

EMPLOYEES IN SLOVAKIA WORKING BELOW MINIMAL WAGE

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Abstract: There has been significant growth of employment in Slovakia over recent years. We focus on development of employees, whose salaries are less than minimal wage. We will categorize these employees based on age, region, other source income (mainly pensions and other sources of working income like self employment or working agreements) and duration of such employment (whether person is below minimal wage for one month or 12 months a year). The main result of this article is, that the number of employees which are below minimal wage for 12 months a year and do not have any other source of income increased to 4% in 2018. Overall, 13% of salaries in 2018 was below minimal wage, while in 2012 it was 7.7%. After comparison with other data sources, we conclude that this increase is caused by fictional part time jobs and tax evasion.

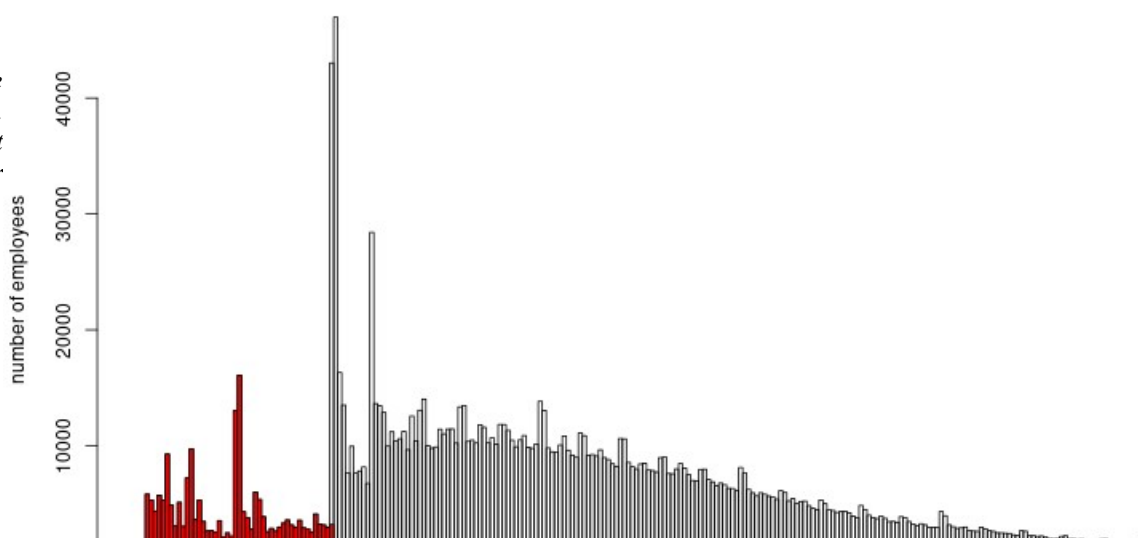
Key words: minimal wage, social trap, working poor, precarious job, employees, tax evasion

1 INTRODUCTION

A new problem in the labor market is the phenomenon of employees earning less than the statutory minimum wage. Base on that, their monthly contribution base for the Social Insurance Agency is less than the current monthly minimum wage. The problem itself is not a part-time job, but the problem arises when asking yourself how employees can earn such low earnings. It remains questionable why there is an upward trend in employment with a wage below the minimum wage. The number of workers doing undeclared work is increasing, or Slovakia is taking lead in part-time jobs. Base on the histogram below we can see red part of layout which should not exist, as the income is below mandatory minimal wage.

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Histogram of salaries in Slovakia, nov. 2018

