

## MINIMUM WAGE AND ITS FUNCTIONS IN POLAND

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**Key words:** remuneration, minimum wage, costs of work.

### Abstract

The article discusses the issues concerning the minimum wage. Remuneration is the inseparable element of work provided to the employer. Currently, numerous forms and types of it exist, among them the minimum wage which has been the subject of political and media discussions for many years. That subject attracts immense attention and one can find many different and contradictory opinions concerning it. The objective of this article is to draw attention to the issues of minimum wage in Poland analysing the results of own studies that were conducted in 2013. The questionnaire based survey covered 200 respondents, mainly employees, people searching for a job and employers. The questionnaire consisted of 21 questions with the legend (the last 5 questions concerning the sociodemographic situation of the respondents). The minimum wage in Poland is the subject of numerous arguments and disagreements among the employees, trade unions and the government; that is why the article presents not only the principles of minimum wage operation but also the consequences both positive and negative. It also presents the correlation between the costs of work and the minimum remuneration as well as its influence on employment moving from the discussion and analysis of own studies concerning the functioning of the minimum wage in Poland as seen by the unemployed, employees and employers. The vast majority of the respondents (79%) are for the minimum wage increase. And 69% of the respondents believe that the minimum remuneration has the largest influence on the employer.

### PLACA MINIMALNA I JEJ FUNKCJE W POLSCE

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**Słowa kluczowe:** wynagrodzenie, płaca minimalna, koszty pracy.

### Abstrakt

W artykule poruszono kwestie dotyczące płacy minimalnej. Wynagrodzenie jest nieodłącznym elementem pracy świadczonej na rzecz pracodawcy. Współcześnie istnieje wiele różnych jego form i rodzajów, m.in. płaca minimalna, która od wielu lat stanowi temat dyskusji politycznych i me-

dialnych. Temat ten przyciąga ogromną uwagę i można znaleźć wiele różnych oraz sprzecznych opinii. Celem artykułu jest zwrócenie uwagi na problematykę płacy minimalnej w Polsce analizie wyników badań własnych, które przeprowadzono w 2013 r. Badaniami ankietowymi objęto 200 osób: głównie pracowników, osoby poszukujące pracy i pracodawców. Kwestionariusz zawierał 21 pytań wraz z metryczką (5 ostatnich pytań dotyczących sytuacji społeczno-demograficznej badanych). Płaca minimalna w Polsce jest przedmiotem wielu sporów i nieporozumień między pracującymi, związkami zawodowymi a rządem, dlatego też w artykule przedstawiono nie tylko zasady funkcjonowania płacy minimalnej, lecz jej skutki: pozytywne i negatywne. Pokazano również zależność między kosztami pracy a wynagrodzeniem minimalnym i jego wpływem na zatrudnienie w analizie i omówieniu wyników badań własnych dotyczących funkcjonowania płacy minimalnej w Polsce przez pryzmat bezrobotnych, pracujących i pracodawców. Zdecydowana większość badanych (79%) jest za podniesieniem płacy minimalnej. Aż 69% osób jest też zdania, że wynagrodzenie minimalne ma największy wpływ na pracodawcę.

## Introduction

The definition of remuneration indicates that it represents payment for the work for the employer (*Encyklopedia biznesu*, 1999). In Poland, this is the amount defined in the law below which full time employees cannot be employed in the entire country. The minimum remuneration is determined by the Tripartite Commission consisting of the representatives of the employers, trade unions and government (OLEKSYN 1997, p. 37). The minimum remuneration can be compared to the minimum price for the good that work is instead of a merchandise or service. Under certain conditions that minimum price fulfils its function as in case of any „good” for which the price has been determined in advance. We should refer here to the fundamental law of demand and supply. People looking for a job or working create the supply while the employers generate the demand for work. The wage is the price the employer has to pay for the work provided to him. Had that price been set at the point of equilibrium then there would have been no unemployment. Only the individuals that do not want or cannot work would be unemployed. In the situation of the minimum price for work lower than the equilibrium price and the demand exceeding the supply, the level of minimum wage would not have much influence on the market. In that situation there would be no exploitation of employees. In Poland, however, the situation is the opposite because the supply exceeds the demand. The minimum remuneration is above the equilibrium point and consequently a significant number of people are unemployed because the employers cannot employ them as a consequence of the high costs of employment (PIECHOWIAK 2012).

