



Corporate reactions to the raise of the minimum wage/guaranteed minimum salary of qualified staff

The analysis is based on the April 2018 wave of IEER Business Climate Survey. The IEER Business Climate Survey is the most extensive of its kind in Hungary, the one that involves the most companies. This year, our results were based on the answers of 3274 CEOs. The results offer an insight into companies' business situations and short-term expectations. Respondents were also asked about the impacts of a raised minimum wage and guaranteed minimum salary. The sample size of respondents can be considered representative with regard to company size and economic sector.

Our brief analysis examines eight potential measures that can be reactions to the January 2018¹ raise of the minimum wage/guaranteed minimum salary for qualified staff. CEOs were asked to fill in the form below.

The raise of the minimum wage to HUF 138,000 and the guaranteed minimum salary of qualified staff to HUF 180,500 have resulted/will result in the following measures at your company in 2018:

- *wages of those earning above the minimum wage are also increased to avoid wage tension*
- *planned staff recruitment is cancelled*
- *redundancies are made*
- *projected investments are postponed*
- *employees entitled for a raise are given new duties*

- *employees entitled for a raise are re-hired as part-time employees*
- *other benefits (e.g. perks) of employees involved are cut*
- *variable pay (e.g. bonus) is decreased*

Of the above measures, CEOs tended to prefer the first one: 32% of them have given - or are planning to give - a raise this year to employees earning above the standard minimum wage to avoid a wage tension. Also 32% reported the cancellation of staff recruitment. Almost a quarter (24%) of the surveyed companies are planning to postpone projected investments. 13% of companies chose to decrease variable pay (e.g. bonuses). About one in ten businesses will modify the duties of employees getting a raise, cut employee's benefits, or redirect employees to part-time employment. Job cut was the least

¹ Cf: Governmental Decree 430/2016. (XII. 15.) on minimum wage and guaranteed minimum salary.

http://njt.hu/cgi_bin/njt_doc.cgi?docid=199226.331625

common reaction, performed by a meagre 3% of surveyed companies.

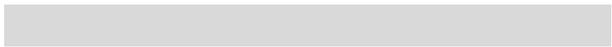
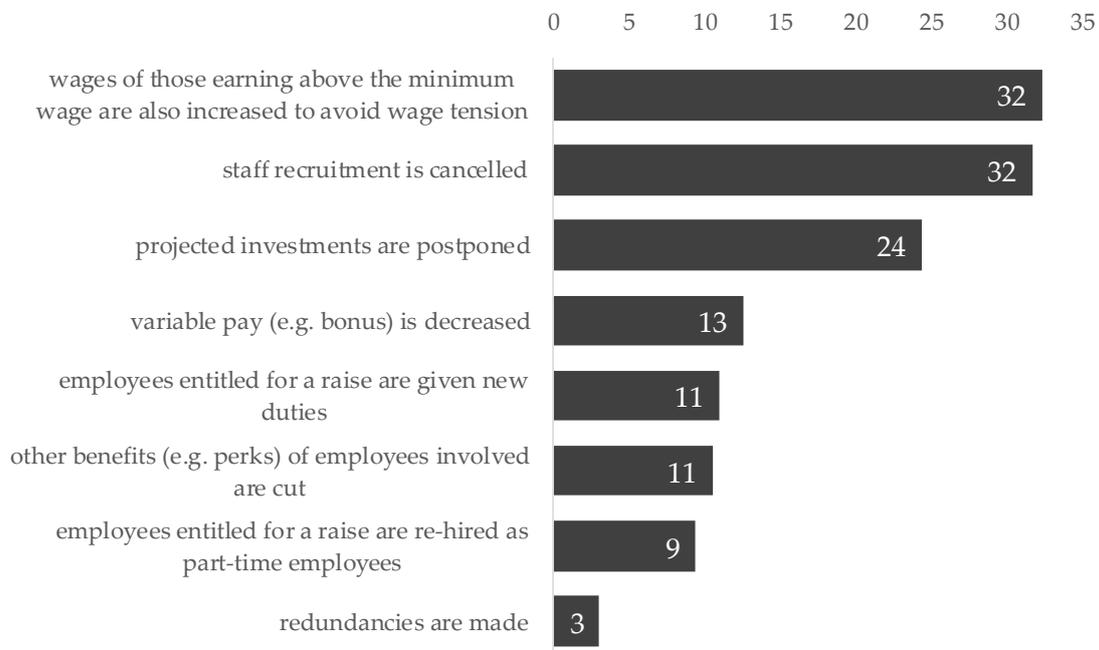


Figure 1. The rate of companies that implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %.

