THE MINIMUM WAGE IN VISEGRAD COUNTRIES

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Abstract

The minimum wage is one of the key measures by which governments affect the functioning of the labour market. The minimum wage is, however, associated with divergent views. The Visegrad countries, which together joined the EU in 2004, have introduced statutory minimum wages at the national level, but they differ in some of their conditions. The article discusses the development of the minimum wage during the period 2004 - 2015, a period in which the countries were hit by the classical economic cycle. Since one of the goals of the minimum wage is to ensure a decent life for its recipients, governments take into account the consumer price level in modifying the minimum wage. With the exception of Poland, a decline in the real minimum wage occurred, at least in some years, in the remaining countries. The longest running and also the largest decline in real minimum wage can be observed in the Czech Republic, in which nominal minimum wage has stagnated in the years 2009 - 2013. Due to the stagnation of the minimum wage, the Czech Republic also dropped in the rankings of the minimum wage in terms of purchasing standards from pole position in 2004 to last place in 2015.

Key words: nominal minimum wage, real minimum wage, inflation, PPS

JEL Code: J31, J38

Introduction

The minimum wage can be defined as the lowest possible wage that employers can pay their employees. The minimum wage has a long history. It was first introduced in New Zealand and Australia in the nineties of the nineteenth century. At the beginning of last century, some form of minimum wage began to spread in other industrialized countries in Europe and overseas. Initially, the minimum wage was determined for certain sectors of the economy, and later for entire industries and the entire economy. E.g. US minimum wage was established by the federal government in 1938 as part of the so-called Fair Labor Standards. More about the history of the minimum wage can be found in Pavelka "The minimum wage in the Czech Republic and its comparison across the EU" (2014).

The minimum wage is one of the measures of economic policy, which is connected with different reactions. These discrepancies can be observed not only among economists themselves, but also between political representatives. Most often there is a debate about the impact of the minimum wage (its introduction or increase) on employment or unemployment. Neither can a unanimous opinion be found in the scientific literature. A detailed overview and analysis of the results of empirical research is provided in the publication "Minimum Wage" by authors Neumark and Wascher (2008).

Bílková pays attention to wage developments, especially in the Czech Republic. Although she does not examine the impact of minimum wages on employment, unemployment or poverty, but because the minimum wage is the lowest reward for employees, she analyses how the minimum wage affects overall wage distribution in the economy (Bílková, 2014 and 2013). The impact of the minimum wage on unemployment in the Czech Republic is engaged in a paper by Pícl and Richter (2014) who conclude that previous increases in the minimum wage in the Czech Republic had no significant impact in the form of higher unemployment. A similar conclusion is presented by authors Pavelka, Skála and Čadil (2014), who studied the relationship between the minimum wage and the unemployment rate (total, but also for young people and people with low education levels) not only in the Czech Republic, but also in the context of EU member states. Visegrád countries were also mentioned in Pivoňka (2013). According to these authors, the economic cycle was crucial for the development of unemployment in the last decade, while any significant impact of the minimum wage has not been proven. The labour market obviously does not develop uniformly across the country. The unemployment rate, due to the institutional environment (which can also include minimum wages) varies in different regions of the Czech Republic (Löster, 2012).

The aim of this article is to compare the development of the minimum wage in the countries of the Visegrad Group – the Czech Republic, Hungary, Poland and the Slovak Republic. All four countries that joined the European Union in 2004, have in place a statutory minimum wage. A statutory minimum wage is currently implemented by 22 Member States of the European Union. The remaining 6 countries (Denmark, Italy, Cyprus, Austria, Finland, and Sweden) have in place some forms of minimum wage, often as part of collective bargaining.

1 The form of the minimum wage in the Visegrad countries

As already mentioned, the Visegrad countries have in place a nationwide statutory minimum wage. Yet differences in the application of the minimum wage can even be found in these countries. Poland introduced a minimum wage in 1970, and the other countries followed in

1991. In all countries of the Visegrad Group, the minimum wage is set by the government, often after negotiations with social partners. On the same principle there are also adjustments of the minimum wage in these countries. In all countries, the price level development is taken into account during adjustments of the minimum wage (in Poland explicitly). Slovakia has, in addition to the base rate, a reduced rate of the minimum wage for young people and people with disabilities. A reduced minimum wage was also used for young people in the Czech Republic, but it was cancelled few years ago. In the case of people with a disability pension in the Czech Republic, there will be a gradual elimination of the difference between their minimum wage and the basic minimum wage from the next year.

Below are listed in detail the differences in the determination of minimum wages in the countries of the Visegrad Group. The data are valid for July 2015, and are taken from Eurostat (2015).