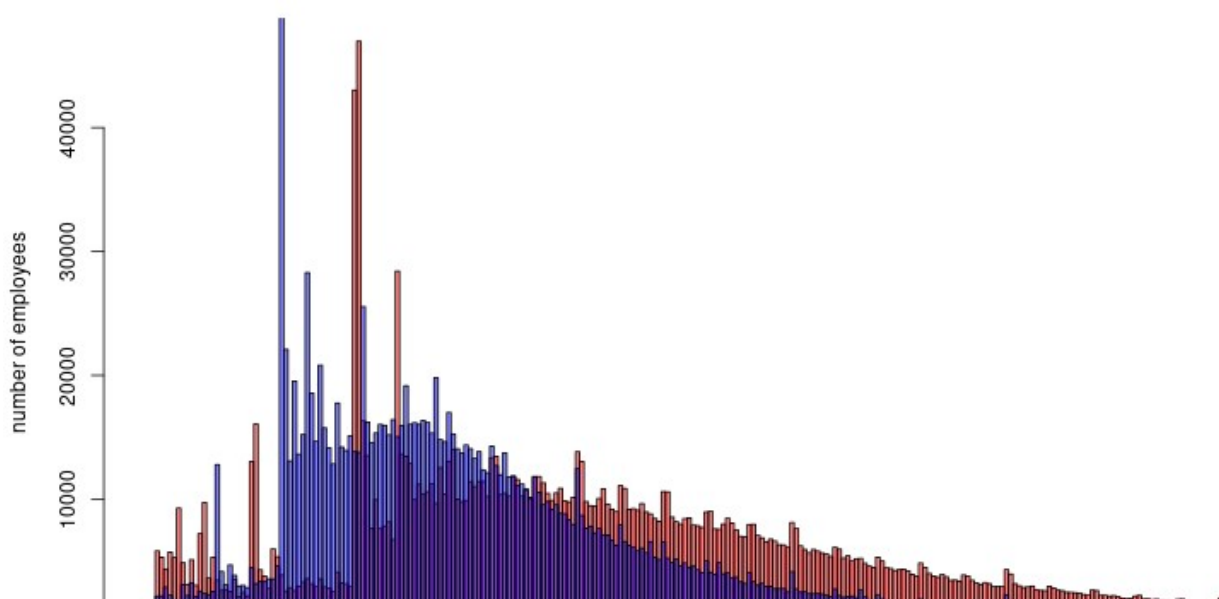


1 this article is a part of project APVV-15-0722 – Social trap – its costs and the way out.

Precarious forms of work are a negative phenomenon on the Slovak labor market. One of the means is forced self employment: self employed “entrepreneurs” who practice dependent work under §1 section 2 of the Labor Code. Another means is abuse of working agreements under The Labor Code §223. This article stipulates that the employer may “exceptionally conclude agreements with individuals on work performed outside the employment relationship (agreement on work performance, agreement on work activity and agreement on temporary work of students)” whilst some employees have tens of percent of such “exceptional” workers.

Overall, salaries in Slovakia are rising, which is demonstrated by graph 2. However, the number of people earning less than the statutory minimal wage is also rising.

Histogram of salaries in Slovakia, nov. 2010 and 2018



Graph 2- Histogram of salaries in Slovakia, November 2010 (blue) and 2018 (red)

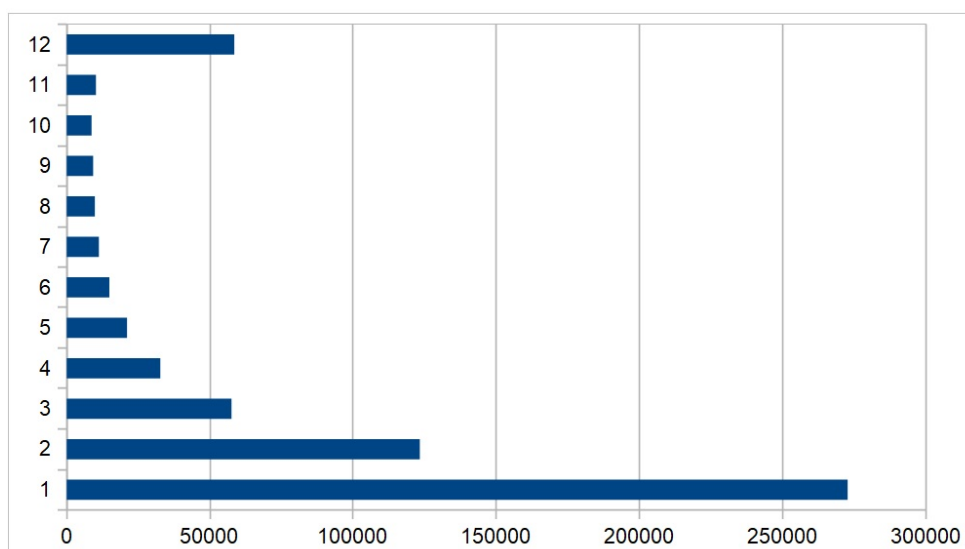
We can categorize workers below minimal wage based on their region, age, other income or the number of months each person does have salary below or above minimal wage.

1.1 Duration of low salaries

From individuals point of view, it is very important, whether this person has such low salary for only one month, or 12 months a year.

