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## Threshold of the Bottom Labour Price

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19 April 2006

Online at <https://mpra.ub.uni-muenchen.de/18149/>  
MPRA Paper No. 18149, posted 26 Oct 2009 18:50 UTC

# Threshold of the Bottom Labour Price<sup>1</sup>

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## Key Words

Minimum wage, living wage, social inequity, unemployment, labour market, labour price

## Introduction

In the Czech society of the 90s social differentiation, which gradually influences together with further factors of political and culturally ideological character the perception of social equality and justice, was deepened. Social changes provided some groups of population with other possibilities of self-asserting.

Representatives of higher status groups support the process of social differentiation and consider it as just. Lower groups (people with serious health problems, incomplete or one-person households, semiskilled, unskilled and agricultural manual workers) show the contrary negative statement to the proces of social differentiation. Upper middle groups (married couples, families with two children, lower professionals, self-employed persons without employees) rank to the middle of the opinion range with the inclination to the moderate support of social differentiation. Lower middle groups (families with more children, rustic non-manual workers, skilled workers) have neutral up to sceptical statement to the process of social differentiation. In the society there is an increase of inequalities, which are more or less conditioned by class professional classification. Many measures of the state aim at one of the possibilities of removing material inequality and solving poverty. In the primary level it is to secure adequate educational policy, forming and functioning adequate systems of social security and effective policy of employment. Except preventive provisions against the occurrence of poverty there is necessary the existence of solving consequences of the existing poverty. Within these processes the phenomenon of the minimum wage comes forward.

## Minimal wage as partial socially political measures

Minimal wage is partial socially political measures aiming at solving consequences or solving existing poverty, which has a general validity. Its purpose is the support of socially economic motivation of persons with lower qualification. It is generally set in such amount to cover expenses on basic socially recognized minimal necessities of life of the single worker, not his family.

It originated as a way of protection of the employee against the possible effort of the employer to press the wage down under the socially bearing degree and it is historically

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<sup>1</sup> The paper is published with support of the Czech Science Foundation - GACR No. 402/06/0204.

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documented that for the first time it was applied in Japan<sup>3</sup> in around the year 1865 when it secured the life minimum for workers and other employees. Then it was applied in New Zealand in the year 1894 as a part of decision taking of labour disputes. The first legal adjustment of the minimal wage by the form of the constitutional law was done in the year in 1917 in Mexico. In Czechoslovakia it was enforced for the first time from the year 1919. So the minimal wage is historically the oldest type of the guaranteed minimal income quantity and its protective role towards employees is permanently primary<sup>4</sup>.

The minimal wage thus represents the lowest financial amount which appertains to the worker for performed work independently on his job title, on work being performed, achieved performance results and solvency of the enterpriser.

In the Czech Republic the history of the minimal wage in the last decennium dates from the General Agreement for the year 1991 when the minimal wage was set on the limit CZK2.000, - Kč. The Law no.1/1992 on the wage set the rule that „the wage must not be lower than the minimal wage“. The task of this wage category is to provide with the minimal wage guarantee these employees who from various reasons are not protected by the collective negotiation. In West-European countries the official minimal wage is mostly constructed so that its receiver is able to sustain the family on the level of the living wage. In this way socially economic motivation of persons with lower qualification is supported so that they can ensure means for living preferably by the means of earned incomes and to motivate them generally for entering the work procedure. Poor people are excluded by the society on the periphery and as a risk group they incline to escapes from the unpleasant reality by the means of drugs, alcohol and criminality.

Low earnings from work can have various causes.

- They can be connected with differences in abilities, talent, intelligence, diligence, industriousness and personal ambitions.
- They can be influenced by non-monetary preference when choosing the profession (being bound by the flat and unwillingness to migrate, by the care about a child).
- They can be caused by incapability to work (illness handicaps) and discrimination (unjustified differences in wages of migrants, men, women, members of ethnics).

The minimal wage can fulfil its mobilising function, in case it is really higher than a living wage, it can improve the situation of workers with low wages and to a certain extent it can restrict the extent of inequality of wages. Provided the development and increase of the minimal wage is gradual, it causes in its result that with the low level of minimal wage first of all less skilled people focus on gaining social benefits and not on work. In the following table it is shown the survey of the development of the minimal wage and in the connection also the growth of an average wage in the Czech Republic gradually from the year 1991 up to present time.

