

MINIMUM WAGE IN THE EU COUNTRIES

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Abstract

The minimum wage is an important economic and social tool. It has two basic functions: social-protection and economic-objective functions. Except that it fulfills a lot of derived functions. Especially, the minimum wage forms the psychological frontier, from which are derived the other wages within the national economy. It is also very important tool for redistribution of income in society. The minimum wage helps to reduce sources of tension arising from a sense of unfair income distribution and redistribution. Finally, the minimum wage can be an important regulatory instrument of macroeconomic policy, through which it is possible to follow (monitor) the specific targets of economic stability and grow.

In article is explained the minimum wage institute in the EU countries and are also explicated the differences in the minimum wage fixing. Using the method of comparative analysis (above all) it is looking for answer to the question: There are conditions for further increasing the minimum wage in the Czech Republic?

Key words: EU labor market, minimum wage, the Czech Republic, redistribution of income

JEL Code: J 21, J 24

Introduction

The statutory minimum wage has been already known before the First World War. The first law on the minimum wage was adopted in the United States (Massachusetts) in the year 1912. In Europe, the first time the minimum wage was enacted in Britain in 1914. Currently is the minimum wage established by law in most Member countries, including the Czech Republic (specifically in 22 countries from EU28). Opinions on the importance of the minimum wage, its economic and social impacts, however, are different, both among experts and the general public.

ILO defines the term “minimum wage” as “the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement,

which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions.” (ILO, 1992)

Remuneration of employees is a part of broader concept of EU social policy. A number of international documents, which was adopted by The League of Nations, The United Nations, by The Council of Europe and by The International Labour Organization already had influence in shaping European social policy. Many of these documents regulate the minimum income quantity in the general terms. More about the historical development of the European social policy can be found in Pališková “The labour market in the European Union – historical development, new trends and perspectives” (2014).

Wage policy, however, is fully in the purview of national governments. Wage level in each country is different, which is determined by a number of factors – economic level achieved, structure of the economy, level of the labour productivity, the level of education in the society, etc. And last, wage policy is an important part of human resources management at the enterprise level (Legnerova, 2014; Stritesky, 2013).

The aim of this article is to explain two basic mechanisms of minimum wage formation in EU Member States, to compare the development and the level of the minimum wage in the EU countries and to find an answer, whether are conditions for further increasing the minimum wage in the Czech Republic.

1 Mechanisms of minimum wage fixing in the EU countries

There are two basic mechanisms of minimum wages formation in EU Member States:

1. Setting the minimum wage by law – statutory minimum wages by formal laws or statutes.
2. Determination of the minimum wage by collective bargaining – the minimum wage level is set in collective agreements (differentially by sectors, qualifications or professional groups).

From those two ways of regulating the minimum wage currently prevailing method is statutory minimum wage.

Overall 22 out of 28 EU countries apply a generally binding *statutory minimum wage*: Belgium, Bulgaria, Croatia, Czech Republic, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and United Kingdom.

Statutory minimum wage advantages are mainly the following:

1. Uniform rules which define
 - a. Scope and conditions for the payment of the minimum wage,
 - b. The basic rates of the minimum wage (the uniform rate for the whole country),
 - c. The reduced rates of the minimum wage (for specific groups of workers),
 - d. In many countries also conditions and the way of valorization.
2. Considerable social function – there is set the minimum wage level for groups of workers who are the most affected by unemployment: women, young people, older workers, low-skilled workers, with disabilities people (more about youth unemployment see eg. Paliskova, 2014 or Laporsek, 2013).
3. This mechanism allows setting the minimum wage level in relation to the consumer price level changes, as well as to the development of the nominal and real wages.

In Austria, Cyprus, Denmark, Finland, Italy and Sweden is the minimum wage a result of *collective bargaining* between the social partners. Well-functioning employer associations and trade unions with large membership base and are an important prerequisite for the effective functioning of this mechanism. There are differences between countries. For example Cyprus does not stipulate the minimum wage at national level. The Minimum Wage Law specifies nine occupations for which the minimum wage applies. Also in Austria are set tariffs for some professions.