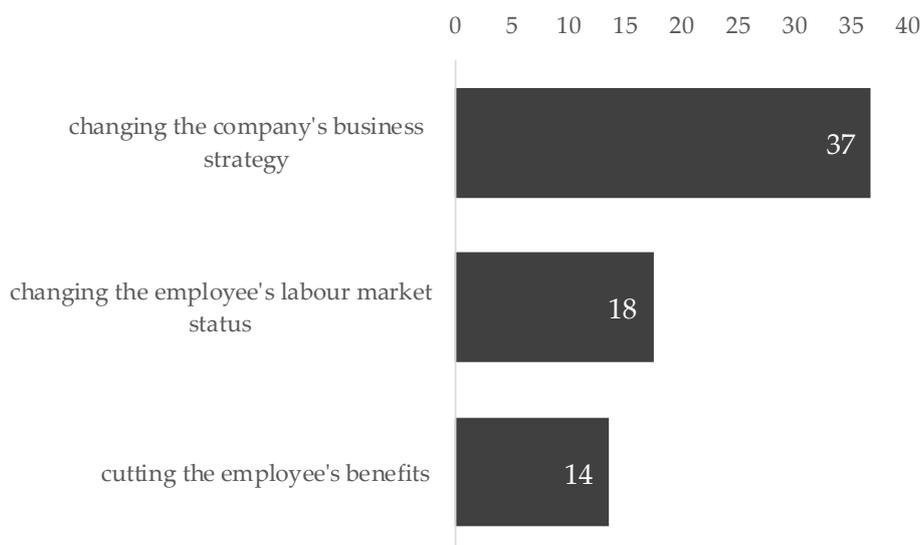


Source: IEER 2018

Our results show that the raise prodded more than a third (37%) of the surveyed companies to change their business strategy, including postponement of projected investments and staffing. 18% of companies have been considering to take employment-related measures. These companies either dismissed or will dismiss employees, modified or will modify job

descriptions and renegotiated or will renegotiate contracts of those involved in the raise, offering them part-time employment. 14% of enterprises plan to cut fringe benefits and variable pay of employees.

Figure 2. The rate of companies that implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %



Source: IEER 2018

The inclination of taking the eight measures in the survey decreased with company size: the bigger the company, the less intent it was to implement the measures. For companies with a staff below 50, the likelihood was bigger. Micro-enterprises (fewer than 10 employees) seem to have been the most likely to implement the surveyed measures. 33% of them planned to cancel recruitment of new staff. For the other three company sizes, this rate was between 8% and 23%. A quarter of micro-enterprises mentioned the postponement of projected investments. For the other three company sizes, this rate was between 0% and 20%.

Chart 1 also shows that a very small percentage (below 10%) of 50-249 and 250+ companies were inclined to make people

redundant, postpone projected investments, modify duties, downgrade staff to do part-time, and cut employees' benefits or variable pay.

On the other hand, above-minimum wage salaries have been, or will be raised by 65%, 58% and 60% of 10-49, 50-249 and 250+ companies, respectively. Micro-enterprises were lagging behind in this respect (29%). Furthermore, it was not the micro-enterprises that were the most inclined to consider dismissals as well as job and contract modifications for employees involved in the raise, but companies in the 10-49 range (5% and 16%, respectively).