## **Dilemmas concerning the minimum wage**

In Poland, the minimum wage is applicable to every job performed; there is no division into industries and that makes striving towards the equilibrium point very difficult. The situations happen when the remuneration of the cleaned without secondary education amounts 1,600 PLN gross, the same as that of the university graduate accountant. Only the persons employed based on employment contracts for unspecified time that earn the lowest national salary may benefit from that. During the last two years the increase of their remuneration exceeded 12% (PIECHOWIAK 2012). Theoretically, existence of the minimum wage aims at protection of employees against exploitation. In practice, however, it happens that it makes more harm instead of helping both the employees and the employers (OGŁODZIŃSKI 2013), thus the aim of this article is to present the minimum wage issues, with special attention paid to its functions and opinions expressed by workers, unemployed and employees.

## **Functions of the minimum wage**

Among the practitioners and theoreticians there are both supporters and opponents of the minimum wage. According to its opponents the people that could take employment are the losers because their work is valued below the lowest remuneration. They are usually young, unskilled people that cannot work as, e.g. cleaners or couriers because the employers do not want to employ them. The benefits to the employers would not equal the costs of their salaries. That is why employment based on specific work or mandate contracts (PIECHOWIAK 2012). The opponents believe that legal regulation of the minimum remuneration hinders independent economic development, mainly of small businesses, and offers benefits to the trade unions only. Inhibiting development of small business entities development by the existing payroll barrier is another negative consequence of the minimum wage that concerns violation of the free market principles. This leads not only to the unemployment but also to spread of poverty (FRIEDMAN 1982, p. 15), even though many people would be willing to take a job for the wage lower than the minimum. It would offer not only decent existence but also the feeling of value and sense of life, often related to the work (SEKUŁA 2011, p. 13). Opponents of the minimum wage claim that it has bad influence on functioning of the economy. According to their opinion, the minimum salary distorts the correlation between productivity and wage. The minimum wage should not be separated administratively from the value of the work performed. The wage should correspond to the value of goods and services produced by the given employee. The legal

regulations require the employers to pay the minimum salary indifferent of the employee productivity as a consequence of which the employer must sometimes subsidise the employee, which is unprofitable. This may result in the loss of competitiveness by the enterprise or a decrease in production and that may lead to impoverishment of the entire society. The statutory minimum wage frequently forces employment of a smaller number of employees because every person employed generates high costs that the employer must bear, e.g. the insurance or other benefits. Without the legally defined minimum wage rate the employer could employ two employees instead of one and pay the same costs. The employers would prefer the lowest possible minimum wage because the higher it is the fewer employees they can employ. The supporters of the lowest national salary highlight the functions it fulfils. The key is preventing the situation of receiving excessively low remuneration relative to the difficulty of the given work and the input in it. It provides the security against excessive exploitation of the less resourceful people that would not cope with the negotiations of wage appropriate to their skills. Existence of the minimum wage protects against unexpected actions of the employers, e.g. excessively low wages, it prevents development of differences in the minimum wage levels between sectors and industries and self-exploitation of the employed for the excessively low salary (LISZCZ 1995, p. 26). In considerations on whether the minimum wage should exist, different conclusions can be reached. The majority of Poles are for increase of the minimum wage. Those are mainly people employed or unemployed for whom the minimum wage represents protection against elimination from the social and economic life because the salary that is lower than the price of the basket of fundamental goods may lead to being pushed to the margin of the society. It may even lead to poverty or pathology, resignation from work if the unemployment benefits are higher than the remuneration. The minimum wage secures against excessively low salary. It allows satisfying the so-called decent bases of existence (e.g. food, medicines, clothing and access to basic services); it may prevent criminal activities or corruption. Remuneration below the minimum required for survival may lead to crime – the employee faces the choice whether he prefers earning a low salary which is insufficient to satisfy the fundamental needs or he wants to act illegally, e.g. by theft or working in the grey zone, which may, theoretically, generate higher profits. Protection of the consumer when the wage is lower than the costs of support is the advantage of the minimum wage. This however influences the situation where companies decrease funds for improvement of goods or introduction of new goods. This leads to narrowing the offer of goods; the market is overfilled with lower price goods, which is correlated with the quality of those goods, because the consumers can afford such goods only. That situation may even lead to loss of health as a consequence of using low-quality