2 Comparison of the minimum wages in the EU countries

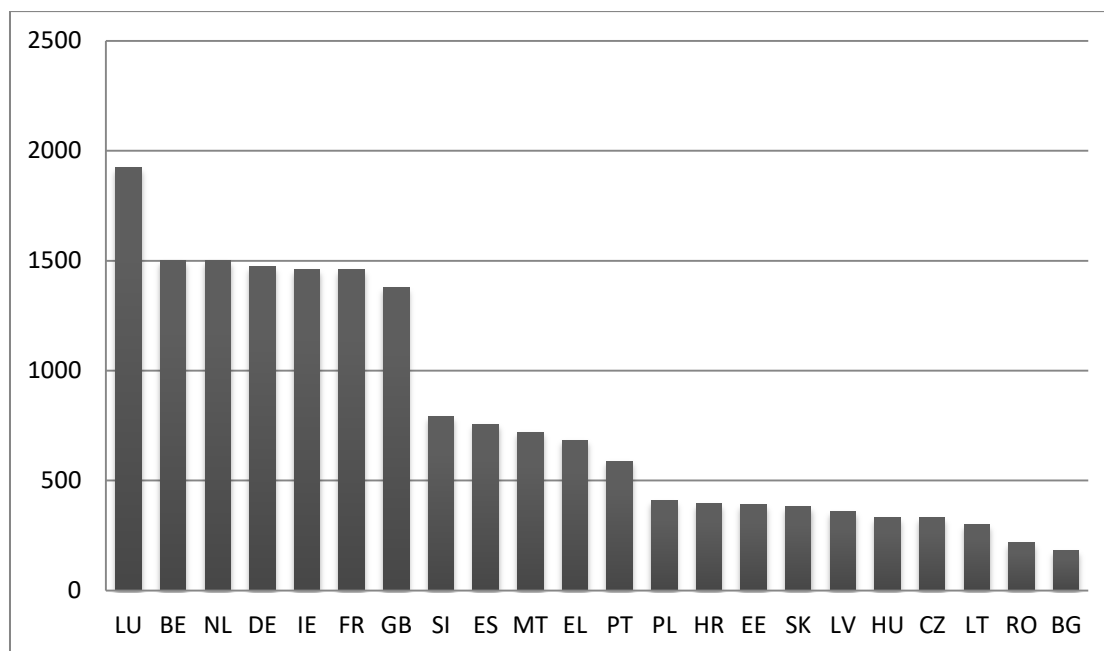
The EU Member Countries are very different. They differ in the achieved economic level, in the volume of capital in economy, in work productivity, in the structure of economy, in the level of human capital, etc. All these factors have a significant influence on the level of wages. It is not surprising then, that the minimum wage varies greatly from one country to another.

According to the level of the minimum wage, the EU countries can be divided into three groups (see Figure 1):

1. The countries with the monthly minimum wage more than EUR 1,000 (Luxembourg, Belgium, Netherlands, Germany, Ireland, France and United Kingdom).
2. The countries with the monthly minimum wage in the range of 1,000 – 500 EUR (Slovenia, Spain, Malta, Greece and Portugal).

- The countries with the monthly minimum wage below EUR 500 (Poland, Croatia, Estonia, Slovakia, Latvia, Hungary, Czech Republic, Lithuania, Romania and Bulgaria) (especially about minimum wages in Visegrad countries see Pavelka, 2015).

