Employers and employees – on both sides of the ‘minimum wages’ barricade

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The minimum wage is a legally established measure of the lowest amount that workers have to demand in exchange for their labor. It performs both an economic and a social function that makes it the subject of many discussions. The article examines different points of view and offers some arguments that justify the necessity to have a mandatory minimum wage. Most of the cases mentioned concern Bulgaria as it is the poorest country in the European Union with the lowest wages and with great power of employers' organizations.

There are many studies, which, however, do not give a definite answer about the end impact of the minimum wages and their increase. The ultimate conclusion to be drawn from the study is that, despite some negative consequences from the legislative establishment of the minimum wage, there are also factors that make it a necessity.

Keywords: minimum income wage; employers; employee; employment; labour productivity.

Introduction

There is a broad discussion in the economic literature about the existence of the minimum wage and the level at which it is positioned. Opinions range from its complete rejection as an economic regulator to its imposition as a necessity to raise the living standards of a large proportion of employees. There is a lot of evidence for both points of view.

In recent years, all European countries applying statutory minimum wages (except Greece) have periodically increased their amount and the discussion has gained a particularly broad scope. A large number of employers are dissatisfied with government decisions, arguing that a higher minimum wage is damaging business competitiveness, increasing unemployment and harming the low-skilled workers. Employers' representatives in Bulgaria even demanded its full cancellation. On the other hand, there is the view that low labor remuneration places the beneficiaries below the poverty line, does not stimulate consumption and the desire to start work. It also generates an inequitable redistribution of income in the social security system. Therefore, the purpose of this paper is to analyze different points of view and to highlight some of the arguments that justify the necessity to have a mandatory minimum wage. The majority

of these examples refer to Bulgaria as it is the poorest country in the European Union with the lowest wages.

The methods used in the study are theoretical analysis and synthesis, discussion, concretization, comparative analysis and evaluation.

Amount and scope of the minimum wages in the EU.

One of the older official definitions of the minimum wage states that it is the minimum amount of remuneration that the employer is required to pay for the work done during a given period, which can not be reduced by a collective agreement or an individual contract (1970). More recently, the minimum wage has been bound by different legal constraints, setting the lowest rate that employers have to pay their workers (Parsons, 2008). The lawyers treat it as an institute of labor law with specific characteristics (Andreeva, Yolova, 2014). In other words, this is a legally established rate pursuant to an official law, a statute or collective bargaining agreement below which workers should not agree to provide their labour.

Minimum wages have long been imposed worldwide as a measure to protect the income of low-paid workers and to protect their families from poverty. The first legally established minimum wages were adopted in New Zealand in 1894 and in Australia (the State of Victoria) in 1896 (Starr, 1993). Over time, the minimum wages as a measure to support income protection for workers, has spread to

over 90% of countries worldwide (2006). Britain is the first European country to establish provisions to negotiate a fair pay in 1909. Today, twenty-two EU Member States have a national, government-established, minimum wage. Cyprus has a mandatory minimum wage only for some sectors. The other six countries (Austria, Denmark, Finland, Italy and Sweden) do not have a statutory minimum wage but have

sectoral, collectively agreed minimum wage regulations. In the United States, a minimum federal salary has been set, and some states have even adopted a higher wage than the national minimum.

Table 1 presents the amount and dynamics of minimum wages in the 22 EU Member States for the past six years. For the sake of comparison, the amounts are in euro.

Table 1.

Monthly minimum wages in the EU Member States (in euro)