products. Thanks to the adequately high minimum wage the clients are not exposed to such situations, they can afford products at higher prices and better quality and durability. The level of the lowest national salary determined in the top-down process influences the negotiation position of employees during recruitment. The situation is generally assumed where the employee is the weaker party and needs support and the statutory minimum wage guarantees that ultimately the employee will not get less than the lowest national salary. The state is the major beneficiary of the minimum remuneration because an increase of the minimum wage results in increasing the compulsory contributions paid to the Social Insurance Institution (ZUS) and the income tax. The minimum wage is also the base for computation of the maternity and sickness benefits. Its increase causes that the amount of those benefits increases in the same way as the level of contributions paid by the employers to the ZUS. Thus, the state gains more on increasing the minimum salary than it loses. That is why the government representatives in the Tripartite Commission are for increasing the wages.

### **Costs of work and minimum wage**

The costs of work are an immensely important issue that must be considered in discussing the minimum remuneration. Those costs are the total charges covered by the employer in connection with employing people. They also discourage people from the self-employment (MARKS-BIELSKA, KORDECKI 2008, p. 673, MARKS-BIELSKA, KRZYWIEC 2009, p. 105, SZCZEBIOT-KNOBLAUCH, KISIEL 2014, p. 97). In addition to the gross remuneration of the employee (before tax), they also include additional, non-payroll charges (e.g. a half of the contributions to the disability and pension insurance) (SZABAN 2013, p. 36). The level of those costs depends on whether the employee is employed based on the employment, mandate or specific work contract. The net remuneration disbursed to the employee employed based on the employment contract is ca 60% of the costs to the employer. The actual cost of employee employment is not the amount of the salary paid to him, i.e. 1680 PLN gross (1,237.20 PLN net), but 2,028.43 PLN gross. The difference consists of the contributions paid to the ZUS insurance, Labour Fund and the Fund of guaranteed employee benefits (*Minimalne-wynagrodzenie...* 2014). In 2014, the contributions paid by the employer for insurance amounted to 305.59 PLN gross a month while the payments to the Labour Fund and the Fund of guaranteed employee benefits amounted to 42.84 PLN gross. Thus the lower the minimum wage is the lower the costs paid by the employer are. In Poland they are among the lowest in the European Union. For example, compared to a highly developed

country such as France, those costs are very high, but the minimum salary is also high at 1,430 EUR while in Poland it is 370 EUR a month. This is not the only classification in which we rank very low among the EU Member States. We also work longer. The French work, in average, 35 hours a week while the Polish average is 41 hours a week. According to the Eurostat data, in 2011 the costs of work in France were 34.2 EUR per hour while in Poland they amounted to 7.1 EUR only (*Płace i koszty pracy 2015, Pracujemy za półdarmo 2013*).

