

5.4 THE ROLE OF THE MINIMUM WAGE IN THE EVOLUTION OF YOUNG PEOPLE'S EARNINGS

MÁRTON CSILLAG

1 The 'guaranteed minimum wage' was introduced from the 1st of July 2006. This minimum applies to all jobs which require (at least) a vocational degree. It means that in principle it applies to all workers with a level of education ISCED 3 (and above).

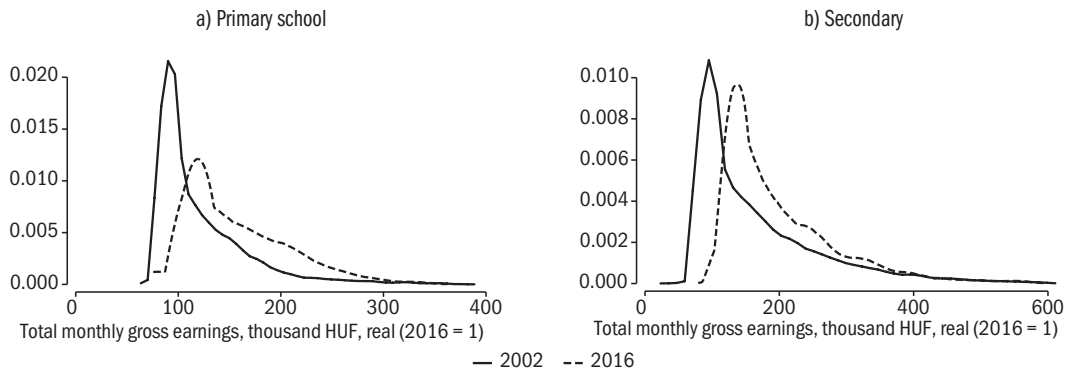
2 After a significant increase in the minimum wage in 2001–2002, the employment opportunities of certain groups – uneducated workers in small companies – have deteriorated (Kertesi–Köllő, 2004). At the same time, the authors point out that – in contrast to the situation in the United States or Western Europe – the minimum wage has had a significant effect on the wages of not only young people.

3 We did not examine whether the employee works in a job to which the guaranteed minimum wage applies or in a job where the minimum wage applies. (The guaranteed minimum wage applies to a worker employed in a job that requires at least a secondary education or a secondary vocational education.)

Since the large-scale increase of the minimum wage in 2001–2002, the minimum wage has remained consistently high compared to the average wage, while additional minima for skilled workers and graduates¹ have also been introduced. According to the international literature, uneducated young people work at the minimum wage at the highest rate, and their employment is most sensitive to changes in the minimum wage (Dolado *et al.*, 1996, Neumark–Wascher, 2004).² We did not have the opportunity to assess the impact of the development of the minimum wage. In this subchapter, we use data of the Wage and Earnings Survey to examine the proportion of young people working full-time in the private sector who worked near the minimum wage (or the guaranteed minimum wage), that is, 95–105 percent of the minimum wage.³ We do this to show how effective the different wage minimums were and whether they became the cornerstones of wage formation. If a minimum wage is so low that it directly affects only a negligible proportion of workers, there is little chance that it could have an effect on employment.

According to our data, those under 30 employed in the private sector indeed work at a higher proportion for the minimum wage (or guaranteed minimum wage) than workers over 30, the difference being 4–5 percentage points. *Figure 5.4.1* also shows that after the increase in the minimum wage in 2002, the share of young people employed for the minimum wage decreased. Although the guaranteed wage minimum has significantly changed the wage setting practices for young people, it has hardly changed the rate at which they are affected by one or another mandatory minimum wage.

Figure 5.4.1: The distribution of wages of young people aged 16–25, by education, 2002, 2006 (thousand HUF)



Notes: The wage distribution for those with vocational school (ISCED3C) is very similar to that of those with secondary education (see: Csillag *et al.*, 2019).

Source: Wage Survey (NES), private sector; own calculations.

The minimum wage (or the guaranteed wage minimum) can affect not only the low-educated, but also those who completed vocational school or secondary school (*Table 5.4.1*). It is also noteworthy that the guaranteed minimum wage has become the norm among young people who completed vocational school or secondary school (in the spirit of the law).

Table 5.4.1: The percentage of 16–29 and 30–64 year-olds employed in the private sector who earn around the minimum wage or the guaranteed minimum wage

| Level of Education | 2002 | 2009 | | 2016 | |
|---------------------|--------------|--------------|-------------------------|--------------|-------------------------|
| | minimum wage | minimum wage | guaranteed minimum wage | minimum wage | guaranteed minimum wage |
| Below age 30 | | | | | |
| Primary school | 25 | 17 | 13 | 17 | 10 |
| Vocational school | 30 | 10 | 20 | 8 | 23 |
| Secondary | 23 | 5 | 14 | 4 | 18 |
| Tertiary | 9 | 1 | 4 | 1 | 9 |
| Total | 24 | 7 | 13 | 6 | 16 |
| Above age 30 | | | | | |
| Primary school | 21 | 15 | 12 | 15 | 13 |
| Vocational school | 22 | 6 | 16 | 6 | 19 |
| Secondary | 14 | 3 | 10 | 3 | 14 |
| Tertiary | 8 | 1 | 3 | 1 | 4 |
| Total | 17 | 5 | 11 | 5 | 14 |

Source: Wage Survey (NES), private sector; own calculations.

Examining the wage distribution of young people, several developments become apparent. On the one hand, the role of the minimum wage has somewhat decreased for unskilled workers and vocational school graduates, and wage differentiation has increased. On the other hand, the wage distribution of vocational school graduates and secondary school graduates is “truncated” from the bottom to a significant extent by compliance with the guaranteed wage minimum. That is, in the case of vocational school and secondary school graduates, the guaranteed wage minimum has become effective (i.e., a substantial portion of employees would have lower wages if paying the minimum wage were not mandatory). This may have contributed to the increase in real wages in the lower half of the wage distribution, but may have held back employment growth for some groups. For this reason, it may be justified to examine active instruments that provide tax incentives and wage subsidies for companies employing young people (see subchapter 5.3 for more details); and to conduct more detailed studies on the employment impact of the introduction of the guaranteed minimum wage.

References

- CSILLAG MÁRTON–MOLNÁR TAMÁS–SCHARLE ÁGOTA–TÓTH ENDRE (2019): *Fiatalok a munkapiacra és az iskolában a 2002 és 2018 közötti időszakban* [Young persons on the labour market and in school between 2002 and 2018]. Research Report, Budapest Institute for Policy Analysis, Budapest.
- DOLADO, J.–KRAMARZ, F.–MACHIN, S.–MANNING, A.–MARGOLIS, D.–TEULINGS, C.–SAINT-PAUL, G.–KEEN, M. (1996): *The economic impact of minimum wages in Europe*. *Economic Policy*, Vol. 11, No. 23, pp. 317–372.
- KERTESI GÁBOR–KÖLLŐ JÁNOS (2004): *A 2001. évi minimálbér-emelés foglalkoztatási következményei* [The employment effect of the 2001 minimum wage hike]. *Közgazdasági Szemle*, Vol. 51, No. 4, pp. 293–324.
- NEUMARK, D.–WASCHER, W. (2004): *Minimum wages, labor market institutions, and youth employment: a cross-national analysis*. *Industrial & Labor Relations Review*, Vol. 57, No. 2, pp. 223–248.