Fig. 1: Minimum wage in the EU countries in 2015 (EUR)

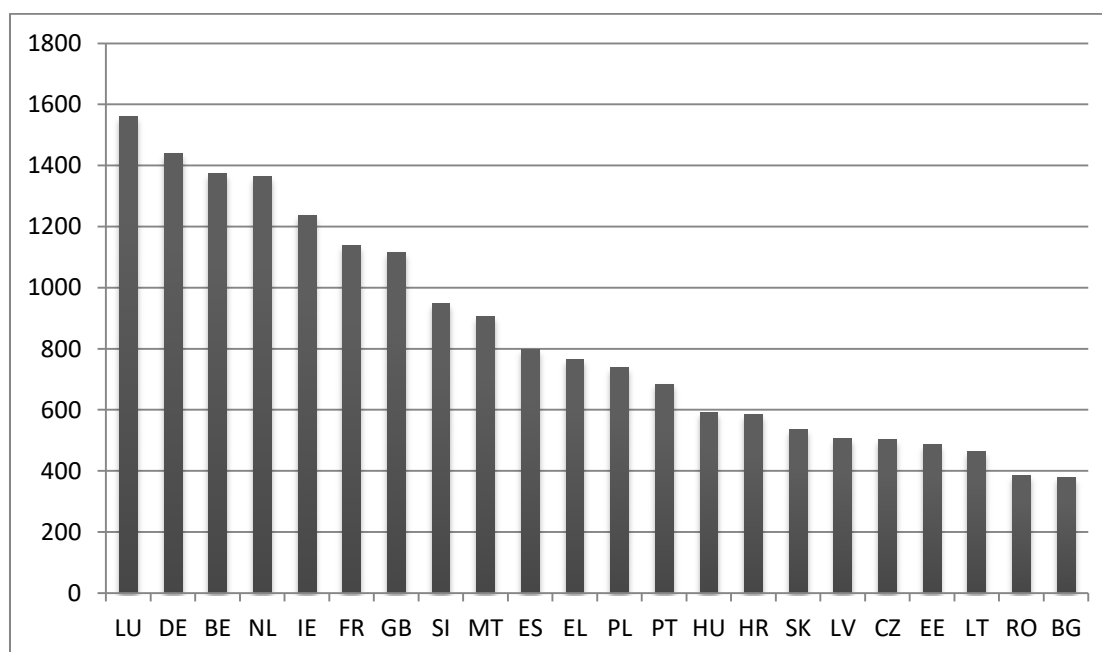


Source: Eurostat, own processing

The minimum wage is presented (Figure 1) as a gross amount because taxation and other deductions are different across countries. The difference between Luxembourg (minimum wage – 1,923 EUR) on the one hand, and Bulgaria (minimum wage – 184 EUR), on the other hand is more than tenfold. Nevertheless, the nominal minimum wage is a bit simplified view on the issue of the minimum wage level. The different costs of living, energies, transport, food, clothing and other consumption are reflected in the real minimum wage levels in the individual countries.

For this reason a comparison of the minimum wages in PPS (Purchasing Power Standard) is much more accurate. It expresses what amount of products and services can the residents to buy for the minimum wage in the individual EU countries (see Figure 2). Differences among countries are smaller than in the Figure 1, but still very significant.

Fig. 2: Minimum wage in the EU countries in 2015 (PPS, EUR)



Source: Eurostat, own processing

In the Czech Republic was the minimum wage in PPS the fifth lowest in 2015. Difference compared to Luxembourg or Germany is smaller than when comparing the nominal minimum wages (i.e. absolute values). In conversion to PPS is also slightly changed the order of the countries. For example Luxembourg is always first in the order, but the second is now Germany (not Belgium). The Czech Republic ranked in the order by one position better.

Tab. 1: The development of minimum wages in the EU countries in 2000–2015 (in national currency, in %)

RO	BG	HU	LV	MT	EE	SK	PL	LT	SI
1,200	380	320	309	246	231	202	150	141	112
CZ	GB	LU	IE	ES	BE	NL	PT	FR	EL
104	80	58	55	53	38	38	36	35	10