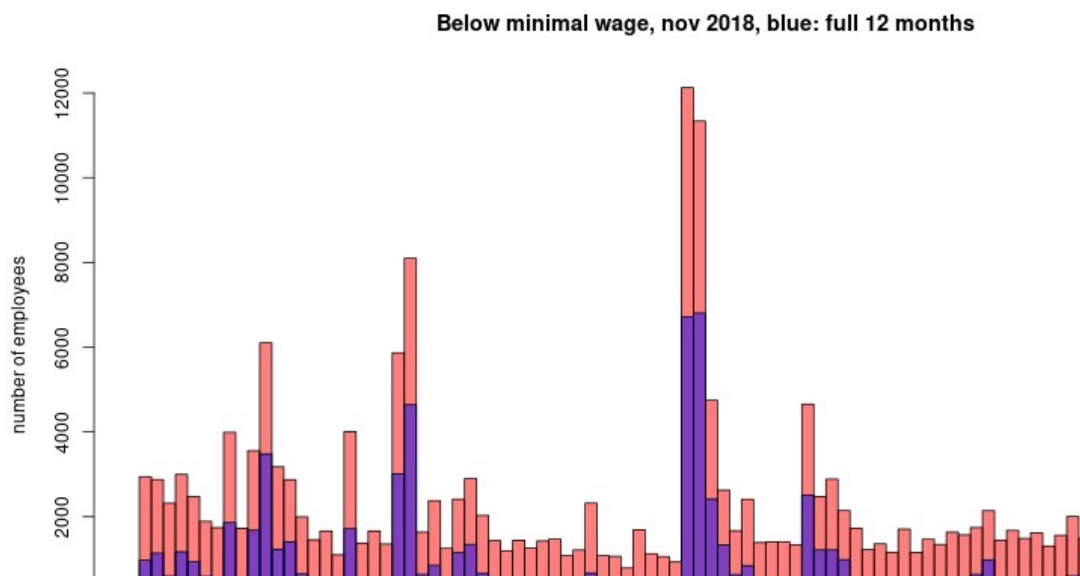
There are several legal possibilities one's salary can be lower than minimal wage: labour contract starting not on the 1st but on the 25th of the month, sick leave for a part of given month, nursing a family member, or leaving for maternity leave in the middle of the month. These aspects explain those that are below minimal wage for one month, which represents approximately 272,000 employees.

However, there are up to 68,000 employees receive this wage for 11 to 12 months continuously. The number of employees in this category increased compared to 2012, when in Slovakia there were only 24,000 employees up to 2.8 times in 2018.



Graph 3- How many employees have a single wage less than the minimum wage, according to the number of months in which it is less than the minimum wage, 2018.

If we look at the number of months in which employees received less than the minimum wage in year 2012, most were paid less than the minimum wage for 1 month (221 401), 2 months (83 808), 3 months (33 454) and 12 months (19,094). In 2018 it was 1 month (272 702), 2 months (123 295), 12 months (58 541) and 3 months (57 545). As we can see, these figures confirm the growing trend in part-time jobs with a salary lower than the minimum wage.



Graph 4- Below minimal wage, November 2018.

Students can have low labour income, since they focus on education. There are 21 000 employees under the age of 24 with salary below minimal wage. This is a double value of the year 2012.

One category of employees with a salary lower than the minimum wage of at least 1 month is employees with a different income. Number of these employees is approximately 83 000. They earn in another job or receive a pension, whether it is invalid or old-age.

One of the options is labour contract in connection with working agreements according to §223 of the Labour code. Around 11 000 employees with salary below minimal wage do have also working agreement. But only 3 000 of them have this working agreement in such height, that its amount combined with labour contract income is higher than minimal wage. In 2012, the numbers were 6 500 in total, with the number 3 000 remaining. Thus, the numbers remained roughly unchanged for people reaching the minimum wage.

Self-employed people who were employed with a salary lower than the minimum wage were almost 6,000 in 2012 and all of them also earned income exceeding the minimum wage. In 2018 this number did not change. In this way, there were more than 7 000 employed entrepreneurs, which is an increase of 1,000 people.

There are 18,000 old-age pensioners and approximately 16,500 disabled pensioners. This is an increase in both cases compared to 2012, when we had about 13,500 old-age pensioners and about 10,000 disabled pensioners in Slovakia.

	Old-age pensioners	< 24 years	Other pension	with working agreement	with working agreement (Σ more then min. wage)	self employed	self employed (Σ more then min. wage)
2012, average per month	13680	11956	10395	6490	2874	5954	5954
2012, percentage	10,48	9,16	7,96	4,97	2,2	4,56	4,56
2018, average per month	18397	21302	16659	11173	2985	6898	5358
2018, percentage	7,75	8,97	7,01	4,7	1,26	2,9	2,26

Tab. 3- Employed below the minimum wage of at least 1 month, with other income

As we can see, majority of employees below minimal wage do not have other source of income, or their total income is below minimal wage.

1.2 Age structure

The age composition of workers who received a salary lower than the minimum wage without any other income of at least 1 month is as follows.

	2012		2018	
	number of people	percentage of employees	number of people	percentage of employees
15-years	792	25,81	1987	35,84
20-years	10675	12,68	17546	19,36
25-years	13177	7,61	23024	12,6
30-years	13048	6,94	25011	12,36
35-years	14051	6,48	26711	11,69
40-years	11418	5,73	27292	10,35
45-years	10493	5,11	21792	9,35
50-years	9426	4,55	17822	8,36
55-years	7302	3,75	14705	7,08
60-years	867	2,12	4000	5,97

Tab. 1.- Age composition of at least 1 month with low salary without any other income, percentage - is the percentage of employees of the total number of employees in a given age that fall into the category with a salary lower than the minimum wage

The increase is visible in all age categories. The highest increase of workers below the minimum wage is in the 40-year category (age 40-44 years), which is over 27,000 employees. They are followed by 35-year-olds, of whom there are less than 27,000. Their amount were 13,000 and 14,000, which is twice as low as currently.