Country	2013	2014	2015	2016	2017	2018
Luxembourg	1 874,19	1 921,03	1 922,96	1 922,96	1 998,59	1 998,59
Ireland	1 461,85	1 461,85	1 461,85	1 546,35	1 563,25	1 613,95
Netherlands	1 477,80	1 485,60	1 501,80	1 524,60	1 551,60	1 578,00
Belgium	1 501,82	1 501,82	1 501,82	1 501,82	1 531,93	1 562,59
France	1 430,22	1 445,38	1 457,52	1 466,62	1 480,27	1 498,47
Germany	:	:	1 440,00	1 440,00	1 498,00	1 498,00
United Kingdom	1 189,92	1 251,05	1 378,87	1 512,36	1 393,40	1 400,99
Spain	752,85	752,85	756,70	764,40	825,65	858,55
Slovenia	783,66	789,15	790,73	790,73	804,96	842,79
Malta	702,82	717,95	720,46	728,04	735,63	747,54
Greece	683,76	683,76	683,76	683,76	683,76	683,76
Portugal	565,83	565,83	589,17	618,33	649,83	676,67
Poland	368,87	404,40	409,53	433,88	453,48	502,75
Estonia	320,00	355,00	390,00	430,00	470,00	500,00
Slovakia	337,70	352,00	380,00	405,00	435,00	480,00
Czech Republic	308,30	309,91	331,71	366,35	407,09	477,78
Croatia	400,67	395,67	395,61	408,48	433,35	462,34
Hungary	332,37	341,70	332,76	351,29	411,52	444,69
Latvia	284,74	320,00	360,00	370,00	380,00	430,00
Romania	179,36	190,11	217,50	232,10	275,39	407,86
Lithuania	289,62	289,62	300,00	350,00	380,00	400,00
Bulgaria	158,50	173,84	184,07	214,75	235,20	260,76

Source: EUROSTAT

A conditional grouping of countries in the table can be made. Seven Member States have a minimum wage set above € 1,000, ranging from € 1,400.99 in the United Kingdom to € 1,998.59 in Luxembourg. These are countries with a well-developed economy and sustainable social policy. The second group includes six European countries (Spain, Slovenia, Malta, Greece, Portugal and Poland) in which the minimum wage ranges from € 500 to € 1 000.

The third group includes eight former socialist countries in which the minimum wages varies in relatively small ranges from € 400 (Lithuania) to € 500 (Estonia).

Bulgaria is the last in the ranking of the EU countries with a minimum wage of € 260. The amount is not only the lowest but it is also much lower than in the other European countries. It does not even come close to the amounts established in Lithuania (€ 400) and Romania (€ 407).

Considering that the amount of the Bulgarian minimum wage does not include a tax-free minimum, its net value goes down almost to the poverty line.

Overall, the last nine countries in the table are characterized by low pay not only for newly recruited employees but also for all age brackets (Bodnár, Fadejeva, Iordache, Malk, Paskaleva, Pesliakaitė, Todorović Jemec, Tóth, Wyszynski, 2018). This explains the high rate of poverty and labor market segmentation (Horemans, Marx, Nolan, 2016) and creates the expectation that raising minimum wages in these countries will have a stronger impact on the labor market than in the countries at the top of the table.

The picture can be further expanded by reviewing the number of people receiving a minimum wage in the individual Member States (Table 2).

Table 2.