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<sup>3</sup> Dandová, E. *Minimální mzda a minimální mzdové tarify*. Personální a mzdový poradce podnikatele. Praha 2004. ISSN 1211-4111

<sup>4</sup> Partly various types of modifications of minimal wages appear from the last third of the 19th century in connection with the development of social legislation and collective negotiation. The development of the system of minimal wages started after adoption of the first Agreement of the International Organisation of Labour (Agreement on introducing methods of setting minimal wages no. 26 from the year). In: Baštyř, I. *Vybrané aktuální problémy uplatňování minimální mzdy v ČR – dílčí analýzy*. [www.vupsv.cz](http://www.vupsv.cz)

**Chart no. 1: Development of minimal and average wages**

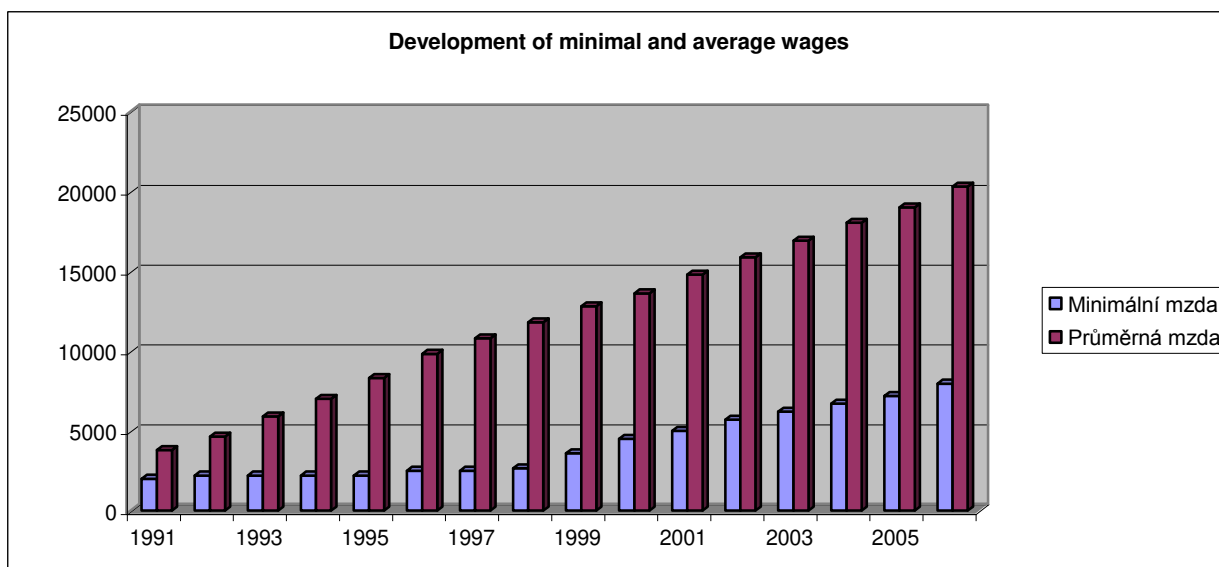
| <i>Period</i> | <i>Minimal wage in CZK</i> | <i>Changes in %</i> | <i>Minimal wage in CZK/hour</i> | <i>Average wage in CZK</i> |
|---------------|----------------------------|---------------------|---------------------------------|----------------------------|
| 1991          | 2 000                      | -                   | 10,8                            | 3 792                      |
| 1992          | 2 200                      | + 10                | 12,0                            | 4 644                      |
| 1993          | 2 200                      | -                   | 12,0                            | 5 904                      |
| 1994          | 2 200                      | -                   | 12,0                            | 7 004                      |
| 1995          | 2 200                      | -                   | 12,0                            | 8 307                      |
| 1996          | 2 500                      | +13,6               | 13,6                            | 9 825                      |
| 1997          | 2 500                      | -                   | 13,6                            | 10 802                     |
| 1998          | 2 650                      | +6                  | 14,8                            | 11 801                     |
| 1.1.1999      | 3 250                      | +22,6               | 18,0                            | 12 797                     |
| 1.7.1999      | 3 600                      | +10,8               | 20,0                            |                            |
| 1.1.2000      | 4 000                      | +11,1               | 22,3                            | 13 614                     |
| 1.7.2000      | 4 500                      | +12,5               | 25,0                            |                            |
| 1.1.2001      | 5 000                      | +11,1               | 30,0                            | 14 793                     |
| 1.1.2002      | 5 700                      | + 14,0              | 33,9                            | 15 857                     |
| 1.1.2003      | 6 200                      | + 8,8               | 36,9                            | 16 917                     |
| 1.1.2004      | 6 700                      | + 8,1               | 39,6                            | 18 035                     |
| 1.1.2005      | 7 185                      | + 7,2               | 42,5                            | 19 100*                    |
| 1.1.2006      | 7 570                      | + 5,4               | 44,70                           | 20 300*                    |
| 1.7.2006      | 7 955                      | + 5,1               | 48,10                           |                            |

Source: www.mpsv.cz, Makroekonomická predikce ČR. Leden 2006. www.mfcr.cz

\* estimation - Makroekonomická predikce ČR. Leden 2006. www.mfcr.cz

Minimal wage action on cost conditions of firms has various intensity and effects mainly in dependence on the relative level of minimal wages in the relation to the usual level of wages. The following graph shows the development of minimal and average wage from the year of introducing measures related to the set threshold of the bottom labour price.

