wages, in response to impending threats including mass poverty and worsening migration from impoverished countries.

Neglecting socio-economic challenges was no longer an option in this context, stimulating the European Commission to promote robust and transparent institutional arrangements aimed to guarantee social cohesion. The 2017 proposal on EU social rights transformed the outlook on the labor market, making a shift in the European paradigm towards citizen well-being and the promotion of social progress. Five years later, the European

Commission adopted the EU Directive on adequate minimum wages, a measure intended to protect wage rights and reduce labor market disparities (European Parliament and Council of the EU, 2022).

In Romania, debates around the minimum wage are both extensive and delicate, given that 760,000 employees earn the guaranteed gross minimum wage and over a third of the active population will be affected by the introduction of the European minimum wage (Ministry of Labor and Social Solidarity, 2024). Many entry-level jobs are occupied by young or less-skilled workers, making it crucial to assess the impact of changes to the minimum wage, as these positions are often sensitive to labor market fluctuations. In recent years, the minimum wage in Romania has risen significantly, bringing socio-economic resilience and equity into focus. However, this trajectory has sparked controversies about its impact on vulnerable groups, particularly at the entry-level.

The institutional changes in the minimum wage sphere have heightened concerns about employer hostility, especially in underdeveloped sectors and regions, potentially complicating labor market access for young or less-skilled workers and exacerbating unemployment. Furthermore, sharp increases in the minimum wage burden low-productivity sectors and small and medium-sized enterprises, contributing to adverse attitudes toward entry-level positions. The European directive aims to mitigate the effects on vulnerable groups, necessitating an analysis of whether the benefits for entry-level employment outweigh the emerging challenges.

The article is structured as follows: the introduction outlines the importance of the minimum wage debate in the Romanian context, followed by a review of the relevant literature. The methodology section details the econometric approach and the utilized data in the study, after which the results and discussions section aims to formulate relevant conclusions.

This research investigates the relationship between minimum wage changes and entry-level positions which are vulnerable to shifts in institutional arrangements in the labor market, guided by the following primary research question: How does the increase in the minimum wage in Romania influence youth employment (ages 15-24)? The regression model used is based on the following main hypotheses: (1) An increase in the minimum wage negatively impacts the number of employees without experience. (2) The youth unemployment rate negatively influences entry-level employment. (3) The inflation rate and GDP growth do not have a significant impact on youth employment.

Literature review

Divergent opinions on the impact of minimum wage

The literature of minimum wage is vast and includes multiple different perspectives on its effects on the labor market. Within the European Union, 22 countries have implemented this measure as a basic wage level (Eurofound, 2024) and through the introduction of the European minimum wage Directive, common standards have been established to be followed on the labor market (European Parliament, 2022).

Changes in the minimum wage are influenced by modifications in institutional factors, varying depending on the adjustment processes and the actors involved. Studies show that union involvement in negotiations suggested a higher average increase in minimum wages compared to their levels without union participation (Boeri, 2012). Another study emphasizes the necessity of institutional arrangements, as they significantly reduce the possibility of opportunistic

adjustments to the minimum wage, especially during election periods, when economic considerations are no longer pursued (Arpaia et al., 2017).

The distributive conflict between labor and capital impacts the evolution of the minimum wage, as it is almost impossible to align both union interest and employer desires. Empirical research has reinforced the idea that union involvement reduces wage disparities and decreases wage variations between different worker categories (Ahlquist, 2017), (Baccaro, 2011). However, the increase in the minimum wage as a result of these contributions is perceived as a burden for employers.

Card's article (1992) analyzes the effects of the minimum wage increase focused on California during 1978-1989, suggesting that the effects were not negative for young employees, with 50% employees affected by the minimum wage increase. Moreover, youth unemployment rates decreased during the observed period both in California and nationally. Thus, this article highlights the benefits for young or low-skilled employees as a result of the minimum wage increase.

The traditional model of thinking is supported by the article written by Neumark et al. (2014), who is in contrast with the ideas put forth by Card (1992), Dube et al. (2010) and Allegretto et al. (2011). The article suggests the existence of negative effects of the minimum wage on young and low-skilled workers and on employment rates. (Neumark & Wascher, 2006) also support, through extensive empirical analysis, the negative impact of the minimum wage increases on employment. Their observations suggest that vulnerable groups are more likely to lose their jobs due to this increase. Employers' reactions to the minimum wage increase vary, including reducing profit margins (Draca et al., 2011), reducing the number of employees or working hours (Manning, 2021) or raising prices (Harasztosi & Lindner, 2019).