Employees who have worked with a salary lower than the minimum wage for 11-12 months are described in more detail in the following table with their age composition.

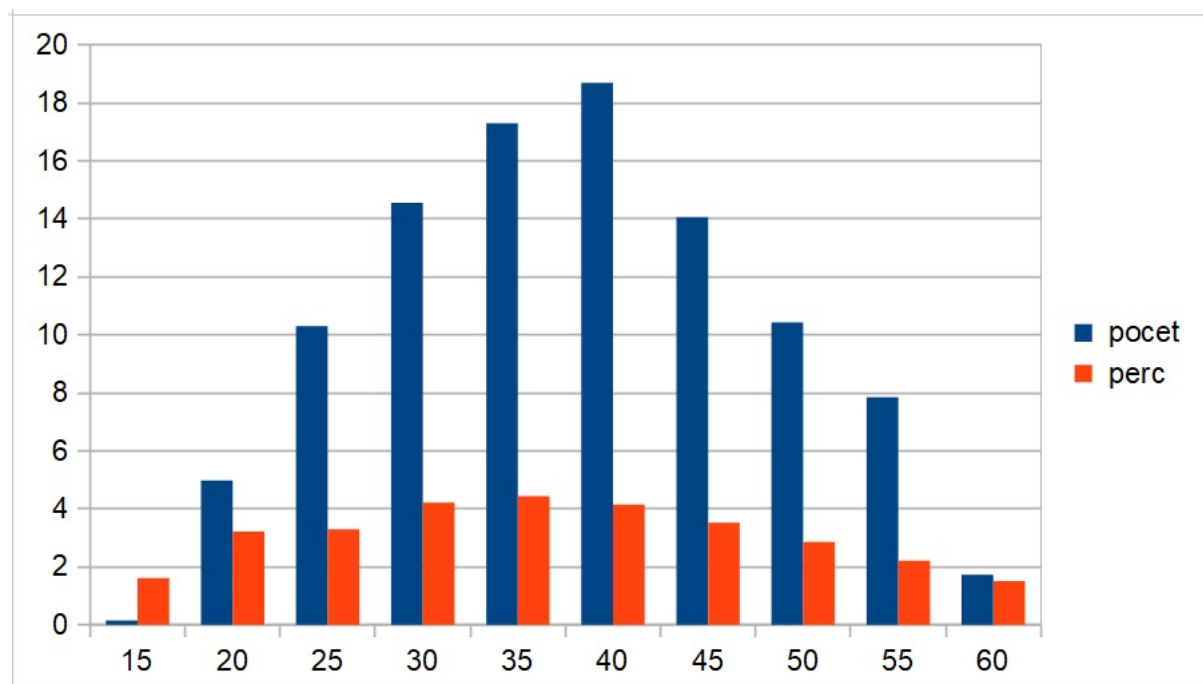
	number of people, 2012	percentage, 2012	number of people, 2018	percentage, 2018
15-years	28	0,91	89	1,61
20-years	1400	1,66	2913	3,21
25-years	2493	1,44	6031	3,3
30-years	2747	1,46	8519	4,21
35-years	3494	1,61	10121	4,43
40-years	2921	1,46	10937	4,15
45-years	2521	1,23	8224	3,53
50-years	2021	0,98	6100	2,86

55-years	1347	0,69	4594	2,21
60-years	122	0,3	1013	1,51

Tab.2- Age composition of employees 12 months working under the minimum wage without any other income; Percentage - is the percentage of employees of the total number of employees in a given age that fall into the category with a salary lower than the minimum wage

Compared to the category of employees who worked only 1 month for a lower wage and their number almost doubled after seven years, the number of employees working for this wage 11-12 months almost tripled. From the original number of 19 000 in 2012, this number climbed to about 58 500 in 2018. This number represents approximately 3% of employees, which is the size of the largest district in Slovakia.

The following graph shows us the percentage composition of the employed population, which has a wage less than the minimum wage.



Graph 5- Composition by age in 2018. (blue- the share of the given age group in the total number of employees below the minimum wage (sum = 100), red- the share of employees under the minimum wage of all employees at a given age in the long term)

Majority of employees below minimal wage is in the prime working population.