The Czech Republic:

Method of fixing: Set by government after negotiations with social partners.

Coverage: All sectors and all employees.

Exceptions: Lower rate is applied in the case of employees receiving disability pensions.

Updating: Set by government after negotiations with social partners.

Type of rate: Monthly, but also hourly.

Hungary:

Method of fixing: Set by government following recommendations of social partners.

Coverage: All sectors and all employees.

Exceptions: None.

Updating: Set by government following recommendations of social partners.

Type of rate: Monthly, but also hourly, daily a weekly.

Poland:

Method of fixing: Set by government after negotiations with social partners.

Coverage: All sectors and all employees.

Exceptions: None.

Updating: Annually according to inflation forecast and after consultations with social partners.

Type of rate: Monthly.

Slovakia:

Method of fixing: Set by government after recommendations of social partners.

Coverage: All sectors and all employees.

Exceptions: Lower rate is applied in the case of employees receiving disability pension and juvenile employees.

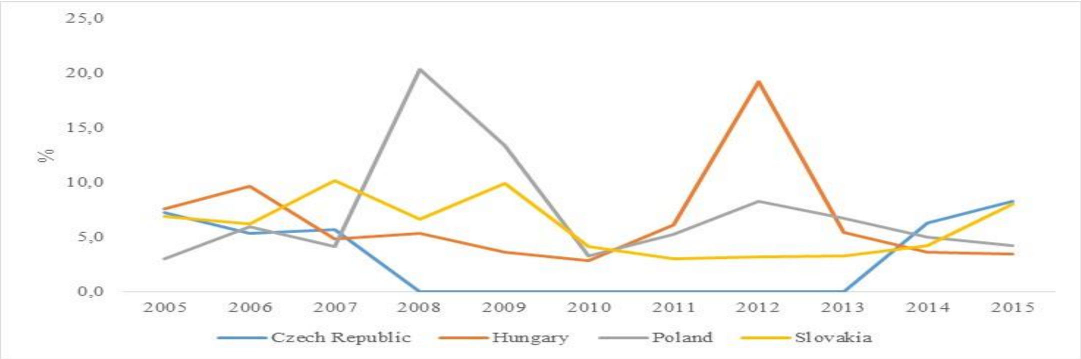
Updating: Set by government after negotiations with social partners – once of year (1 January)

Type of rate: Monthly, but also hourly.

2 The development of minimum wages in the Visegrad countries

Firstly, the development of minimum wages in the Visegrad countries can be assessed when they are denominated in national units. Fig. 1 shows the annual changes in percentage since 2005. The differences between countries are apparent even in the figure.

Fig. 1: The development of nominal minimum wage – annual changes in %

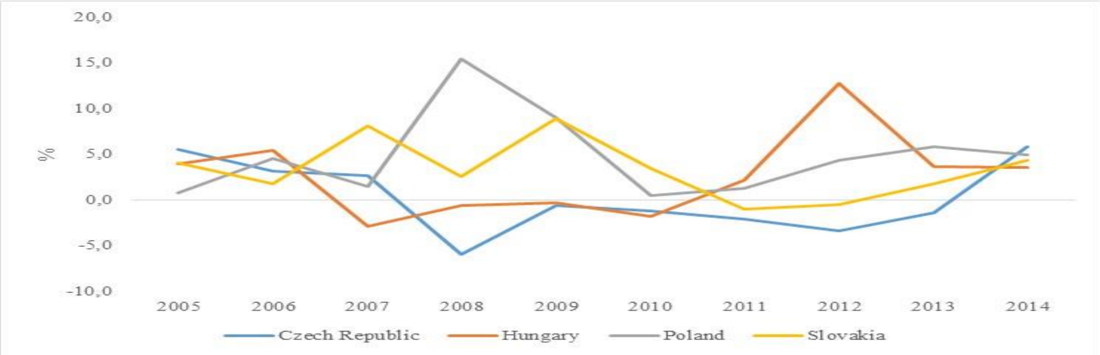


Source: own calculation from Eurostat data, data to January 1

For the entire period 2005 – 2014, the slowest nominal minimum wage growth was in the Czech Republic, on average by only 3.0%, while the fastest was in Poland, by 7.2%. Slovakia´s nominal minimum wage grew annually on average by 6.0% and Hungary´s by 6.5%. The slow annual growth in the Czech Republic was due to a failure to increase the nominal minimum wage over the period 2009 - 2013, which was justified by a right-wing government with fears of the ongoing economic recession. However, if we compare the data before the outbreak of the economic crisis (2005 - 2008) and during the economic recession (2009 - 2012), we cannot find such significant differences in the other three states that, as we can in the Czech Republic. In the Czech Republic 4.6% vs. 0.0%, Hungary 6.8% vs. 7.9%, Poland 8.3% vs. 7.5% and Slovak 7.4% vs. 5.1%. The faster growth in Hungary during the crisis period was caused by a high one-off nominal increase in the minimum wage of 19.2% in 2012. Only Poland reached a faster annual growth of the minimum wage, by 20.3% in 2008.