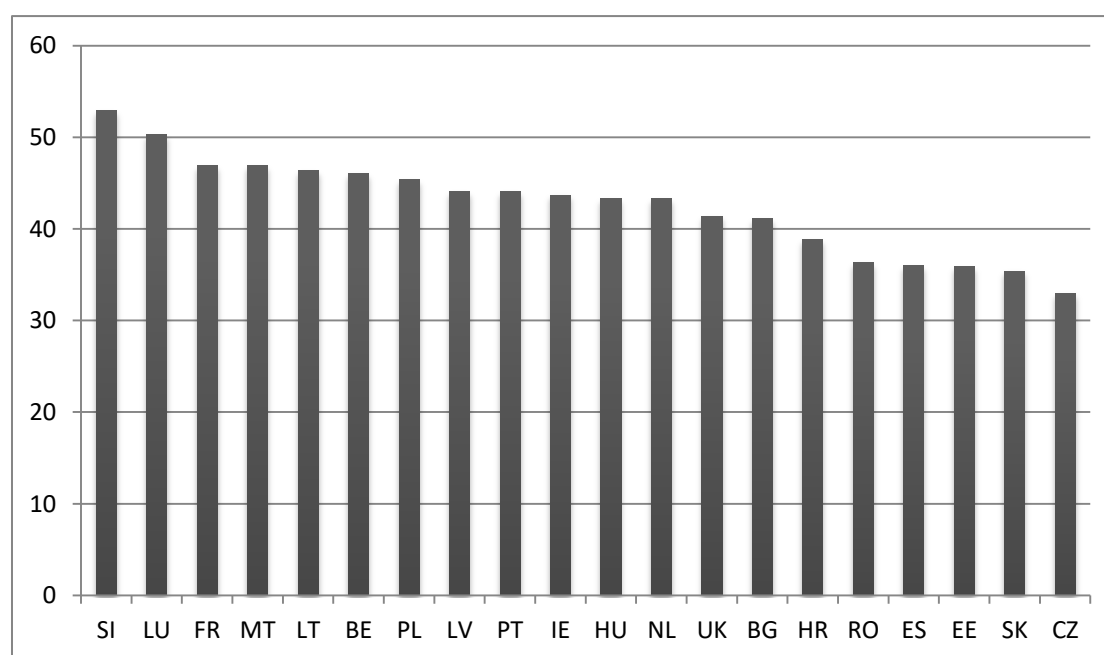
Source: Eurostat, own calculation

Tablet 1 gives an interesting view of the minimum wage development in the period 2010–2015. We can see that the new member states have higher growth dynamics of the minimum wages than the old one. It also corresponds to their faster economic growth. Increase in the minimum wages ranges from 104 to 1,200% in the new EU countries, while the smallest is this increase in the Czech Republic (104%). In the old EU countries, the differences are much smaller (70%). The most increased the minimum wage in the UK (80%), on the contrary, at least in Greece (10%).

There is important to point out that only the Czech Republic had zero growth of the minimum wage in 2007–2013. Decrease in the minimum wage in this period occurred only in Greece (-11%), but under very different macroeconomic conditions (Greece GDP fell by about one quarter in those years).

We can say that in recent years, as a result of adverse economic development was a relatively small increase of the minimum wages in most European countries.

Fig. 3: Share of the minimum wages on average monthly wages in 2014 (in %)



Source: Eurostat, own processing

If we compare the minimum wages to the average gross monthly wages of workers in industry, construction and services (B-S NACE Rev. 2), we can see, that the smallest is this share in the Czech Republic – minimum wage reaches 33% of the average gross wage. In

most countries, the minimum wage is above 40% of the average gross wage and even more 50% reaches in Slovenia and Luxembourg.

Conclusion

In the Czech Republic, the minimum wage set incorrectly in the early 90s without previous analyses of the other income variables. This fact negatively affected its further development. The minimum wage has been for many years at the same level and did not reflect wage growth.

From the analysis made above we can indicate that there is the scope for raising the minimum wage in the Czech Republic. In the future, it would be appropriate to set a minimum wage in relation to the average gross wage in respect of inflation. It should be also emphasized that the impact of the minimum wage raising is reflected differently in the various sector and enterprises considering labour productivity. We can close, the minimum wage should be valorised gradually, a continuously, in relation to labour productivity, wage development, consumer prices, inflation and the overall condition of the economy.

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