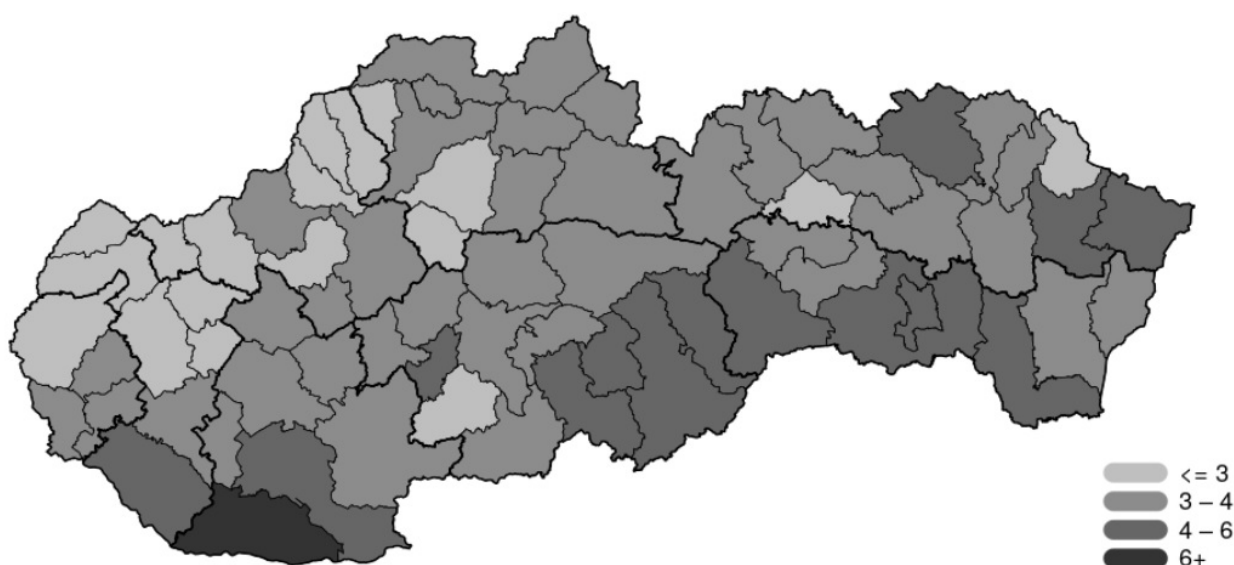
2 REGIONAL DIFFERENCES

If we look at the distribution by region, the most affected district is Komárno district, 7.29%. Komárno is followed by districts of southern and eastern Slovakia (districts Košice 5.62%, Nové Zámky 5.40%, Banská Štiavnica 5.16%, Lučenec 5.12%, Bardejov 5.09%, Trebišov 4.98%, Snina 4.97%, Dunajská Streda 4.89%, Košice and surroundings 4.86%, and the top ten are closed by the Humenné District 4.85%).

The lowest values are reported in the district of Myjava, where employment with lower wages than the minimum wage is at the level of 1.59%. Following are Púchov districts 1.77%, Senica 1.97%, Nové Mesto nad Váhom 2.08%, Bánovce nad Bebravou 2.18%, Trnava 2.33%, Skalica 2.38% Medzilaborce 2.56%, Malacky 2.55%, Ilava 2.63% and Považská Bystrica 2.72%.

According to regions, the distribution was as follows. In 2018, most people employed for less than the minimum wage were in the Nitra region, 10 673 (4.9%) (4 144 in 2012, 2.1%) and in the Košice Region, 10 195 (4.88%) (3 216 in 2012, 1.68%).

The lowest number of employees working for less than the minimum wage was in 2018 in the Trenčín region (5 975, 3%), in 2012 it was 2 293 people (1.27%).



Picture 4- Regional composition of employees without other income employed 12 months in 2018 below the minimum wage