As mentioned above, individual states take the price level into account when modifying the minimum wage. The real wage, which is shown in Fig. 2, is a key factor that affects the living standards of people with the lowest levels of labour remuneration.

Fig. 2: The development of real minimum wage – annual changes in %



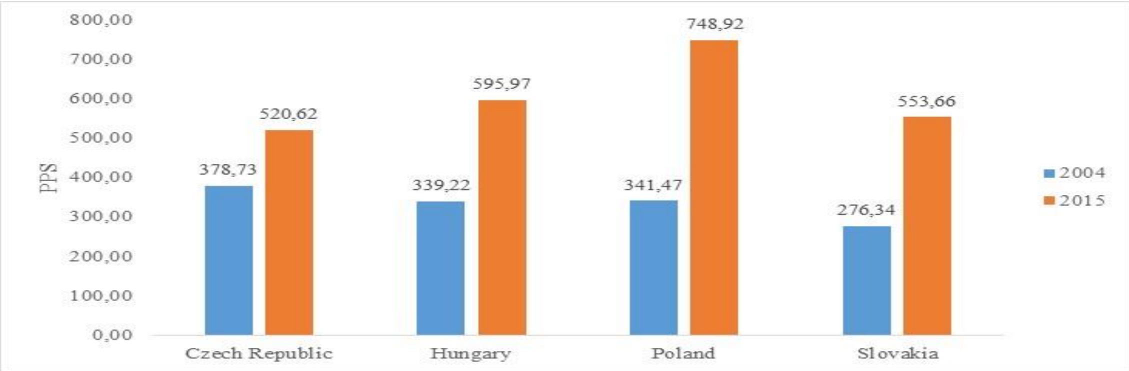
Source: own calculation from Eurostat data

The slowest growth of the real minimum wage throughout the period was in the Czech Republic, by a monthly average of only 0.3%. The fastest growth of the real minimum wage was in Poland, as with the nominal minimum wage, by an average of 4.8%. Rapid growth of the real minimum wage was mainly due to the growth of nominal wages in 2008 by more than 20%, while inflation in the same year amounted to only 4.2%. Slovakia recorded an average annual growth of the real minimum wage of 3.3% and Hungary of 3.6%. From Fig. 2 it is evident that the increase in the nominal minimum wage did not always cover the increase in price levels, and therefore the real minimum wage fell. There was a decrease in the real minimum wage in the Czech Republic in the period 2008 - 2013, which was due to the stagnation of the nominal minimum wage, and in both Hungary between 2007 - 2010 and in the Slovak Republic in the years 2011 - 2012, which was caused by higher inflation.

A comparison in terms of purchasing standards (PPS), which is shown in Fig. 3, also gives an interesting view of the minimum wage. Sometimes also a comparison in euros is used, but since it is influenced by changes in the exchange rate, a more detailed explanation should be given, which would go beyond the scope of this article.

In 2004, the year of entry into the Visegrad Group countries into the European Union, the Czech Republic had the highest minimum wage in PPS. It was followed by Poland, Hungary and the lowest minimum wage was in Slovakia. The policy of individual governments, however, led to significant changes in this order. In 2015, Poland has the highest minimum wage in PPS, and its level has increased by 119.3% since 2004. The second highest minimum wage is in Hungary, where there has been a 75.7% increase since 2004. The third highest minimum wage in PPS is in Slovakia, where there has been a 100.4% increase since 2004. And the lowest minimum wage is in the Czech Republic where there has been an increase of only 37.5% since 2004.

Fig. 3: Minimum wage in PPS



Source: Eurostat

Conclusion

One of the goals of the minimum wage is to ensure a decent life for its beneficiaries. Therefore, the focus is mainly on the development of the real minimum wage. It is evident that the Visegrad countries differ in the evolution of the minimum wage. Excepting the Czech Republic, a relatively rapid growth of the real minimum wage occurred in the other countries during the period 2005 - 2014, despite the fact that it declined in some years. The Czech Republic, which had the highest value of the minimum wage in PPS upon entry into the European Union, lost its position due to the unwillingness of right-wing governments to increase the nominal minimum wage during times of crisis. The government through minimum wage stagnation and low wage growth in the public sector depressed overall wage developments in the economy, and thereby contributed to the deepening and the development of the second phase of economic recession in the Czech Republic.

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