Chart 1. The rate of companies, by company size, which implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %

	x-9 employees	10-49 employees	50-249 employees	250-x employees
wages of those earning above the minimum wage are also increased to avoid wage tension	29	65	58	60
planned staff recruitment is cancelled	33	23	8	20
redundancies are made	3	5	4	0
projected investments are postponed	25	20	8	0
employees entitled for a raise are given new duties	11	16	8	0
employees entitled for a raise are re-hired as part-time employees	10	7	0	0
other benefits of employees involved are cut	11	10	4	0
variable pay is decreased	13	13	4	0

Source: IEER 2018

Breaking the results down by economic sectors tells us that the raise had the most profound effect on trade companies, having been the most inclined to implement the measures surveyed. Trade companies cancelled recruitment and investment at the biggest rate. They were also the most inclined to modify duties of staff involved in the raise, downgrade them to part-timers and cut their benefits or variable pay.

Raising above-minimum wages was preferred by construction companies the

most (46%), followed by industrial companies (44%). Trade companies were a distant third (34%), while companies offering economic services are at the bottom of the chart (26%).

Redundancies were also not the most popular with trade companies, but with industrial businesses (5%); however, in this case the difference between industrial branches cannot be considered statistically significant (at a 95% reliability rate).

Chart 2. The rate of enterprises, by economic sector, which implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %

	Industry	Construction industry	Trade	Economic services
wages of those earning above the minimum wage are also increased to avoid wage tension	44	46	34	26
planned staff recruitment is cancelled	25	22	43	30
redundancies are made	5	3	3	3
projected investments are postponed	24	19	33	22
employees entitled for a raise are given new duties	11	11	12	11
employees entitled for a raise are re-hired as part-time employees	2	5	16	8
other benefits of employees involved are cut	10	9	14	9
variable pay is decreased	14	13	16	11

Source: IEER 2018

Having examined the results with regard to ownership structure we found that there was no statistically significant difference (at a 95% reliability rate) between domestic and partly/predominantly foreign companies. Their reactions to counter the

raise of the minimum wage have been more or less the same. Still, domestic companies typically showed a slightly higher percentage rate for the surveyed aspects.

Chart 3. The rate of companies, by ownership structure, that implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %

	Fully domestic ownership	Partly/predominantly foreign ownership
wages of those earning above the minimum wage are also increased to avoid wage tension	32	31
planned staff recruitment is cancelled	32	25
redundancies are made	3	4
projected investments are postponed	25	15
employees entitled for a raise are given new duties	11	9
employees entitled for a raise are re-hired as part-time employees	9	15
other benefits of employees involved are cut	11	10
variable pay is decreased	13	13

Source: IEER 2018

Looking at export activity we can see that the raise of the minimum wage had the smallest impact on major exporters. A greater proportion of non-exporters and minor exporters had to take measures to react the effects of the raise. However, only with respect to raising above-minimum

wages, postponing staff recruitment and investments, and cutting employees' benefits, exporting activity seem to have played a statistically significant role (at a 95% reliability rate).

Chart 4. The rate of companies, by exporting activity, that implemented/plan to implement the listed measures in 2018 as a reaction to raising the minimum wage is %

	Non-exporters	Minor exporters	Major exporters
wages of those earning above the minimum wage are also increased to avoid wage tension	31	42	25
planned staff recruitment is cancelled	32	33	17
redundancies are made	3	4	5
projected investments are postponed	25	22	11
employees entitled for a raise are given new duties	10	12	8
employees entitled for a raise are re-hired as part-time employees	10	8	4
other benefits of employees involved are cut	11	7	4
variable pay is decreased	13	15	4

Source: IEER 2018

Minimum wage tendencies in Hungary, responses on the 2001 rise

Below we shall give an overview of gross minimum wage tendencies in Hungary, which will be compared to other countries in the Carpathian region. Although the actual minimum wage, considered as a gross sum, has constantly risen over the years, the proportional increase and certain instances of a drastic rise are worthy for closer examination, since such a measure may have had diverse effects on various social groups. So far, the minimum wage rise implemented in 2001/2002 has been analysed the most elaborately. In 2001, the real value of the minimum wage increased by 65% overnight. A relevant question arises here: if the cost hikes of such drastic rises were financed from the central budget, who was this burden really carried by, the businesses or the consumers? Analyses mainly support the latter hypothesis. However, the impacts are considerably different when the employees' age, qualifications and industrial sectors are considered.

