

dr. Szilvia Borbély

Experiences of wage increase and employment (Hungary)

EMCO (Employment Committee, European Commission) – tripartite consultation

Brussels, February 1st, 2013

In Hungary we may see the following particularities:

1. Watching at the particularities of the time series of the last decade we can establish that the eventual increase of the real wage did not influenced negatively the employment rate (Moreover, we could experience high (net real) wage increase in the years when we succeeded to rise the employment rate to the highest (that is 57% or a little more in 2003 and 2006). We find that the employment rate has remained relatively constant since 2000 (56% in 2000 and 55,8% in 2011, with a smaller increase in 2006-2007 (reaching the 57,3%). We may also establish that the efforts of governments, their different measures and tools (including the projects covered by ESF) have had only weak effects on employment maintaining it around 56%.

2. As a Hungarian paradox we mention that in last two years the real net wages increased in wage categories where wage costs did not increase, and the real net wages did not increase in those categories where wage costs increased.

What is the explanation?

*a) In categories where net wages increased the wage costs didn't grow. It is due to the implementation of 16% flat rate personal income tax in 2011. The original purpose of the government leaving more money in the pocket of high wage earners was to stimulate the inner consumer demand, to better the situation of SME-s producing to domestic market and offering services to it and so to make positive effect on the employment. This plan did not work out.*¹

b) Wage costs increased in categories where net wage didn't grow. It is because the performed wage increases served to compensate the negative consequences of the tax system on the low wage earners.

Since 2011 also the minimum wage earner have to pay the 16% flat rate personal income tax, and tax credit for employees started to be gradually revoked to be stopped completely in 2012. At the first glance the social partners agreed in an impressive minimum wage increase (2011: 6%, 2012: 18% and 2013: 5,4%). But the increases in case of minimum wages as well as average wages and below serve only to maintain the net (real) value of the earnings.

¹ In November 2012 the volume of traffic of retail trade shops was 4,1% less than in the same period of the previous year. The volume of traffic of food shops was 2% less, the traffic of shops of furniture and industrial products was 16% less, and the volume of traffic of cloth, textile, and shoes was 7% less. <http://www.ksh.hu/docs/hun/xftp/gyor/kis/kis21211.pdf>

3. In case of minimum and even average wage earners we have to bear on mind that
- ❖ the net minimum wage in Hungary is less than the minimum of subsistence²
 - ❖ in 2011 the minimum wage came to 37% of the average wage, in 2012 to 42%. It does not mean that the minimum wage is high but it means that the average wage is low, near to the minimum of subsistence.

Nor does such type of wage increase have influence on the consumer demand. The minimum wage under and the average wage near to subsistence level (concerning around 80% of all wage earners) results the low level of consumer demand.

4. *In the last two years the wage increase has been performed independently from the economic performance, nor the classical wage bargaining played role on it.* (Here we have to mention that the same system of the classical tripartite cross-sectoral wage recommendation finished as in 2011 the former classical cross-sectoral tripartite interest reconciliation ceased to exist. True, in the second half of 2012 came into existence a new one but concerning only the competitive sector (named Permanent Consultation Forum of Competitive Sector and the Government (VKF). On a contrast with the previous practice, in this forum the social partners did not agree on wage recommendation to orientate the on-going collective wage bargaining. But agreement was concluded to increase the minimum wage in 2013 (As a compromise towards the employers the government takes the burden of the increased costs in 11 sectors in the first semester of 2013.)

Conclusion

We may establish that – as concerns Hungary – we couldn't find strong correlation between the wage developments and the employment. The present type of net wage increase has not effect on the increase of domestic demand. (In 2012 the volume of traffic of retail trade – with the exception of food - significantly decreased.) The minimum wages lower than the minimum of subsistence result low consumption and the plus income of high wage earners has effect first of all not on the domestic market and employment.

When the earnings of around 80% of wage earners are so low as in Hungary, the wage minimum is less and the average wage is only slightly more than the minimum of subsistence, it is an essential objective of trade unions' collective wage bargaining to reach "decent pay". It doesn't mean that the maintenance or growth of the employment wouldn't be important as well. But we must to recognise that the social partners face great difficulties during stagflation like now.

Based on the actual experiences in Hungary the minimum wages or average wages would in vain decrease – as consequence of further decline of internal demand – the employment would even fall as several undertakings – particularly in retail trade, personal services – would go bankrupt.

² In 2013 the net minimum wage is HUF 64 190 (EUR 218) (the gross minimum wage is HUF 98 000 (EUR 332)). The unit minimum of subsistence (2011) HUF 83 941 (EUR 285) (KSH).

In terms of export production there is no need to reduce wages as Hungarian wage costs are yet characterised by comparative advantages not only in concern of old EU members states but also the Central Europe.³ Hungary could gain of this comparative advantage by high value added export products which includes R+D, or significant intellectual capacity. This would serve not only the macroeconomic balance but also the social tension caused by the present inequality of income distribution. This is essential for all social partners also from the point of view of social peace.

Szilvia Borbély, 28.01.2013.