**Graph no. 1: Development of minimal and average wages in the conditions of the Czech Republic**



The wage must never be lower than the minimal wage. Since January 1, 2006 it has been set in the amount of CZK7. 570,- monthly. With the working time 40 hours per week the hourly wage is minimally CZK44, 70,- and from July 1, 2006 it is set in the amount of CZK 7 955 Kč monthly. With the working time 40 hours per week the hourly wage is then minimally CZK48, 10,-. With another length of working time the minimal rate is counted over. For judging the minimal wage its components, such as work overtime, work at night, bonuses, premiums etc., are not included into the wage. The minimal wage does not apply to agreements out of employment, i.e. when the worker with the monthly wage shortens voluntarily by himself working hours (e.g. a woman taking care of children wants to work only part-time).

## Minimal wage in the European Union

The minimal wage, which is not happily welcomed by employers and many economists do not like it either, is legislatively covered in eighteen member states out of twenty-five of the European Union. The highest wage is in Luxemburg and the lowest one in Slovakia and in Baltic Republics. In original states of the European Union the minimal wage is higher than the average pay in the Czech Republic. The statistical office of the European Community (Eurostat) showed <sup>5</sup> that in the most of member states fewer than four percents of employees work for the minimal reward, but e.g. in France it is fourteen percent and in Hungary eleven.<sup>6</sup>

**Chart no. 2: Minimal wages set by the law in member states of the EU to January 1, 1999 up 2005 - EURO monthly**

| Country   | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|------|------|------|
| <b>Conversion of national currency by the rate of exchange to €</b> |      |      |      |      |      |      |      |
| <b>Belgium</b>  | 1074 | 1096 | 1118 | 1163 | 1163 | 1186 | 1210 |
| <b>Czech Republic</b>   | 98   | 126  | 147  | 188  | 199  | 207  | 235  |
| <b>Estonia</b>  | .    | .    | .    | 118  | 138  | 159  | 172  |
| <b>Greece</b>   | 505  | 526  | 544  | 552  | 605  | 605  | 668  |

<sup>5</sup> LAVIČKA, V. *Minimální mzdu ve většině zemí EU stanoví zákon*. Zář 2004. [www.Ekonomika.iHNed.cz](http://www.Ekonomika.iHNed.cz)

<sup>6</sup> „In the Czech republic awarding by the minimal wage concerns about two percent of employed persons“ the speaker of the Ministry of Labour and Social Affairs Kateřina Beránková said. According to her this rate is kept approximately on the same level from the year 1991 when the minimal wage was introduced in the CR. ([www.Ekonomika.iHNed.cz](http://www.Ekonomika.iHNed.cz))

|                      |      |      |      |      |      |      |      |
|----------------------|------|------|------|------|------|------|------|
| <b>Spain</b>         | 416  | 425  | 433  | 516  | 526  | 537  | 598  |
| <b>France</b>        | 1036 | 1049 | 1083 | 1126 | 1154 | 1173 | 1197 |
| <b>Ireland</b>       | -    | 945  | 945  | 1009 | 1073 | 1073 | 1183 |
| <b>Latvia</b>        | .    | .    | 111  | 107  | 116  | 121  | 116  |
| <b>Lithuania,</b>    | .    | .    | 120  | 120  | 125  | 125  | 145  |
| <b>Luxemburg</b>     | 1162 | 1191 | 1259 | 1290 | 1369 | 1403 | 1467 |
| <b>Hungary</b>       | .    | .    | .    | 202  | 212  | 189  | 232  |
| <b>Malta</b>         | .    | .    | .    | 552  | 534  | 542  | 557  |
| <b>Netherlands</b>   | 1064 | 1092 | 1154 | 1207 | 1249 | 1265 | 1265 |
| <b>Poland</b>        | .    | .    | 196  | 212  | 201  | 177  | 205  |
| <b>Portuguese</b>    | 357  | 371  | 390  | 406  | 416  | 426  | 437  |
| <b>Slovenia</b>      | .    | .    | .    | .    | 451  | 471  | 490  |
| <b>Slovakia</b>      | .    | .    | .    | 114  | 133  | 148  | 167  |
| <b>Great Britain</b> | 866  | 970  | 1130 | 1118 | 1106 | 1083 | 1197 |

Pramen: www.VUPSV.CZ

Minimal wage is not legislatively protected in Germany, Austria, Italy, Denmark, Finland, Sweden and Cyprus. In these countries minimal wages are agreed on among social partners in differentiated branch (sectional) collective agreements. Presently there are claims to abolish the institute of the minimal wage with justification that it represents a typical regulation, which decreases the employment and pays up to grey economy. Wage minimum, either set by the law or by a collective agreement (as it is in Germany or Denmark) is basically an artificial labour price and introducing the minimal wage has a negative impact on the labour market and by that unemployment is growing.