3 SECTORAL COMPOSITION

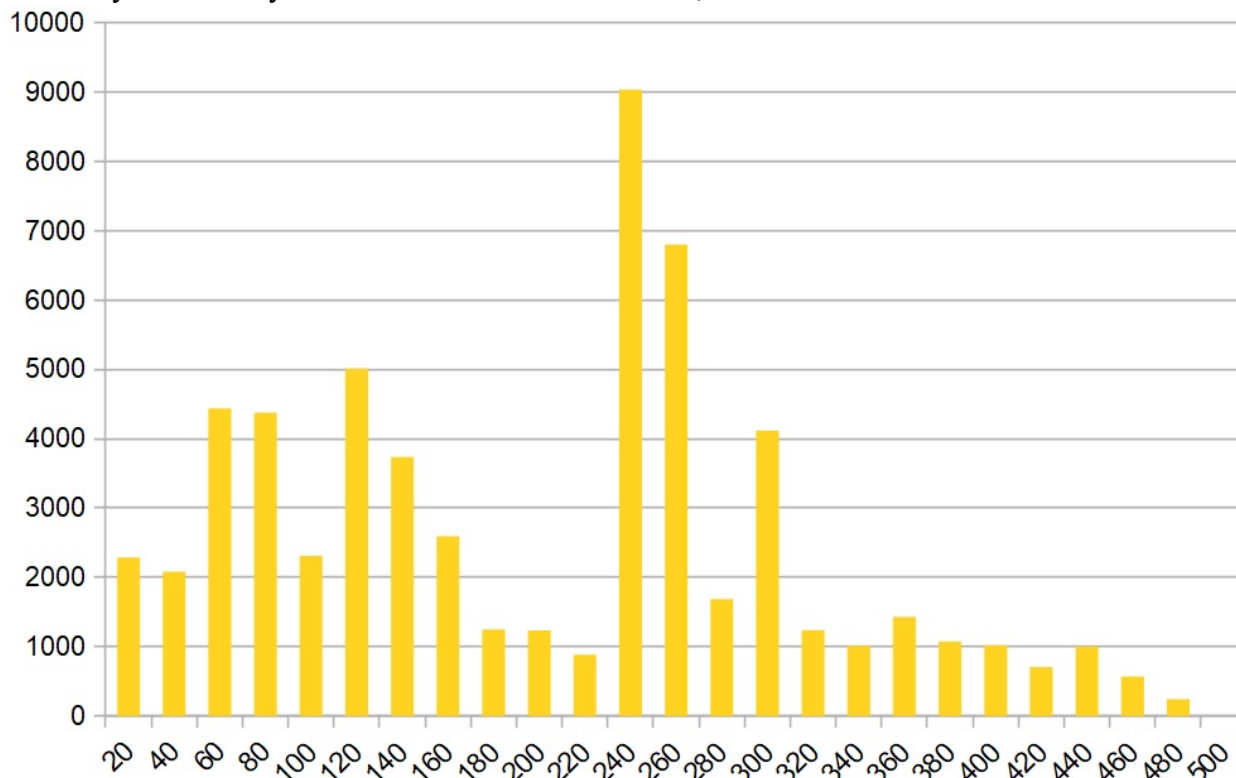
When we look at the issue in terms of where the employees work with a salary below the minimum wage, we come to these conclusions. According to the NACE classification, sector I (accommodation and food) is the main employer in terms of percentage in the sector, where the share of these employees climbed to 11% in 2018. And during the season this number rises to 27%, while in 2012 it was only 16%. In second place was sector S (other), where the share of employees was 7.55%, followed by sector F (construction), with a share of 7.48%.

In terms of the number of employees in the sector, the G (wholesale and retail) sector, which employs almost 15,000 employees, is at the forefront. They make up quarter of all such employees in the economy. Second is sector M (professional, scientific and technical activities), which employs 5,700 people. And third is sector F (construction), where will find a job with less pay than the minimum wage of 5,100 employees.

The sectoral composition of these employees is very similar to sectors with high undeclared work: construction, hotels and restaurants, and other services².

INCOME COMPOSITION

If we focus only on those employees below minimal wage, who earn such salary for the whole year and they have no other source of income, distribution of their salaries is as follows:



Graph 6- Salary of employees below minimal wage in 2018

Employees who have a single income and this income is just below the minimum wage earn typically 240€ - 50% of minimal wage (around 9 000 employees) or 260€ (7 000 employees). Another large group is of employees earning 60 – 140 €. There is no group of employees just below minimal wage.

Let's take an employee with brutto salary around 140€, this translates to net income of 137€³. Living minimum for a single person was 205€ in 2018⁴. Material need benefits for an individual are 120€⁵. Therefore working income of 137€ is both subjectively and objectively extremely low, individuals are unable to make living with such low income.

2 see Factsheet on Undeclared work – Slovakia by European Commission or <https://www.eurofound.europa.eu/publications/article/2017/slovakia-combating-undeclared-work-views-and-experiences-of-the-actors-involved>