Impact of minimum wage in different European countries

Within EU member states, there are discrepancies regarding the minimum wage increase, with macroeconomic factors and information about institutional arrangements over the last decades being analyzed to highlight the relationship between the increase in the minimum wage level and the inflation of consumer prices (Baumann, 2024). The article reveals that during accession process, the countries faced inflation, resulting in an accelerated minimum wage increase and a rise in the Kaitz index.

In Spain, the minimum wage is set through negotiations with unions and employers with a phased increase that has sparked controversy. The Spanish government's goal is to set the minimum wage at least 60% of the average wage. The impact of the increases on employment, particularly for entry-level positions among young people, was negative, leading to a 2% decrease in the employment rate for a 10% rise in the minimum wage (Dolado & Felgueroso, 1997). After the significant increase of nearly 23% in 2019, a loss of jobs ranging from 19,000 to 33,000 was observed with disproportionate effects on specific groups: women, youth or employees in lower- wage regions (AIRef, 2020).

A comprehensive analysis of the minimum wage in the Netherlands captured empirical data over the last five decades, since its introduction in 1969 (Salverda, 2024). The study indicates a decrease in the real lever ten years after its introduction, with the number of employees earning the minimum wage remaining relatively constant. Additionally, the study highlights the migration of minimum wage employees to large firms and the tendency to access part-time jobs. The author suggests that the decrease in minimum wage should also be analyzed, according to OECD data, in order to observe the behavior of market actors, viewed as a monopsonistic labor market.

In Greece, prior to 2012, collective agreements could be made, and in response to the desire to mitigate the effects of the economic crisis, the minimum wage was reduced by 22%, and for young employees by 32%, values which remained until 2018. In 2019, the first increase of 11% took place, marking the second-largest increase in the EU after Spain. A study conducted by Yannelis (2014) tracked the effects of the 2012 reform on age categories: under 25 years and over 25 years, highlighting that the wage reduction did not lead to job destruction, and the elasticity of the employment for young people ranged from -0.28 to -0.46. In contrast, Kanellopoulos (2015) noted a decrease in employment during the economic recession. Regarding the impact on employment for the 15-24 age group, associated with entry-level positions, the vulnerability of this group to minimum wage changes was emphasized. Furthermore, the relationship between the minimum wage reduction in 2012 and the unemployment rate was positive, while the increase in 2019 led to a slight negative effect on the youth employment rate (Roupakias, 2022).

Ireland was strongly affected by the 2008 crisis, facing a high unemployment rate, leading to a temporary reduction in the minimum wage in 2011. In 2023 the minimum wage per hour in Ireland is among the highest in the European Union, highlighting the country's progress in combating poverty and reducing inequalities for vulnerable groups such as entry-level employees (Romero & Osés, 2023).

In Romania, empirical analyses regarding the relationship between the minimum wage and youth employment in entry-level positions are scarce, despite a significant percentage of employees being paid the minimum wage. A study conducted by Aparaschivei et al. (2011) outlined the negative effect of the minimum wage, particularly on the 15-19 age group, associated with entry-level positions. Individuals aged 15-24 represent the category accessing entry-level jobs and are more sensitive to adjustments in the minimum wage. Moreover, youth integration into the labor market is lower compared to other age categories, making it difficult to assess whether changes in the minimum wage will substantially improve employment (Socol & Marinas, 2016).

Therefore, this article aims to contribute to the literature in the field, with the goal of observing the link between significant increases in the minimum wage and their impact on entry level employment.

Methodology

The article employs quantitative data to assess the impact of minimum wage in Romania on entry-level employment. The study is based on secondary data gathered from official sources, including the National Institute of Statistics (INS), Eurostat and World Bank. The dataset spans the period 2014-2023 and facilitate the application of econometric methodologies.

The dependent variable is the number of young employees (15-24 years), serving as a proxy for entry-level employment. This variable was selected because this age group typically represents individuals entering the labor market for the first time, making them more susceptible to fluctuations in the minimum wage. The independent variables include: minimum wage (RON), youth unemployment rate (ages 15-24), inflation rate and GDP growth (%) in Romania.