### **Economic motivation and minimal wage**

The increase of the minimal wage to January 1, 2006 in the Czech Republic is evaluated more as the partial adjustment which for a short term slightly improves the relation of the minimal wage to the living wage, but it does not concern practically the merit of the problem so for some groups it is from now on advantageous to use social benefits. In the conditions of the Czech Republic approximately two percents of the employed get minimal wages. A current increase of minimal wages tries to the certain extent to solve problematic situations of workers with the lowest wages.

Significantly higher earned incomes before the incomes from social benefits is the base of the economic motivation to work. The way to increase the employment rate in connection with applying the tool of minimal wage consists therefore in the motivation of both participating parties. It is important for the people who strenuously look for job to be compensated for this activity and employers who provide the job to evaluate the ready labour force at least on the level of the standard of living. That means that in the relation to the employer minimal wages are connected with setting the lowest level of costs on wages of employees which are acceptable for employers. In this connection it is always spoken about high labour costs, which are for the Czech Republic characteristic. Provided the incomes of the firm do not allow covering at least this minimal level of labour costs, then it has to close its business. The European social chart, which the government recommended to the parliament to accept,

requires the minimal wage to amount 60% of the average wage in the conditions of the Czech labour market.

On the other hand the existence of guaranteed social incomes leads to the fact that in the income motivation there appears the competition between minimal earned and social incomes. From the point of motivation to the legal working activity there is the determinative relation between:

- the level of the minimal wage (as the lowest guaranteed income from the legal work activity)
- and the minimal guaranteed social income (that is from the income which is fully or from the significant part independent on the working activity of the receiver).

A small difference between expecting income from employment and doles or social benefits is shown into the extent of motivation to look for a job and has an influence on so called past of unemployment. In case of accepting employment for a low wage people are disadvantaged:

- by loss of their free time and their non market income potency (used up e.g. in the household, by various eking out salaries etc.),
- by increased expenses on commuting, on catering and upbringing children,
- by complications which can be connected with an uncertain job, from a temporary loss of social benefits, by higher daily stress related to the adaptation on working conditions,
- by limitation of possibilities of better work offers and by a certain stigmatisation of marginality of the worker.

## Conclusion

At present all countries are looking for the ways how to make the labour market more flexible. At the first sight exploitation of the minimal wage acts as a step of the opposite direction because mainly the sphere of entrepreneurs signalises that thus the competitive ability of companies is lowering and unemployment is increasing. The ground of the last adjustment is the effort of the state to restrict tax evasions just in cases when the employer pays obligatory payments only from the minimal amount and a higher part of the earning gives to his employees as „take home“.

The minimal wage has its non-fungible place due to the fact that at present conditions it fulfils its incentive and social function, even if in some cases it can have a tendency to increase generally the labour price and to have the non-incentive character from the point of view of workers. There are still many regions for which fewer vacancies are characteristic, on the contrary the surplus of unemployed, which leads to non-abidance to legislative proceedings.

In connection with the social policy the state should secure three basic functions<sup>7</sup>:

- **rescue**, preventing from the fall of individuals or families under the recognized living wage limit,
- **insuring** against the unfavourable impacts of various social events as it is motherhood, illness and disability and old age etc.
- and the function **activating** and **cultivating** the human potential and inclinations of people.

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<sup>7</sup> Koncepce činnosti ministerstva práce a sociálních věcí na období 2004-2006. Prosinec 2003. [www.mpsv.cz](http://www.mpsv.cz)

At the time of socially market economy, at the time when, however, simultaneously social problems are deepening, it is necessary to look for the ways of their conceptual and coordinated solution. Social dimensions of the development of the society includes the series of phenomena and processes which participate on forming the quality of the life of population and by that they condition the rate of their satisfaction with life conditions.

## **Resume**

Minimal wage is a partial social and political measure addressed at solving consequences of or existing poverty, which has a general validity. Its goal is to support socially economic motivation of lower-qualified persons. It is commonly fixed at such a sum so that it covers basic socially recognised costs for minimal life needs of the individual employee but not his/her family.

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Zákon č. 435/2004 Sb., o zaměstnanosti

Nařízení vlády o minimální mzdě