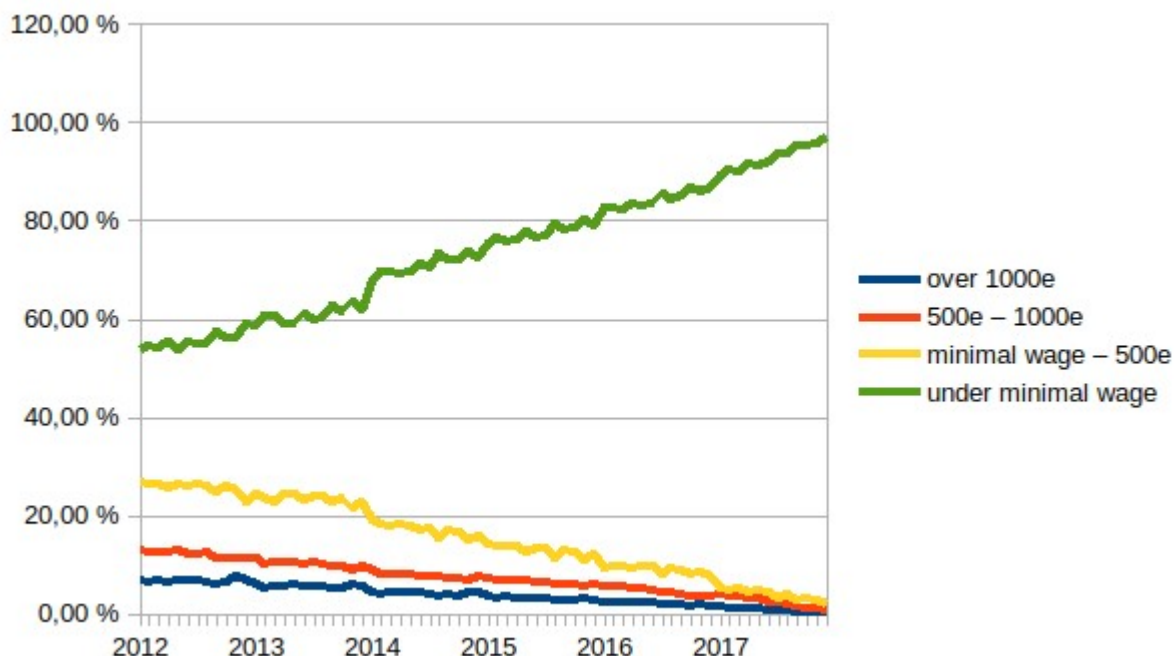
3 Income calculator by IZ: <https://www.iz.sk/kalkulacka?bruttoSalary=140&manzelka=false&EvidenciaPocetMes=8&sucasnaDhn=0&detiMS=0&detiZS=0&zaciatočnýRok=2018&uvazok=10>

4 <https://www.iz.sk/en/projects/data/living-mimumum>

5 individual person with housing benefit: <https://www.iz.sk/sk/projekty/data/dhn>

COMPOSITION BASED ON PREVIOUS STATUS

Another view can be based on previous income of an individual earning well below minimal wage. A significant portion of these employees had a decent income only several month ago: 8% of them had income over 500€ just 4 years ago; average wage in 2014 was 858€, minimal wage was 352€⁶. Another 11% had salary between then minimal wage of 352€ and 500€.



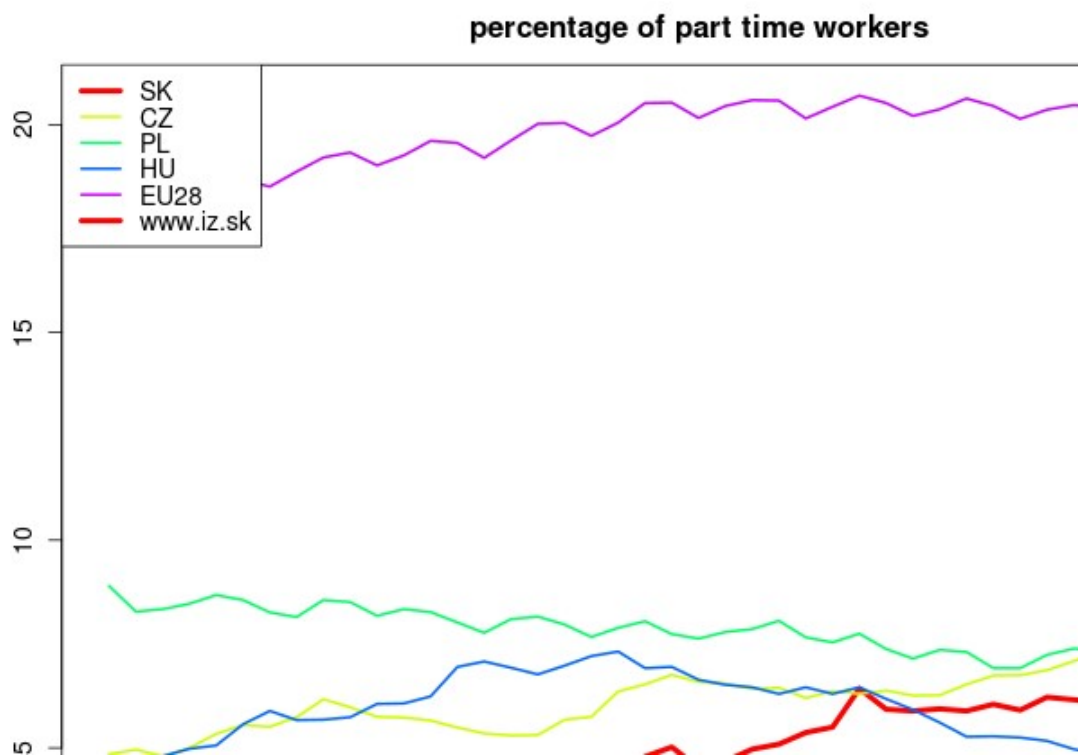
Graph 7- Situation of these employees one year ago

