The implementation of wage compensation in the private sector

Impact study of the 2012 changes to the legislative environment for wages

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The wage compensation policy helped to offset the negative effect on employment of expected wage increases. The IEER study presents the effects on employment due to the legislative changes of 2012 using data from the National Labour Centre's Wage Survey and the Hungarian Labor Market Forecast.

In 2012 the legislative environment for wages changed in several ways: the amount and the obligatory nature of the minimum wage significantly increased as well as the guaranteed wage minimum for professions (i). Because the removal of tax exemptions would have led to a decline in net income (dependent on gross income) for low income earners, the government decided – in the interest of maintaining net income – to issue a decree for an expected wage increase (ii). Since the expected wage increase would increase the labor costs for businesses, various wage compensation possibilities were made available to ease the burden (iii).

According to the Individual wages and income 2011 survey (Wage Survey) the 2012 mandatory and expected wage increase affected in all 74 percent of workers. The minimum wage increase of nearly 3 percent and the increase in the guaranteed wage minimum for professions of almost 4 percent had an effect. Because of the removal of tax credits a further 67 percent would have had their net income decline if the government hadn't issued a decree about the expected wage increase. Among those affected those in fields that require higher education would have been affected the least, instead it would have been the unskilled which would have made less – the changes would have affected 24 percent for the former group and 97 percent for the latter.

According to research from the 2012 Short-term Labor Market Forecast, of those affected 80 percent of the expected wage increase was carried out by businesses with between 5 and 50 employees. Of these 93 percent compensated the entire range of those entitled to an expected wage increase, that is, all employees affected by the changes in the legislative environment.

Overall 23 percent of companies applied to maintain net income at 2012 levels. Meanwhile, the wage compensation tax credit derived from the social contribution tax was used by 61 percent of businesses. This is how it was usually applied, where needed; also, direct wage compensation was used by those businesses which were more affected.

According to statistical estimates the higher the labor cost to businesses because of the expected wage increase, the less likely that employee numbers grew at the small businesses studied. It is important to emphasize, however, that the increase in wages corrugated with wage compensation did not lead to a reduction in employee numbers at businesses.

In conclusion, if the wage increase was compulsory and not connected to wage compensation, then jobs at small businesses would have disappeared, reducing employment. Because of the way the expected wage increase was structured and with the wage compensation policy this did not happen. The expected wage increase – which the wage compensation regime partially offset – did not lead to job losses, on the other hand it made the creation of new jobs difficult.