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Getting It Right: Employment Subsidy or Minimum Wage?

by Eric Strobl, Frank Walsh

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Abstract:

In monopsony models of the labour market either a minimum wage or an employment subsidy financed by a lump sum tax on profits can achieve the efficient level of employment and output. Incorporating working conditions into a monopsony model where higher wages raise firm labour supply, but less attractive working conditions reduce it, changes these policy implications. Specifically, a minimum wage policy could, in contrast to an employment subsidy, cause working conditions to deteriorate and welfare to fall. Empirical evidence from the Republic of Trinidad and Tobago shows that a minimum wage may indeed cause working conditions to worsen.

Text: See [Discussion Paper No. 662](#)



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