

Employment effects of minimum wage increases in the Czech Republic

APRIL 2019

JAKUB GROSSMANN, ŠTĚPÁN JURAJDA, VLADIMÍR SMOLKA²

Summary

- This study examines the direct effects of four minimum wage increases in the Czech Republic during 2012-2017 on the employment of low-earning workers in the business sector. This series of minimum wage increases followed a period of 7 years during which the national minimum wage was not raised. During the period studied, the monthly minimum wage was raised by 37.5 % overall, from 8,000 to 11,000 CZK.
- To estimate the effects of the minimum wage increases we make use of the fact that various companies or parts of companies reported different shares of employees who were paid at or below the level of the new minimum wage. We estimate whether, within a given company, homogeneous groups of employees in which a greater proportion were previously paid less than the new minimum wage were disproportionately badly affected in terms of their employment (or hours worked) after the change than groups of employees unaffected by the raise to the minimum wage. Our results show that the national minimum wage increases in 2013, 2015, 2016 and 2017 did not have any significant negative effects on employment. They did, however, have a positive effect on salaries.
- Even at the start of 2019, the minimum wage in the Czech Republic remains low in comparison to other European countries and affects only a small proportion of workers. Our findings however cannot be taken as an indication that potential future minimum wage increases would also have negligible effects on employment. It is thus essential to regularly assess in detail what the effects of future increases to the minimum wage would be.

² The authors would like to thank the Ministry of Labour and Social Affairs of the Czech Republic for their consent to the use of ISPV data, which are collected and administered by the company TREXIMA; the authors hereby thank TREXIMA for performing the calculations. The authors would like to thank Filip Pertold and Daniel Münich for their useful comments on the working version of this study. The study was produced as part of the Czech Academy of Sciences' AV21 Strategy program.