Coverage of statutory minimum wage per country

Country	
Luxembourg	In March 2016, 12.3% (38,028) of full-time private sector employees received the minimum wage and 12.4% (45,204) of employees received up to 2% more than the minimum wage. The Chamber of Employees cautions that the figures provided are too high as they include employees who are paid 'approximately' the minimum wage.
Ireland	It is estimated that about 10% (around 155,000) of employees in Ireland were on the minimum wage in Q2–Q4 of 2016. This estimation is confirmed by the results of the Quarterly National Household Survey: people receiving the minimum wage (or less) were more likely to be female, non-nationals, aged 15–24 years, work part time, have lower levels of educational attainment and be employed in the service industries.
Netherlands	About 6.6% (around 517,000) of employees received minimum wage in 2016. The percentage is higher among young employees aged up to 25 years, with 18% receiving the minimum wage.
Belgium	Experts estimate that about 3% of employees receive the minimum wage.
France	In January 2017, 10.6% (around 1.65 million) of private sector employees (excluding apprenticeships, trainees and temporary workers) received the minimum wage. The rate is higher for part-time employees (24.2%) compared with full-time employees (7.5%), and companies with fewer than 500 employees (31.3%) compared with companies with more than 500 employees (4.5%). About 55.2% of employees affected by the minimum wage are women.
Germany	The Federal Statistical Office found that in 2014 (before the introduction of the statutory minimum wage) around 4 million workers were paid less than €8.50 per hour. In April 2015, around 1.9 million workers (out of 36 million nationally) were paid the minimum wage. However, around 1 million jobs were still paid less, probably due to transition periods for collective agreements and for postal service workers.
United Kingdom	In April 2017, about 6.4% (around 1.56 million) of workers aged 25 years and over were paid the NLW. In the age category of 21–24 years, around 6.1% (around 119,000) were paid the NMW.
Spain	In 2016, 5.4% of all legally employed workers were minimum wage-earners.
Slovenia	According to the Spanish Statistical Office, in 2015, 12.62% (around 1.85 million) of all salaried workers (both full-time and part-time) earned less than the minimum wage. Among those working full time in 2014, 0.91% (around 130,000) received less than the minimum wage. Data published by the Spanish Tax Agency for 2016 show that the total annual earnings of around 6 million salaried employees were less than the annual total of minimum wage-earners. This number possibly overestimates the number of minimum wage-earners as it does not take into account the total time that workers worked in the given year.
Malta	In 2015, 3.4% (3,241) of full-time employees earned the minimum wage or less.
Greece	There are no available data on the specific number of employees receiving the minimum wage. According to data from the Ministry of Labour, Social Insurance and Social Solidarity on actual wages (October 2017), 33.7% of people earn up to €600 per month, of which one-third are workers with monthly earnings of €501–€600, and two-thirds are part-time workers, shift workers or workers on short-time contracts. The corresponding figure for 2016 was just below this, at 32.8%.
Portugal	A report published by the Ministry of Labour, Solidarity and Social Security in December 2017 estimates that around 23% of full-time workers receive the minimum wage. It is estimated that in 2018, around 800,000 workers will be paid the minimum wage.
Poland	According to the Central Statistical Office, about 10% (around 1.36 million) employees on permanent employment contracts received the minimum wage in 2015.
Estonia	Between 19%–25% (subject to time of year) of workers receive the minimum wage (or less).
Slovakia	It is reported that between 5%–6% (around 119,000) of employees will be affected by the higher minimum wage in 2018. This includes around 49,000 people working for companies and 70,000 working for self-employed/tradesmen.
Czech Republic	According to the Czech Statistical Office (CZSO), about 3.6% (around 132,000) of employees in 2016 received the minimum wage.
Croatia	It is reported that between 3%–13% of all employees receive the minimum wage.
Hungary	Based on the governmental wage and earnings statistics for 2015, about 14% (around 600,000) workers received the guaranteed minimum wage.
Latvia	According to the Central Statistical Bureau of Latvia, in March 2017 about 18% (around 162,700 employees) received the minimum wage of €380 per month or less. However, this is not an accurate figure, as it includes part-time workers.
Romania	In February 2017, around 40% (around 2.1 million) employees received the minimum wage, of which approximately 300,000 were working in the public sector. According to a study by the National Scientific Research Institute for Labour and Social Protection, the number of employees receiving the minimum wage has tripled since 2011, following successive increases of the minimum wage (INCSMPS, 2016).
Lithuania	According to Statistics Lithuania, in October 2016 about 20.2% (around 223,200) of employees (including individual enterprises) received €380 per month or less. It is important to note that more than half (57.7%) were working part time.
Bulgaria	The calculations of the Confederation of Independent Trade Unions of Bulgaria CITUB indicate that 18.2% (around 416,818) employees receive the minimum wage.

Source: Eurofound (2018).

The data provided in the table show a variation also in the number of people employed who get a minimum wage. However, in spite of the few exceptions (Slovakia and the

Czech Republic), it can be claimed that the number of people getting a minimum wage is greater in the Central and Eastern European countries, among which Poland has the

smallest share of such employees (10%), and Romania has the largest share (about 40% of all employed people). About 417 000 people (18,2% of all employed people) in Bulgaria receive the minimum wages.

The discussion “for and against the minimum wages”

The minimum wage is applied to improve equity and strike a balance in the market position of employers and workers (2017). It is both a tool for the remuneration paid by the employer for the work done and for the reduction of poverty among the employees. This duality accounts for the

high interest in it and provokes many discussions about its optimal size.

An extremely wide range of opinions and discussions can be found in the economic literature which can not be fully covered due to the limited scope of the current research. Table 3 therefore summarizes some of the arguments that could be put forward in favor of and against the establishment of a mandatory minimum wage. Below are some of the more interesting discussions.