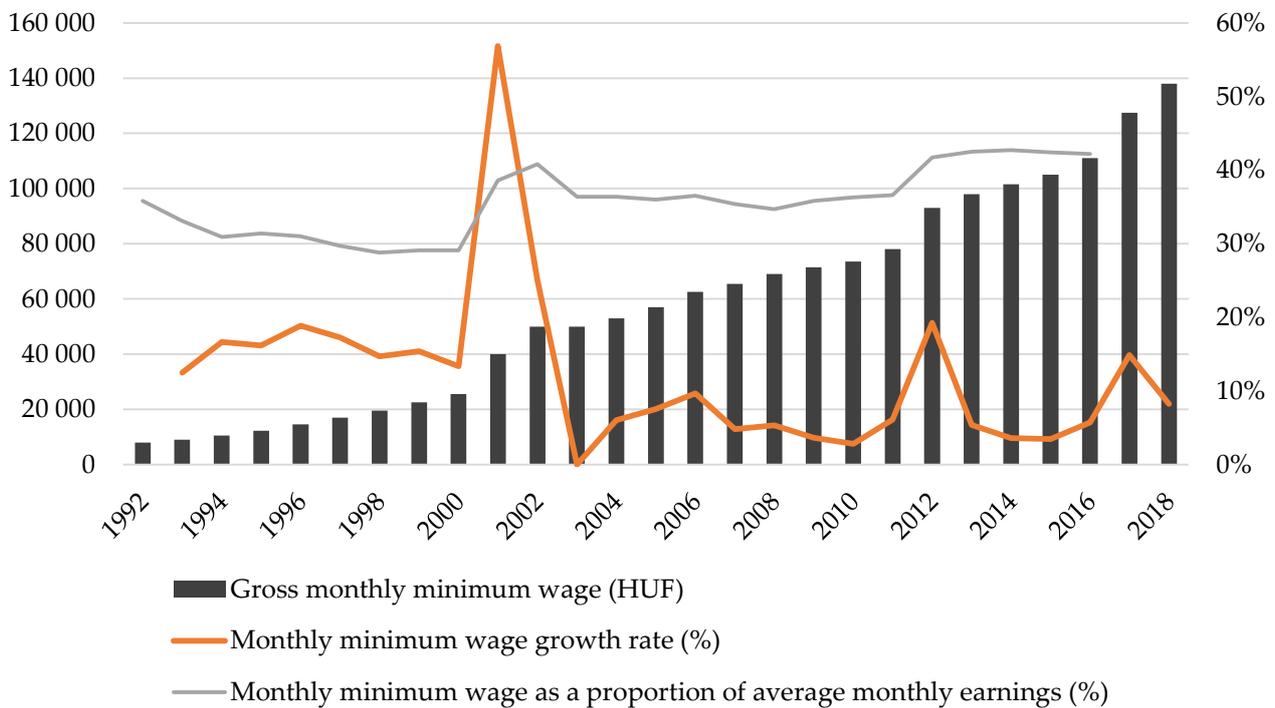
Rising monthly gross minimum wage in Hungary

In Hungary, minimum wage as such was introduced in 1989. The Central Statistical Office has disclosed minimum wage data retrospectively since 1992. A look at the gross sum of the Hungarian monthly minimum wage tells us that there has been a constant rise, with the exception of year 2003. In 1992, gross minimum wage in Hungary was HUF 8000, this year it is HUF 138 000. The increase is absolutely natural on the one hand, since minimum wage is indexed for inflation. Minimum wage is intended to retain its purchase power to enable minimum wage earners to maintain their living standards.

On the other hand, the sum of the minimum wage is always based on a political decision, and it is determined by the actual government.

A rise over a normal adjustment to inflation always has an impact on the labour market. For this impact to be perceivable, the rise has to be significant on the one hand and unexpected on the other so that the players of the economy cannot calculate it into their decisions and pricing in advance. By examining the changes of the minimum wage in percentage points, the first thing we see is that the most drastic rise in Hungary happened between 2000 and 2002. The 2000/2001 rise of over 56% was followed in 2002 by another 25% rise. If the gross minimum wage is examined in comparison with the average monthly earnings, the proportion jumped from 29.1 % to 38.6 % in the first year, and to 40.8 % in the second.