FICTIONAL PART TIME WORK

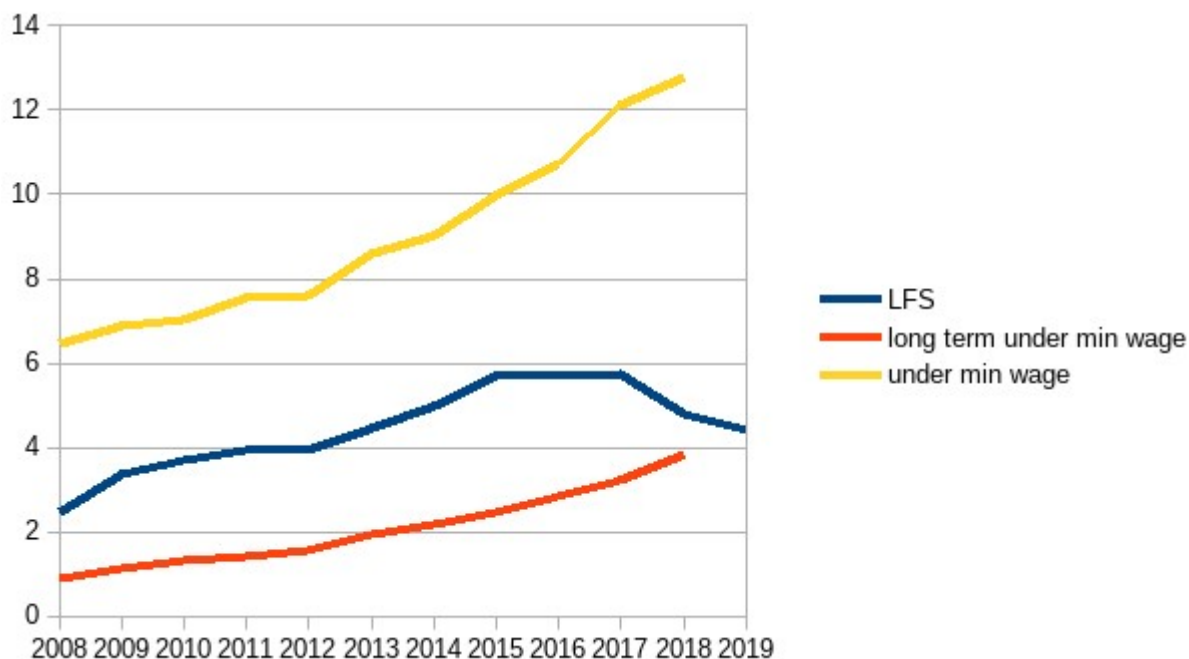
The only legal explanation of an employee with salary lower than minimal wage for several month is, that this person has a part time work and his hourly salary is at minimal wage.

According to Labour force sample survey, Slovakia has traditionally had lowest share of employees on part time job, reaching only 5%, compared to 20% EU average.

⁶ <https://www.iz.sk/en/projects/data/minimal-wage>



The share of part time employees, as measured by LFS, rose over recent years. However, the share of employees with salary below statutory minimal wage, as measured by Social insurance company, has had higher rate of increase. The share of LFS part time employees has increased two fold between 2008 and 2018, as well as share of employees having at least a month of salary lower than minimal wage. On the other hand, share of employees whose salary was lower than minimal wage for the entire given year has increased four times (from 0,9% to 3,9% of all employees).



Graph 9: comparison of LFS part time work and employees below minimal wage

Discrepancies between the measures by LFS and administrative data are visible in gender perspective: while women have higher share of part-time jobs in LFS, men have higher share of salaries below minimal wage than women. Interestingly, share of males with salary below minimal wage during the whole year 2018 is higher than LFS estimate of part-time jobs of men.

It is than fair to assume, that rising number of employees with salary below minimal wage is due to fictional part-time jobs and tax evasion and not due to increase of regular part-time jobs.

4 CONCLUSION

All the indicators by the Social Insurance Company mentioned in this article confirm the growing trend of part-time employment with salary lower than the minimum wage. After filtering out employees who have a different (legal) income, the number of employees regularly receiving wages below the minimum increases to 4%, and in some districts to more than 7% of total employment. Overall, in 2018, 13% of monthly wages were paid below the minimum wage, in 2012 it was only 7.7%. Most employees below the minimum wage have less than half the minimum wage.

Based on figures and comparison to other data sources, it is fair to assume, that a significant portion of employees who do not have other source of (legal) income and their employment salary is well below statutory minimal wage for the whole year 2018, have other source of income which is undocumented in administrative data.

One of the major possibilities to achieve this, is to have fictional part-time job, where employee works full-time but receives major part of the income cash and undocumented. Further research and mainly physical inspection of labour contracts by national Labour Inspectorate is needed to confirm this hypothesis.

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