Table 3.

Arguments for and against the application of minimum wages

Arguments for the application of minimum wage	Arguments against the application of minimum wage
<ul style="list-style-type: none"> - it is easy to enforce and does not require significant administrative work for calculation and control; - it provides revenue to the budget and the social security system, through taxes (direct and indirect) and social security contributions; - it provides a standard of living for workers and protects them against poverty; - it protects workers against possible exploitation by employers; - it expands the consumption potential of the persons who receive it and thus helps to accelerate economic growth. - it stimulates job search due to higher and secured pay; - it stimulates labor productivity as workers are interested in keeping their jobs; - it reduces inequality in the lower income levels; - it encourages employers to develop technological innovation and automation to compensate for increased wage costs; - by limiting low-paid jobs, it stimulates workers to improve their skills and demand higher paid jobs; - it relieves the state budget of the need to pay social benefits to people in poverty. On this basis, the income of the other employees is alleviated, as no higher tax burden is imposed for the accumulation of the necessary funds. 	<ul style="list-style-type: none"> - it results in increased labor costs, which may lead to job cuts; - it limits the profitability of businesses; - it reduces the net profits of companies; - it stimulates a shift to informal economy; - it can cause unfair competition between companies that operate legally on the market and those in the informal economy; - it can cause inflation, as firms compensate for higher costs with higher final product prices; - employers will prefer to hire more skilled workers while access to job for low-skilled workers will be limited; - it may cause exclusion from the labor market of certain vulnerable groups - early-stage young people, older workers in retirement, people with disabilities and representatives of different ethnic groups; - it can cause relocation to a region with lower labor costs; - it makes it difficult for small businesses to operate, where available funds do not allow higher salaries or recruitment.

It is considered that the imposition of mandatory minimum wage rates is contrary to market principles and opportunities for free competition, and this may lead to inefficiencies in the economy (Abbott, 2000). From the point of view of employers, unfair competition may occur from companies in the informal sector which are not forced to pay higher minimum wages. In order to adapt to the new conditions, firms in the real sector in most cases compensate for higher minimum wages with price increases (Messmore, 2011).

Supporters of minimum wages (mostly trade unions) consider them an important measure improving the standard of living of workers. Their opponents believe that imposing a minimum wage increases unemployment among low-skilled workers (2010; Manning, 2016). Taking into account both points of view, it should be noted that the effect of the minimum wage depends on the level at which it is established and whether it results in a significant change in income differentiation. If its amount is small, it will have a slight negative effect on employment in general and the employment of low-skilled workers, but it will also have a low positive effect on reducing poverty among workers. Otherwise, if the amount is high, it will have a significant impact in both respects. If the fixed amount of the minimum wage corresponds to labor productivity, there will be no

negative effect on employment. It could even attract an additional workforce that would otherwise remain out of the labor market, relying on social benefits. Conversely, the positive effects of the higher labor income of some of the employed are offset by the necessity to dismiss other employees whose productivity is below the level of the minimum wage (2017).

There are many studies in the literature (Neumark, Wascher, 2006; Manning, 2016), which conclude that minimum wages have a negative impact on the employment of low-income groups. One study found negative employment elasticity from -0.1 to -0.2 for young people aged 15 to 24 years (Neumark, Wascher, 2006). This is also the case with a negative elasticity of about - 0.2 for people aged 15 to 24 and about - 0.05 for those aged 25-54. But other studies have found results that are close to zero or statistically insignificant, and in some sectors a minimal increase in the minimum wage even has had a positive impact on employment (2018).

Some studies indicate that concerns about job losses are greatly overestimated. Intuitively, higher wage costs may be reflected in lower hiring. However, if the company is growing and the increases are gradual over time (as is usually the case), the impact on jobs should be insignificant (Aaronson, French, Sorkin, 2013). There are also opinions

that raising the minimum wage can eliminate some of the jobs of low-skilled workers, but this loss will not be significant (Zandi, 2014; Andreeva, Yolova, 2014). Among the main reasons pointed out is that a higher salary may reduce the staff turnover and absenteeism in the workplace, especially for low-skilled workers who have a financial interest in good performance and job retention. Higher financial pressures can cause some firms to fail, but it can also stimulate innovation and creativity among employers. A survey carried out in the Czech Republic (Pícl, Richter, 2014) found that raising the minimum wage above the subsistence minimum motivated many workers to boost job demand.