Gross monthly minimum wage, monthly minimum wage growth rate (%), and monthly minimum wage as a proportion of average monthly earnings (%) (1992 - 2018)



Source: Central Statistical Office

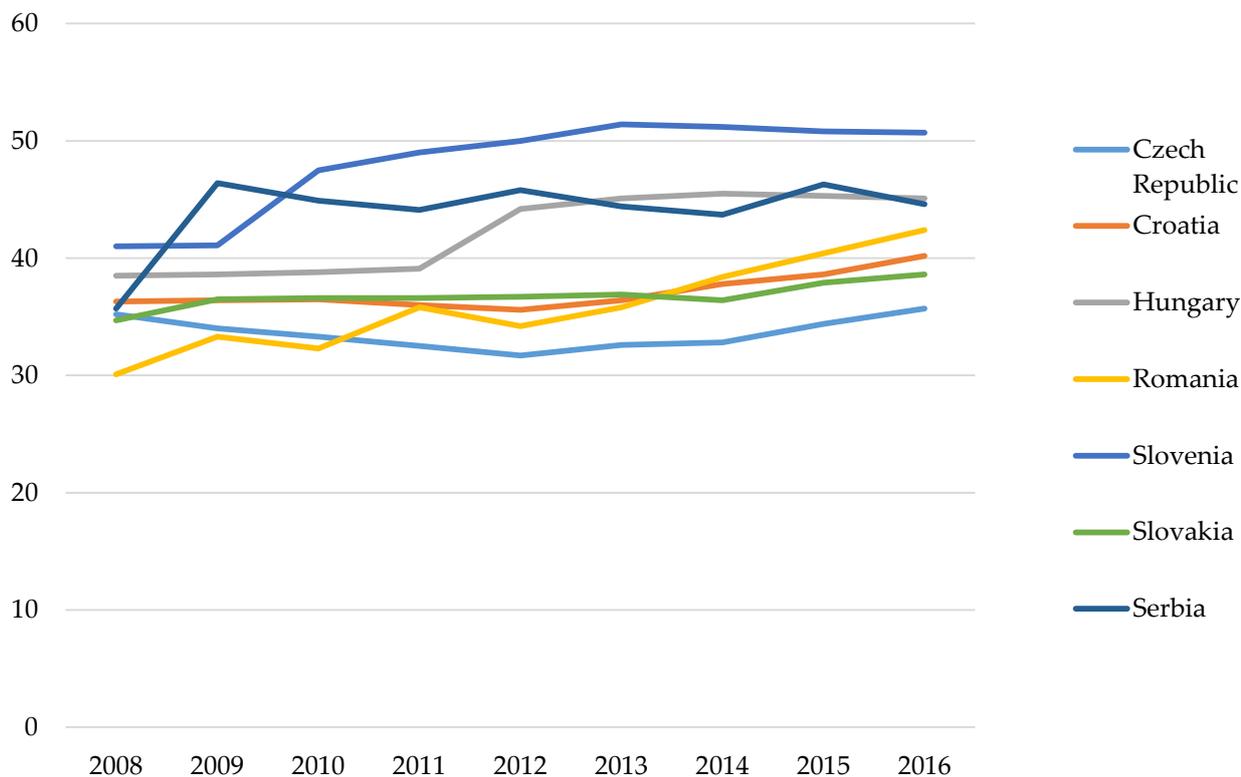
Minimum wage in countries of the Carpathian region

It seems relevant to check how much the Hungarian minimum wage is worth relative to those granted in some countries nearby.

If the monthly minimum wage is expressed in the proportion of average monthly earnings, we can clearly see that all throughout the examined period between 2008 and 2016, the monthly minimum wage in Slovenia was

higher than the one in Hungary. Also in Serbia, the ratio was 8 percentage points higher in 2009. However, in recent years the Serbian minimum wage has dropped back to the Hungarian level. Yet in comparison with the other countries examined, the monthly minimum wage in proportion to the average earnings was higher in Hungary. In 2016, this rate was the highest in Slovenia (51%) and the lowest in the Czech Republic (36%).

