

Minimum Wage Intensity, Labour Market Segmentation and Wage-Setting Institutions: Evidence from a European Macro-Panel

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Abstract

This study examines the relationship between minimum wage intensity and labour market segmentation in a comparative macro-panel of 18 European countries over the period 2005–2024. Minimum wage intensity is measured by the Kaitz index, defined as the ratio of the statutory minimum wage to the median wage, while labour market segmentation is captured by temporary and involuntary temporary employment. The analysis is motivated by the growing importance of labour market dualization and outsider employment in Europe, as well as by the limited evidence on how minimum wage policies interact with broader wage-setting institutions. The empirical strategy combines dynamic fixed-effects models with Driscoll–Kraay standard errors, country-specific trend specifications, and Dynamic Common Correlated Effects estimators to account for persistence, cross-sectional dependence, and latent common factors. Baseline results indicate that higher minimum wage intensity is associated with lower levels of both temporary employment and involuntary temporary employment. However, the relationship is estimated less precisely once more demanding specifications incorporating country-specific trends and latent common factors are introduced. The study further investigates whether this association differs across alternative wage-setting regimes. The results suggest that the negative association is stronger in less coordinated wage-setting systems, while differences across collective bargaining coverage regimes are considerably weaker. Overall, the findings highlight the importance of institutional heterogeneity in shaping the relationship between minimum wage intensity and labour market segmentation and contribute to the literature on minimum wages, labour market dualization, and comparative political economy.

Keywords: minimum wages; Kaitz index; labour market segmentation; temporary employment; wage coordination; collective bargaining