There is also evidence that an increase in the minimum wage may be a factor in subsequent overall wage increases (Schulten, 2014). Moreover, the higher minimum wage may also contribute to an increase in other wages in the sector with employers who want to keep their experienced employees. There is a study concerning Hungary as an example (2018).

Finally, the functioning of the minimum wage can create an objective motivation for some workers to come out of the informal economy to seek a legal employment in the sector that pays such salary.

The Conflict with employers in Bulgaria.

There is a considerable number of full-time employees in Bulgaria getting a minimum wage. As of December 31, 2017, their number is 416,818 people or almost one fifth of the country's workforce. The minimum wage set for Bulgaria in 2018 is BGN 510 and the legally defined poverty line is BGN 321. There is no non-taxable minimum for Bulgarian salaries (including for the minimum wage). When the mandatory payments (direct taxes and social security contributions) are deducted from BGN 510, the result will be slightly above the poverty line. And if we take into account the fact that these workers support families and children (ie the salary will be distributed among more than one member of the household), it becomes obvious that the minimum wage in Bulgaria does not protect the beneficiaries from poverty.

Bulgaria has been a member of the European Union since 2007. Eleven years later, it is still the poorest country in the EU with the lowest paid labor. In 2016, 40.4% of the country's population lived below the poverty line. 24.5% of employees are reported to be "working poor". One of the reasons for this is that employers in Bulgaria are exceptionally strongly opposed to the increase in the minimum wage. An article with 20 arguments against the minimum wage was published in 2004. It is claimed that the minimum wage in Bulgaria is too high and should be abolished as it damages the free market will (Chobanov, 2004). This was in response to the government's intention to increase the wage limit of BGN 120 (about € 60) to BGN 150 (about € 75). In 2013, in response to the government's decision to increase the minimum wage from BGN 310 (around € 155) to BGN 330 (around € 165), the Institute for Market Economics said that the increase in the minimum wage was extremely damaging (Slavova, 2013).

In May 2017, four representative employers' organizations (Bulgarian Industrial Association, Association of Industrial Capital in Bulgaria, Bulgarian Chamber of Commerce and Industry and Confederation of Employers and Industrialists in Bulgaria) filed a lawsuit against another increase in the minimum wage in the country from 420 BGN

(about € 210) to 460 BGN (about € 230). The Supreme Administrative Court granted their request and annulled the government decree (Tsoneva, 2017). As a reason for the request, it was stated that the minimum wage was not market-driven but administratively defined and this violated the moral foundations of society and that it was likely to encourage people to be lazy, without any desire to upgrade their qualification.

Compared with other European countries, labor productivity in Bulgaria is the lowest. From this point of view, it is justified to call for the growth of the minimum wage to be consistent with the increase in labor productivity. On the other hand, however, we can ask a few questions: Do low incomes stimulate higher labor productivity? Is the level of the minimum wage really higher than labor productivity? And is the low pay not the reason for young people to look for a job abroad?

Parallelism in the dynamics of the minimum wage rate and labor productivity must necessarily exist. The dilemma, however, is what should be the basis for this dynamics, and whether or not the level of our minimum wage has been kept too low in the years of economic growth?

Table 4 presents a comparison of the situation in Bulgaria with that in other European countries in 2016. The first column shows labor productivity per person employed and hour worked (EU28 = 100%). For greater comparability, data is based on Purchasing Power Parity (PPP). The other columns of the table also show the costs of employers for labor per worker per hour. Due to a lack of data in PPP, the data presented is in euro.

Labor productivity in Bulgaria is the lowest among the member states and is about 45% of the EU average. At the same time, employers' labor costs are the lowest across the European Union. The question arises: what is the ratio? At an average cost of € 26.2 per hour for the EU, labor costs for employers in Bulgaria are € 4.4 per hour, i.e. they are approximately 16% of the EU average. The situation is similar to the cost of wages. Obviously, the claims of employers are unfounded. Indeed, labor productivity outstrips the country's income growth. The presence of such a significant difference is not beneficial to the labor market and the business as a whole, as it stimulates young and educated people to emigrate to other countries where wages are higher.