Annex

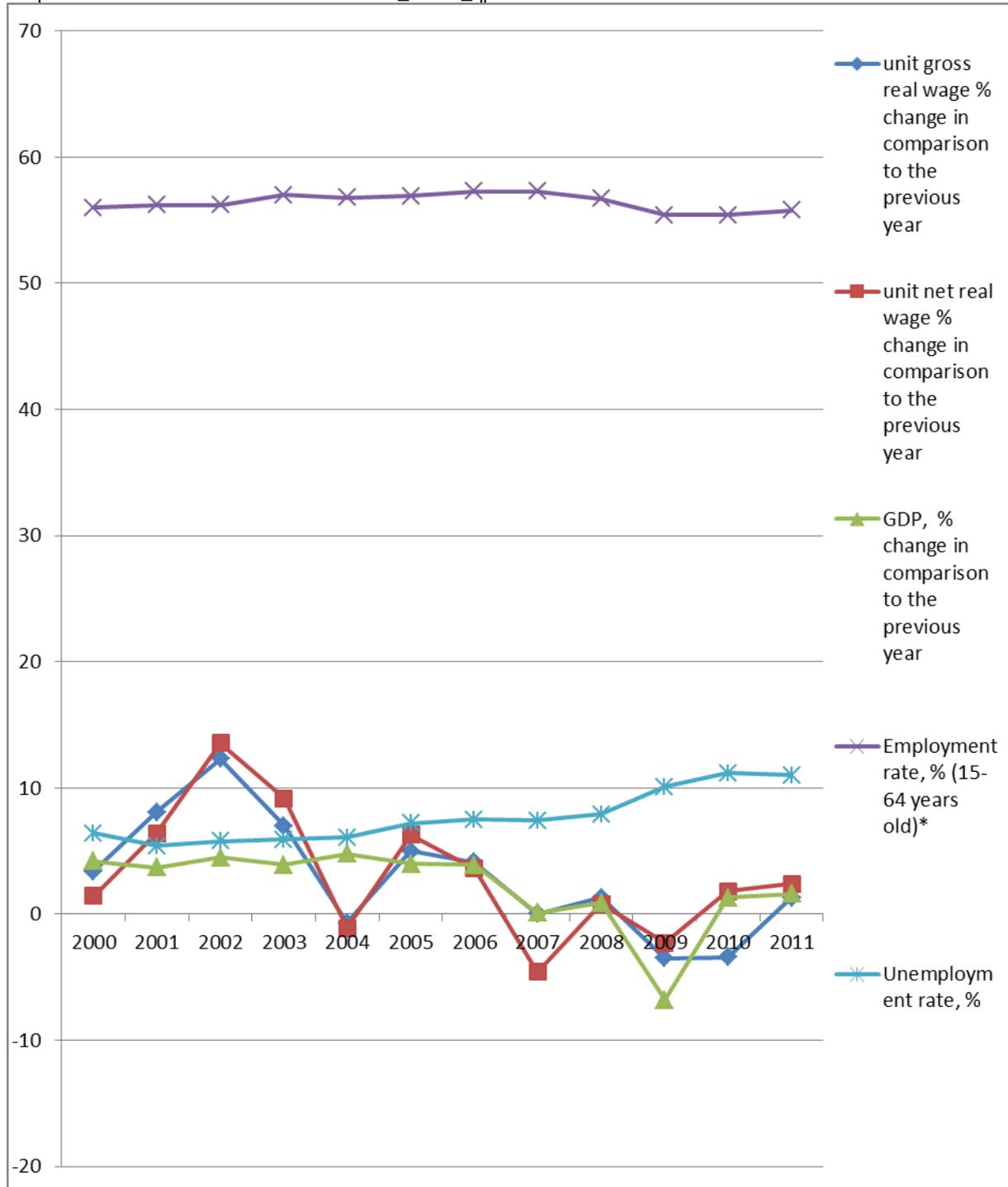
	unit gross real wage % change in comparison to the previous year	unit net real wage % change in comparison to the previous year	GDP, % change in comparison to the previous year	Employment rate, % (15- 64 years old)*	Unemployment rate, %
2000	3,4	1,5	4,2	56,0	6,4
2001	8,1	6,4	3,7	56,2	5,4
2002	12,3	13,6	4,5	56,2	5,8
2003	7	9,2	3,9	57,0	5,9
2004	-0,7	-1,1	4,8	56,8	6,1
2005	5	6,3	4	56,9	7,2
2006	4,1	3,6	3,9	57,3	7,5
2007	0	-4,6	0,1	57,3	7,4
2008	1,3	0,8	0,9	56,7	7,9
2009	-3,5	-2,3	-6,8	55,4	10,1
2010	-3,4	1,8	1,3	55,4	11,2
2011	1,3	2,4	1,6	55,8	11,0

http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf002.html

³ Hourly wage cost in USD (2010): Hungary USD 8,4, Estonia USD 9,47; Slovakia USD 10,72, Czech Republic USD 11,5; UK USD 29,44; Austria USD 41,07; Germany USD 43,76. Source: US Department of labour, <http://www.bls.gov/news.release/ichcc.t01.htm>

[*http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf002.html](http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf002.html)

http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpt001.html



Tendencies (2000-2011)

- Both the gross and the net real wage growth is slowing down (except 2002, 2005).
- The increase of the net real wage - except 2004, 2006-2008 and 2011 – was higher than the increase of the gross real wage.

- The employment rate (15-64 years ol) between 2010-2011 was approximately unchanged (2010 56%, 2011 55,8%). There was a smaller increase in 2006-2007 ((57,3%).
- The growth of the gross real wage was in general less than the growth of GDP (2000, 2004, 2007, 2008, 2010 and 2011.)