### **The influence on minimum wage on employment**

High minimum wage may have negative influence on employment. This applies in particular to the people with low skills or little vocational experience, i.e. people offering low productivity. Excessively high remuneration compared to the productivity may result in the situation that employing such people is unprofitable. The employer is limited by the costs imposed by the state and prefers employing a skilled employee offering higher productivity. In such circumstances, the unskilled worker is frequently searching for employment in the grey zone, which leads to inhibiting the economic development. Although the minimum wage in Poland expressed in the euro is lower than in the countries of the so-called old Union, compared to the New Member States (NMS) it is still relatively high. It is higher in Slovakia and Malta only. This is the consequence of the minimum wage increase in Poland by more than 70% during the years 2007–2012. Comparing that relation to the average remuneration, it increased from 34 to 42% during that time. The correlation also exists that the higher the minimum wage is the higher the product manufacturing costs and price are. Trade unions strive at the highest possible share of the minimum wage in the average remuneration while the consequences of that include not only the increase in the costs of benefits and insurances, but also in process of goods and services.

### **Analysis of the minimum wage in Poland based on the conducted surveys**

Aiming at obtaining opinions of different social groups on the minimum wage the survey was conducted encompassing 200 respondents of which some were unemployed (42 persons), some were employed (142 persons) and some representing a minor percentage were employers (16 persons). As the result of that choice of the respondents diversified opinions concerning the minimum

wage were obtained. The survey questionnaire consisting of 21 closed questions, including questions concerning the sociodemographic status of the respondents that allowed drawing conclusions of factors conditioning their responses was the research tool. Studies indicate that remuneration represents the motivation to work for the respondents; the higher the minimum wage level is, the more willing they are to take a job. The majority of the respondents believe that the minimum wage should exist and that it is needed. Without the minimum statutory rate effective in all the sectors of the economy in Poland the society could not be sure whether the remuneration would be sufficient to satisfy the fundamental needs. The minimum salary aims at eliminating harmful competition among employers in decreasing the costs by freezing the wages. More than 70% of the respondents point at the level of the minimum wage. That level determines the levels of various derivatives that become higher automatically with the minimum wage increase. Although the majority of the respondents know how the benefits are computed, they do not realise the magnitude of the costs to the employer. 79% of the respondents (the unemployed and employees) believe that the minimum wage should be increased because it is insufficient to cover the fundamental needs of the society (Fig. 1).

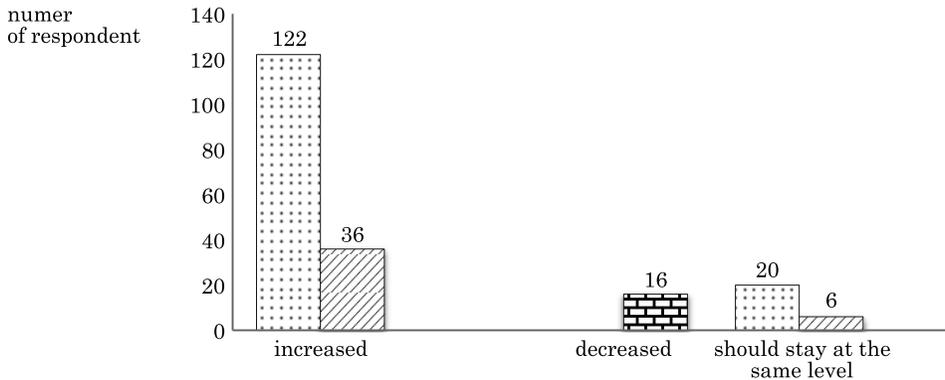


Fig. 1. Opinions of respondents concerning changes in the minimum wage level

Source: own work based on the studies.

Employers that participated in the survey are for decreasing the minimum salary because every increase of it discourages increasing employment. It is unprofitable for the employers to employ people that would produce less than they cost because in addition to the remuneration disbursed to the employee they must pay the costs of social insurance contributions, taxes, absenteeism caused by medical reasons or employee holidays. The issue of the relation between the minimum wage and the average wage also is a subject of disputes because the employees would like it to be the highest possible while the

employers are of the opposite opinion. The higher it is the more intense the problems presented by the employers become; when it is lower the employees and trade unions protest. Trade unions strive at the situation where the minimum wage exceeds a half of the average wage. In 2013, the ratio between the minimum wage and the average remuneration was 43%. The parliament does not plan further increases because it believes that such increase could have negative consequences for employment resulting in unemployment increase. The respondents also expressed their opinions concerning the ratio between the minimum wage and the average salary; 53% of them believe that the minimum wage should represent 30–50% of the average salary while 34% of the respondents agree with the trade unions that the minimum salary should be higher than 50% of the minimum. Only 13% of the respondents expressed the opinion that the ratio of the minimum to average salary should be lower than 30% (Fig. 2).