The minimum wage has a dual effect: it can either increase earnings for entry-level employees or reduce employment opportunities for inexperienced workers. The youth unemployment rate reflects the challenges associated with labor market integration. The inflation rate affects labor costs and a high inflation rate may discourage employers from hiring.

Additionally, GDP growth captures the broader economic climate, influencing employers' decisions regarding entry-level job creation.

The relationship between these variables is analyzed through a log-log regression model, estimated using the Ordinary Least Squares (OLS) method. The variables are log-transformed, allowing the coefficients to be interpreted as elasticities. The log-log approach enhances economic interpretation, mitigates heteroskedasticity and reduces the influence of outliers on the estimated coefficients. As a result of log transformation, the number of observations decreased from ten to seven, as some values were negative. This methodological limitation is unavoidable and result interpretation should be duly considered when interpreting the results.

The analysis was conducted using Python's *statsmodels* library. Data preprocessing was carried out with *pandas* and *numpy*, ensuring proper variable transformation. The regression model was estimated using OLS, followed by diagnostic tests to evaluate its validity.

Results and discussions

The case study will initially include a statistical analysis of the variables in **Table 1. Macroeconomic data and youth employment in Romania (2014-2023)** tracking the evolution of relevant economic indicators.

Table 1. Macroeconomic data and youth employment in Romania (2014-2023)

Year	Employees (15-24 years)	Minimum wage (RON)	Unemployment (15-24 years) (%)	Inflation (%)	GDP growth (%)
2014	668,899	900	30%	1,1%	4,12%
2015	684,286	1050	27,3%	-0,6%	3,16%
2016	607,077	1250	25,9%	-1,5%	2,86%
2017	639,140	1450	23%	1,3%	8,2%
2018	621,072	1900	20,5%	4,6%	6,12%
2019	612,230	2080	21%	3,8%	3,92%
2020	607,199	2230	21,6%	2,6%	-3,67%
2021	541,226	2300	21%	5,1%	5,55%
2022	519,880	2550	22,8%	13,8%	3,97%
2023	477,499	3000	21,8%	10,4%	2,4%

Source: Authors' own research.

During the analyzed period, the number of young employees significantly decreased from 668,899 to 477,499, representing a 28.6% decline over a decade. This drop is substantial, with a possible cause being the effects of the pandemic, particularly the declines of 10.9% in 2021 and nearly 4% in 2022.

The minimum wage in Romania increased during the analyzed period from 900 RON to 3,000 RON, revealing a 233% rise. Currently, the minimum wage stands at 4,050 RON, making a 350% increase compared to 2014. The effects of these increases will be further analyzed in this section to outline the impact of this evolution.

Regarding the unemployment rate among the 15-24 group during the analyzed period, a decline was recorded, with the most significant decrease occurring between 2014 and 2018, amounting to a 10-percentage point drop. Subsequently, the unemployment rate remained between 20%-22%, suggesting stagnation.

Between 2014 and 2017, inflation experienced declines, while the highest values recorded after the effects of the COVID-19 pandemic, representing a challenging economic environment for the labor market. GDP growth fluctuated, with increases recorded in 2017-2018, while the

pandemic's effects were felt through a sharp drop of 3.67% in 2020, followed by a subsequent growth trend.

Regression results

The article used a log-log regression of the form:

Equation 1. Employment regression equation

$$\log(\text{Employment}) = \beta_0 + \beta_1 \log(\text{Minimum wage}) + \beta_2 \log(\text{Unemployment}) + \beta_3 \log(\text{Inflation}) + \beta_4 \log(\text{GDP growth}) + \varepsilon$$

