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Abstract

In a labour demand approach, we present evidence of the effect that variations of the real minimum wage has on the formal employment of the industrial sector. The sample includes all industrial establishments of the Annual Manufacturing Survey between 2000 and 2015 that were always active during the whole period. We differentiate the workforce between skilled and unskilled by types of contracts (permanent and temporary). The real wage paid to workers by plants is divided into two components: one linked to the minimum wage and other that mirrors the plants' own-policy remuneration. The labour demand functions, conditional and unconditional, that we estimate are consistent with the theory and the previous literature. The evidence suggests that increases of the real minimum wage destroy employment fundamentally of unskilled labour, both permanent and temporary mainly in plants with less than 100 workers dedicated to production. The long-term elasticities of labour demand to the real minimum wage that we estimate in multiple specifications are between -0.615 and -0.715. Thus, an increase of 1 percent of the minimum wage reduces, ceteris paribus, labour demand about 0.7 percent within a period between one and two years. The real wage elasticity is between -0.358 and -0.718 while the sizeable output elasticity, about 1.6, suggests a high cyclicality of labour demand.