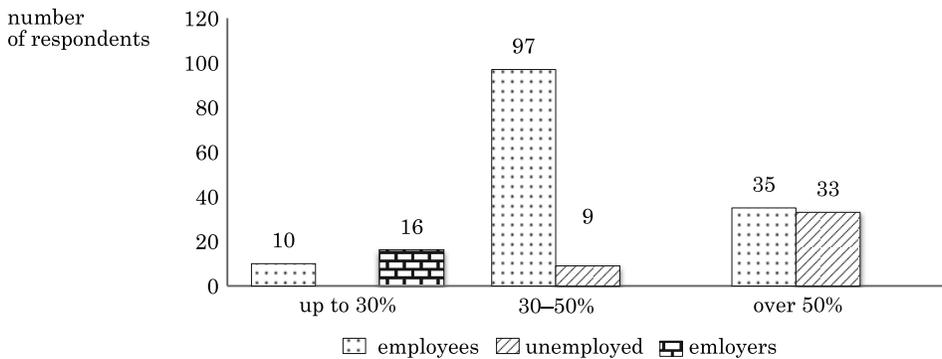


Fig. 2. Opinion of the respondents concerning the relation of the minimum to the average wage  
Source: own work based on the studies.

The respondents also expressed their opinions concerning the influence of the minimum wage on the employer and employees. As many as 69% of them present the opinion that the lowest national salary has the largest influence on the employers because it depends on them how many people they employ and on what terms and conditions (Tab. 1).

Table 1

Influence of the minimum wage level on the employees and employers

Party in the labour market	Number of respondents	Share [%]
Employee	62	31
Employer	138	69

Source: own work based on the studies.

The analysis of the data contained in the table indicates the correlation between the social position or the position at work and the opinions on existence and level of the minimum wage. The unemployed and people holding the basic, low positions aim at the highest minimum wage possible while the employers and employees holding higher positions at work have the opposite opinions.

## **Conclusion**

The minimum wage is an important component of the labour market policy as it, among others, combats poverty and social inequality or protects employees against dishonest practices of employers. However, when it is at an excessively high level, it discourages employment of new employees and consequently inhibits economic development. Based on the statistical data and results of own studies, diversified positions concerning the minimum wage were discussed. Two approaches to the minimum wage have been presented, i.e. the remuneration as a component of the costs of work the increase of which results in harmful consequences to the economy and minimum wage as a component of social security. The majority of the respondents (79%) are for an increase of the minimum wage.

The issue of the relation between the minimum and average remuneration is an important issue. More than a half of the respondents (53%) present the opinion that the relation between the minimum and average salary should be at the level of 30-50%. This is a relatively rational approach because that ratio of those salaries is maintained in the majority of highly developed EU countries. The higher that ratio is the more pronounced the problems presented by the employers become. The lower it is the more extensive appeals and protests by employees and trade unions become. According to the trade unions, the ratio between the minimum and average salary should be at least 50%. Work productivity increase is the best solution. It can be increased by better education of the employees and training, increasing the number of machines that help the employees and influence better organisation of work. The more is produced by a single employee the higher that employee's productivity is; the productivity of the enterprise increases and as the outcome, the society becomes richer.

The conducted studies indicate that the remuneration is the major factor motivating the respondents to work. The higher the minimum wage is the more willing to work they will be.

In conclusion, we may not state, however, whether the minimum wage should exist or not. The opinions on the subject are diversified depending on

the side of the labour market represented. For the employers it involves costs that they cannot always afford while for the employees it secures partial stabilisation and certain sense of security.

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