An earlier survey (Blagoycheva, 2013) has developed a graphical model for comparison between Bulgaria and each country in the EU, which has introduced a minimum wage for the 2001-2012 period. The results show that wage growth in Bulgaria is lagging behind with regard to the dynamics of labor productivity in all comparisons.

It can be assumed that with the increase in the minimum wage there will be some job cuts, but they should not be too

many. After all, in order for the business to take place, the employer either needs a worker for a position or not. Bulgarian employers are not led by altruism when employing labor, only to provide income to their workers and therefore a lower salary will not be the reason for recruiting people for whom there is not enough work. At the same time, higher remuneration disciplines workers, since there is more to lose when they can not cope with the work

and are dismissed. This could even lead to an increase in their labor productivity.

Conclusion. Obviously, despite many studies in the field, it is still difficult to reach consensus and to address all issues related to minimum wages. This may be due to various economic and non-economic factors impacting on a given country, sometimes giving rise to ambiguous consequences.

The introduction of a minimum wage in a given country is usually triggered by the government's desire to strengthen social justice, reduce poverty in the country, and accelerate

economic growth. Therefore, a serious analysis at two levels is needed when it is first introduced and then subsequently increased. At macro level, indicators need to be taken into account such as economic growth rate, average income level, country poverty rate, inflation, unemployment, etc. The social dialogue between employers and workers is important at the micro level, taking into account labor productivity, labor costs and the employment capacity of the employees.

Table 4.

Labour productivity and labour costs in EU 28

	Labour productivity per person employed and hour worked (EU28=100%)	Labour cost levels (in euro)	Labour cost for wages and salaries (in euro)	Labour costs other than wages and salaries (in euro)
European Union 28	100,0	26,2	19,9	6,3
Ireland	178,7	30,4	26,2	4,2
Luxembourg	175,7	36,7	31,7	4,9
Belgium	136,7	39,2	28,4	10,8
Denmark	129,3	41,6	35,9	5,7
Germany	127,2	33,2	25,7	7,5
Netherlands	126,0	34,0	25,9	8,1
France	123,2	35,6	23,8	11,8
Austria	118,4	33,2	24,3	8,9
Sweden	114,2	38,2	25,8	12,5
Finland	108,7	33,2	25,7	7,6
Italy	101,7	28,0	20,3	7,6
United Kingdom	98,7	26,8	22,3	4,5
Spain	97,8	21,1	15,8	5,3
Slovenia	79,1	16,2	13,6	2,6
Cyprus	77,3	15,8	13,1	2,7
Malta	77,2	13,5	12,6	0,9
Slovakia	76,7	10,4	7,7	2,7
Czech Republic	73,6	10,1	7,4	2,7
Portugal	68,3	13,7	10,9	2,8
Greece	65,1	14,2	10,7	3,5
Estonia	63,2	10,9	8,1	2,9
Croatia	63,1	10,0	8,5	1,5
Hungary	62,9	8,3	6,3	2,0
Lithuania	62,5	7,3	5,3	2,0
Poland	59,2	8,6	7,0	1,6
Romania	56,1	5,5	4,4	1,1
Latvia	55,7	7,5	6,0	1,5
Bulgaria	45,2	4,4	3,7	0,7

Source: EUROSTAT

Possible solutions for adapting employers to the new conditions are limiting the recruitment of new workers (without making the existing ones redundant), switching to more flexible forms of employment with reduced working hours, raising the prices of the final product, introducing technological innovations or replacing outdated equipment with more productive one and encouraging workers to enhance their qualification. As a compromise, the introduction of two minimum wage rates for low-skilled and qualified persons could be considered. Thus, one group will not be in a position to discriminate against the other. On the

other hand, the lower productivity achieved by lower-skilled workers will be equalized with their earnings.

In summary, the positive effects of raising the minimum wage will be more than the negative ones. The higher minimum wage will bring workers to a higher level with regard to the poverty line; it will expand the social security base (and relieve the social security system), reducing the burden on other workers and boosting work incentives (since the threat of losing a job will be a disciplining factor). In addition, the funds for consumption of low-income groups will increase, which will also benefit the country's economic growth.

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