The econometric model specified in **Equation 1** was estimated using the ordinary least squares (OLS) method and then implemented in Python. The following Python code was used in this analysis to obtain relevant information about the impact of the minimum wage on the youth employment:

```
import pandas as pd
import numpy as np
import statsmodels.api as sm

# Defining Data
data = {
    'Year': [2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023],
    'Employees': [668899, 684286, 607077, 639140, 621072, 612230, 607199, 541226, 519880, 477499],
    'Minimum_wage': [900, 1050, 1250, 1450, 1900, 2080, 2230, 2300, 2550, 3000],
    'Unemployment': [30.0, 27.3, 25.9, 23.0, 20.5, 21.0, 21.6, 21.0, 22.8, 21.8],
    'Inflation': [1.1, -0.6, -1.5, 1.3, 4.6, 3.8, 2.6, 5.1, 13.8, 10.4],
    'GDP_growth': [4.12, 3.16, 2.86, 8.2, 6.12, 3.92, -3.67, 5.55, 3.97, 2.4]
}

df = pd.DataFrame(data)

# Replacing the negative values
df.loc[df['Inflation'] <= 0, 'Inflation'] = np.nan

# Transforming the data in natural log
df['log_Employees'] = np.log(df['Employees'])
df['log_Minimum_wage'] = np.log(df['Minimum_wage'])
df['log_Unemployment'] = np.log(df['Unemployment'])
df['log_Inflation'] = np.log(df['Inflation'])
df['log_GDP_growth'] = np.log(df['GDP_growth'].replace({0: np.nan})) # Evităm log(0)

# Eliminating the rows with no values
df = df.dropna()

# Defining the dependent and independent variables
X = df[['log_Minimum_wage', 'log_Unemployment', 'log_Inflation', 'log_GDP_growth']]
X = sm.add_constant(X) # Adăugăm interceptul
Y = df['log_Employees']

# Estimation of the regression model
model = sm.OLS(Y, X).fit()
# Show the results of the regression
print(model.summary())
```

The regression model results are presented in Figure 1, followed by an analysis of the coefficients:

Dep. Variable:	log_Employees	R-squared:	0.967			
Model:	OLS	Adj. R-squared:	0.901			
Method:	Least Squares	F-statistic:	14.58			
Date:	Thu, 13 Feb 2025	Prob (F-statistic):	0.0652			
Time:	12:38:22	Log-Likelihood:	17.153			
No. Observations:	7	AIC:	-24.31			
Df Residuals:	2	BIC:	-24.58			
Df Model:	4					
Covariance Type:	nonrobust					
=====						
	coef	std err	t	P> t	[0.025	0.975]

const	20.7131	2.484	8.339	0.014	10.026	31.401
log_Minimum_wage	-0.6012	0.193	-3.116	0.089	-1.431	0.229
log_Unemployment	-0.9248	0.355	-2.606	0.121	-2.452	0.602
log_Inflation	0.0345	0.053	0.657	0.579	-0.192	0.261
log_GDP_growth	-0.0427	0.069	-0.617	0.600	-0.341	0.255
=====						
Omnibus:	nan	Durbin-Watson:	3.648			
Prob(Omnibus):	nan	Jarque-Bera (JB):	0.754			
Skew:	0.346	Prob(JB):	0.686			
Kurtosis:	1.549	Cond. No.	1.45e+03			

Figure 1. OLS regression results

Source: Authors' own computation obtained using Python.

Model Quality

The relevant indicators for the regression model used are as follows: R-squared is 0.967, indicating that the model explains approximately 97% of the variation in the number of employees within the considered age category, as accounted by the included variables; Adj. R-squared has a value of 0.901, which is slightly lower than R^2 due to the small number of observations; The F-test has a value of 14.58 and the associated p-value is 0.0652, which is above the conventional significance level of 0.05, suggesting a moderate level of confidence in the model's validity.

Detailed interpretation of the coefficients

In what regards the minimum wage, the coefficient of -0.6012 suggests that a 1% increase in the minimum wage leads, on average, to a 0.6012% decrease in the number of youth employees. The negative elasticity is supported by economic theory, highlighting employers' reluctance to hire young workers. For the unemployment rate, a 1% increase in the unemployment rate results in a 0.9248% decrease in youth employment, indicating a negative relationship. However, although this relationship is intuitive, the p-value exceeds 0.05, meaning that the limited empirical evidence does not reject the null hypothesis. As for the inflation, the effect of inflation in the proposed model is not significant, indicating no direct impact on youth employment during the analyzed period. Lastly, the GDP growth shows that a 1% increase in GDP growth leads to a 0.0427% decrease in youth employment. While the GDP coefficient is not statistically significant, it may capture employers' tendency to automate economic processes or favor experienced workers instead of hiring young employees.

