

Minimum Wage, Market Imperfection, and Production Efficiency: Panel Event Study in Vietnam*

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Abstract

Vietnamese enterprises faced a spike of real minimum wages in 2011, followed by continuous upward adjustments in the wage floor. This paper examines the policy impact on employments, value added, and productivity, exploiting large district-industry variations in the minimum wage increase. After firm unobserved productivity and province-specific time trend are controlled, fixed effect regression finds short-term disemployment effect of -3% that cumulated to -25% over three-year window. The margin of adjustments in output prices and capital-labor mix were limited for small firms constrained by the minimum wage regulation. Sub-optimal capital-labor adjustments contributed to a reduction in production efficiency after the 2011 minimum wage reform, especially for small domestic firms in the service industry. Triple-difference regression reveals that a negative minimum wage effect on TFP was significantly larger in imperfect product and labor markets due to wage and pricing distortions. The overall pattern is consistent with the wage-posting model where imperfect competition augments negative minimum wage effect on firm performance.

Keywords: Minimum wage, imperfect competition, firm productivity, panel data

JEL Classification: J31, L25, J42, J38

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