

The role of minimum wage in Hungary's sectors utilizing undeclared work

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Hungary introduced the statutory minimum wage covering all employed in 1991. Since then the minimum wage system underwent two major changes: in 2000 and 2001 the central right government practically doubled the minimum wage, and in 2006 the socialist-liberal coalition introduced wage minima for skilled workers, creating a two or three tier minimum wage system, and set the annual raises for the next three years. With the unfolding economic crisis, at the 2009 and 2010 negotiation rounds only a very moderate raise was agreed on that hardly kept up with the inflation rate. The three-tier system was increasingly challenged by employers and the minima were increased less and less while the system was gradually simplified. Concerning the minimum wage, the central policy argumentation has always been quite ambiguous. In addition to its income and competitiveness goals, the state is a large employer. A series of welfare transfers are based on the minimum wage and the raise of the minimum wage is an important tool in curbing the gray economy given the trend that employers report the minimum wage for their employees in order to pay smaller taxes and pay them an additional illegal income to achieve the normal market earning. However, given the limited regulatory force of collective agreements, the current statutory minimum wage is of paramount importance for both employers and employees.

The paper presents case study findings from three sectors: construction, retail, and security, which are considered low-wage areas by the official wage statistics. In all three sectors the number of small enterprises is large and they are known for widely using unreported labour as well as for reporting lower wages than the employees' real earning. Also, various violations of the labour law are frequent according to the Labour Inspectorate's reports. However, companies' employment practices largely vary across these sectors. In retail the law requires employees having contact with customers to have a vocational certificate, hence the introduction of the skilled workers' minimum wage was of importance and had an adverse effect on company level collective wage agreements. In construction and security the fierce market competition and subcontractor chains have a downward push on wages. From the industrial relations' perspective, the construction sectors' collective agreement deserves a closer scrutiny, as it was created and extended in 2005 with the help of the government in an attempt to design tools to fight the black and gray economy.