Monthly minimum wage as a proportion of average monthly earnings in the countries of the Carpathian region, 2008-2016 (%)



Source: Eurostat, http://ec.europa.eu/eurostat/web/products-datasets/-/learn_mw_avgr2

Even in theory, the consequences of the rise are not clear-cut

Even in theory, the effects of a minimum wage rise are divergent - they depend on the model by which they are formulated. Furthermore, the effects of a minimum wage rise are generally examined in relation with the labour market. Our brief theoretical overview will also try to disregard budgetary and inflationary effects, among others.

Supposing that there is perfect competition, a minimum wage rise always has an adverse effect on employment, since none of the players of the economy is strong enough to influence wages in equilibrium alone. Wages purely depend on labour market demand and

supply. In such an environment, a minimum wage above the actual equilibrium wage level (the effective minimum wage) increases labour supply, i.e. the number of those who are inclined to take on a job for this higher wage level will rise. In return, demand for labour will drop, and the difference between supply and demand will lead to higher unemployment rates. The new balance will be characterised by fewer but higher paid employees on the labour market.

On the demand side of a monopsonistic labour market there is only one company, or a few companies. They can influence wages, thus the employers have a stronger bargain position than employees. In this case,

employment rates are lower than those of perfect competition. Employment rates are determined here by demand and marginal cost of labour. Thus an increase of employment figures becomes possible by introducing or increasing the minimum wage (as long as it is above the original wage level). In fact, without setting a minimum it would not be in any company's interest to introduce a higher wage level. However, setting a minimum wage that is too high may also decrease employment rates.

Besides the aforementioned models there are several others (e.g. effective wage), and many aspects that may contribute to better understanding of the issue. For instance, labour is rarely homogeneous, the diversity of employees being determined by e.g. their age and geographic location. As a result, their wages are also different.

The 2001 minimum wage rise: main conclusions

In the following overview we shall give an account of what impacts of the rise were identified by analyses. In 2001, the monthly gross minimum wage, which was HUF 25 500 at that time, was increased to HUF 40 000, and in 2002, it was further increased to HUF 50 000. The real value of the monthly minimum wage thus increased by 65%² (Benedek et al., 2007).

Kertesi and Köllő (2004)³ analysed the effects of the 2001 raise on employment. They

concluded that the 2000/2001 year-on-year employment rate decreased by at least 3.5% in the most exposed sector of small enterprises. Minimum wage earners were twice as likely to lose their jobs in the second to fourth quarters of 2001 than employees who were slightly better paid. Moreover, low-income unemployed on the dole were also less likely to find a new job. To make matters worse, this effect was stronger in underdeveloped regions.

A question arises here: who exactly financed the extra expenditures of the government and companies? Harasztosi and Lindner (2017)⁴ also relied on the minimum wage rise of 2001 for analysing this issue. They concluded that the rise had a relatively weak impact on employment – only about one out of ten minimum wage earners was made redundant. On the other hand, the wages of those who could keep their jobs only increased by 50%. As a result, the total compensation of low paid employees rose by 23%.

It was shown that about 80% of the rise was paid by the consumers who purchased goods produced by minimum wage earners, and the remaining 20% was paid by business owners. So the companies typically passed on the extra costs to consumers by increasing the prices of products. In other cases, since employing people at minimum wage became relatively expensive, labour force was replaced by capital and machines.