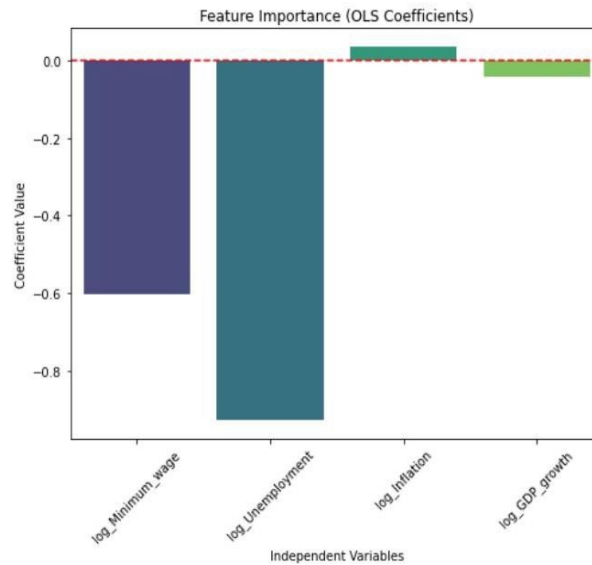


Figure 2. Coefficient plot

Source: Authors' own elaboration using Python.

The OLS coefficients graph outlines the negative impact of the minimum wage and the unemployment rate on the number of young employees, reinforcing the idea that increasing the minimum wage and rising unemployment negatively affect job opportunities for young or inexperienced workers. Conversely, GDP growth and inflation are not statistically significant, as evidenced in *Figure 2*.

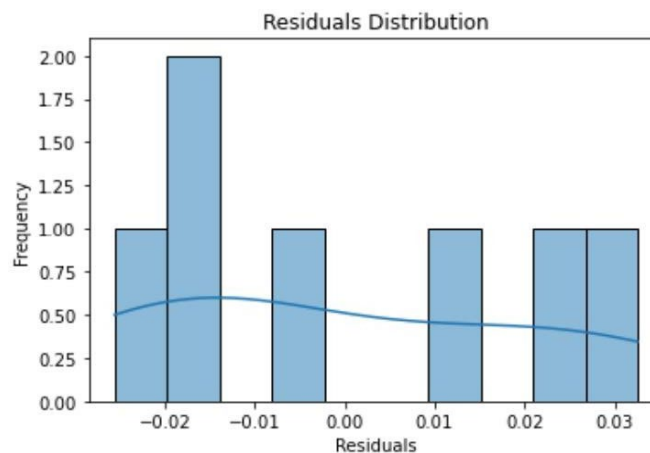


Figure 3. The distribution of the OLS model residuals

Source: Authors' own elaboration using Python.

Based on the residual distribution (*Figure 3*), there are no severe deviations from normality. The Durbin-Watson test has a value of 3.648, indicating potential negative autocorrelation. However, the Jarque-Bera test yields a p-value of 0.686, suggesting no significant deviations from normality. The analysis of independent variables indicates that unemployment rate and the minimum wage have a pronounced impact on youth employment, whereas inflation and GDP growth have only marginal positive effects. These findings align with economic theory, reinforcing the validity of the model.

Conclusions

The article examines the impact of minimum wage increases in Romania on youth employment, focusing on employees with no prior labor market experience. The study employs an econometric model based on a log-log regression estimated using the Ordinary Least Squares (OLS) method. The findings indicate a negative relationship between minimum wage increases and the number of young employees (aged 15-24), suggesting that higher minimum wages may reduce employment opportunities for inexperienced workers. Additionally, the negative influence on youth unemployment on entry-level employment reinforces the challenges faced by young job seekers. In contrast, the other independent variables: inflation and GDP growth were not statistically significant, indicating no direct effect on entry-level employment. Python was utilized to implement the econometric model, facilitating data analysis and contributing to the specialized literature on the labor market. However, the study is limited by data constraints, highlighting the need for further research incorporating a larger dataset and more advanced econometric techniques. Given the scarcity of studies on the minimum wage's effects in Romania, this research enhances the understanding of labor market dynamics in the national context. Future studies should explore the implementation of the European minimum wage, considering its intended role in providing stability and support to vulnerable groups, particularly young and inexperienced employees.

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