² Benedek D. – Rigó M. – Scharle Á. – Szabó P. (2007): Minimálbér-emelések Magyarországon 2001-2006. *PM Kutatási füzetek* 16. Available: http://tatk.elte.hu/file/16_fuzet_070421.pdf

³ Kertesi G. – Köllő J. (2004): A 2001. évi minimálbér-emelés foglalkoztatási következményei. *Közgazdasági*

Szemle, LI. évf., 293–324. Available: <http://www.epa.hu/00000/00017/00103/pdf/1kertko.pdf>

⁴ Harasztosi P. – Lindner A. (2017): Who Pays for the Minimum Wage? Working paper. Available: <http://www.sole-jole.org/17708.pdf>

International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
	Unemployment Rate	(Jul)	5.2%	5.2%	5.2%
Germany	Manufacturing Purchasing Managers Index	(Jul)	57.3	55.5	55.9
	IFO Business Climate Index ¹	(Jul)	101.7	101.6	101.8
France	INSEE Business Climate Index ²	(Jul)	106		106
	Unemployment Rate	(Jul)	3.9%	3.9%	4.0%
USA	CB Consumer Confidence Index	(Jul)	127.4	126.5	127.1
	Manufacturing Purchasing Managers Index	(Jul)	55.5	55.1	55.4
China	Manufacturing Purchasing Managers Index	(Jul)	51.2	51.4	51.5

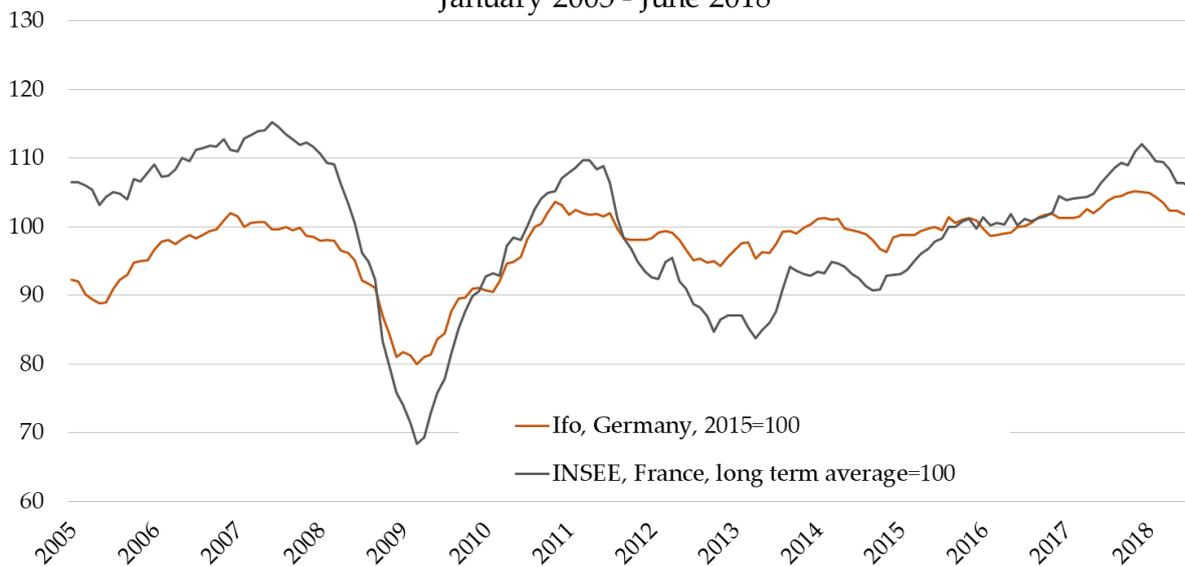
¹ <https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/>

² <http://www.insee.fr/en/themes/indicateur.asp?id=105>

The rest of the data source: <http://worldeconomiccalendar.com>

The German economy slightly overperformed compared to the expectations in July. The unemployment rate stagnates at the same level as in June and performed as expected in July. However, the manufacturing purchasing manager index (PMI) increased compared to last month and was higher than expected. The IFO business climate index slightly decreased but was above the expectations. The French INSEE business climate index stagnates at the same level as in June. In the United States, the CB consumer confidence index and the manufacturing PMI performed better than in the last month and were above the expectations. The unemployment rate was slightly lower than in the last month and performed as expected. The Chinese manufacturing PMI slightly decreased and was below the expectations in July.

Business confidence in Germany and France,
based on the Ifo and INSEE business climate survey,
January 2005 - June 2018



Sources: www.cesifo.de, www.insee.fr

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In case of publication please cite as follows:

HCCI-IEER: Monthly Economic Bulletin,
July 2018. Budapest,
2018-08-13