HUMAN RESOURCE COMPENSATION IN TIME OF CRISIS

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Abstract:
Economic and financial crisis persists and is aggravated by poor rates of economic growth recorded in 2011 and 2012. Considerable decrease in production due to reduced exports and domestic demand compression generating new unemployment and lower earnings. This paper presents the impact of the crisis on average and minimum wages in the European Union and Euro zone. Using the International Monetary Fund (IMF) predictions on GDP, the paper tries to predict the future trends of wages in the European Union.

Key words: human resource, compensation, wages, Europe

Introduction

In the last two decades, most industrialized countries and many emerging economies, faced with growing inequality, which was driven mainly by unequal redistribution of income. While in many countries social and fiscal policies sought to reduce this inequality, the crisis of the late 90's led to reductions in social spending and tax cuts for high-income groups (OECD 2008).

Growth of the 2000s was not accompanied by wage increases in the same proportion, most states being guided by neoliberal policies. First, there was a clear trend of decreasing share of wages in national income, which means that wage remained constant while the rate of productivity increased (Schulten 2004). As a result, much of the additional productivity generated by economic growth returned to capital holders and not as salaries to workers. Second, there was a dispersion tendency on wage scale. At the top a relatively small group of employees (including managers) saw a huge increase in their salaries completely decoupled from average wage (Schulten 2010). At the bottom there was a rapidly growing of workers with a wage level situated below the poverty line or subsistence levels (an explosive development of peripheral sectors of the labour market).

Crisis of years 2008-2012 affected countries differently depending on public and private indebtedness. In the past, when countries faced recession they depreciated currency. These policies were leading exports cheaper to stimulate the economy. For the euro area this policy has not been possible due to the existence of the common currency issued by a single bank (ECB). In addition, besides the 17 euro zone countries, the three Baltic countries, Denmark and Bulgaria have linked their currencies to euros (setting a fixed exchange rate).

To cope with the crisis, some countries (such as Ireland and the Baltics) have attempted a "simulated devaluation" by reducing prices and nominal wages. Based on the relative success of these policies, IMF and European Commission put pressure on southern Euro zone countries such as Portugal, Greece and Spain to follow a similar approach (Mallet, 2010). Austerity policy imposed by IMF and European Commission on countries that have received bailout began to be applied from 2011. Austerity policy has affected also healthy economies, many firms with substantial profits trying to take advantage of the uncertainty of the labour market, reducing salaries, citing difficulties of crisis (O'Farrell, 2010).

The main impact of the recession on the labour market on wages is decreasing of labour employment. Unemployment significantly reduces income of affected workers, putting pressure on wages of workers who still have jobs.

Reduce employment determines three main effects on average wages (O'Farrell, 2010):

- an immediate, purely statistical. Jobs in peripheral sectors of the labour market tend to be destroyed during recessions faster than high-productivity jobs (Pissarides, 2009). Taking into account that those who lose their jobs are lower-income workers, the average wage will be increased. In contrast, the remaining workers are not compensated for overtime and do not get bonuses.
- decreasing productivity because there is a lower demand and overcapacity (De Long and Waldmann, 1997). Since wages are linked to productivity, this phenomenon puts downward pressure on wages. However, there is a tendency to balance: layoffs affect workers less productive, less productive working hours which are inefficient in times of crisis (the marginal cost exceeds the price of labour results) are removed.
- a psychological effect. Decreasing the demand for labour will have a reducing effect on average wages. Decrease in labour market depth helps employers to fill vacancies, being much more difficult for workers to find jobs. This improves the bargaining position of workers and employers in relation to nominal wages or at least reduces their growth rate (O'Farrell, 2010).

In 2011, increasing of the minimum wage significantly slowed compared to previous years. In nominal terms, minimum wages have increased only slightly or were completely frozen. In most European countries, workers have suffered real wage losses. Minimum wage policy became part of austerity policy, representing a signal of general wage developments. Austerity policy was challenged because many experts feel that minimum wages are an important signal for the overall development of wages and, as such, it has an immediate influence on competitiveness (Schulten, 2012).

Minimum wage policy

In recent years, countries have followed quite different strategies in the minimum wages policy. Even with the global economic crisis, there may be alternatives: either a more restrictive or a more expansive in terms of the minimum wage On the one hand, many countries have frozen or recorded very small increases in the minimum wage, with the argument limiting labour costs to cope with the economic crisis and to protect jobs. Such a view is supported by neoliberal economic thinking and international organizations such as the IMF or the OECD (OECD 2009). The main supporters of the restrictive minimum wage policy are business associations, which in many countries even requested a reduction in the nominal minimum wage (Schulten, 2010).

Many economists, however, have expressed doubts about the restrictive role of policy limiting the minimum wage, believing that it is not a good tool against economic crisis (Schulten, 2010). American economist and Nobel laureate Paul Krugman, for example, believes that the claims to reduce minimum wages are "totally counterproductive idea" that would lead to a worsening of the economic situation

(Krugman, 2009). Neokeynesian vision believes that the minimum wage is not only labour costs, but also an important driver of private demand for goods and services (Herr et al., 2009). Minimum wages play an important role in preventing a deflationary spiral wage-price. Countries that have undergone expansive strategy in the minimum wage, for example, USA, Canada, Slovenia and Brazil have established an efficient anti-crisis system (ILO International Institute for Labour Studies and, 2009).

In general, in Europe, there was a general pattern of increases in minimum wage income during the first phase of the crisis. These increases were large enough to keep the average standard of living (Marchal et al, 2011). In the 2010-2012 southern European countries of the so-called PIIGS group (Portugal, Ireland, Italy, Greece and Spain) experienced a strong recession that led to a strong increase of indebtedness. Troika (European Commission, the International Monetary Fund and the European Central Bank) has forced these countries to lead a restrictive wage policy.

Wages in Europe

Total wages in Europe have experienced an upward trend in the period 2000-2008, the rate tempering in 2009. Wage developments during the crisis do not showed a clear trend (Table 1).

Table 1

Gross wages (At current prices in million EUR)

	EU (27 countries)	Euro area (17 countries)
2000	3655541	2578205
2001	3822043	2693192
2002	3943488	2782282
2003	3966362	2849975
2004	4111667	2932241
2005	4263092	3025206
2006	4470223	3155233
2007	4724706	3307809
2008	4808318	3448893
2009	4650920	3432894
2010	4778115	3481357
2011	4697304	3481357

Source : http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

This was generated by differentiation of wage policies between countries that have managed to overcome recession and countries on the brink of bankruptcy.

Regarding the minimum wage can be said that it followed the total wage trend. Europe (the 20 countries that have regulated minimum wage) registered a growth trend less spectacular than the U.S. in terms of the minimum wage.

In Figure 1 we present the evolution of the EU average minimum wage compared to minimum wage in the United States. United States administration realized that the crisis is not just about capital inflows, investments in productive infrastructure but also stimulating domestic growth by raising the wages of workers with low incomes. Most of the wage of low-income workers is used for consumption.

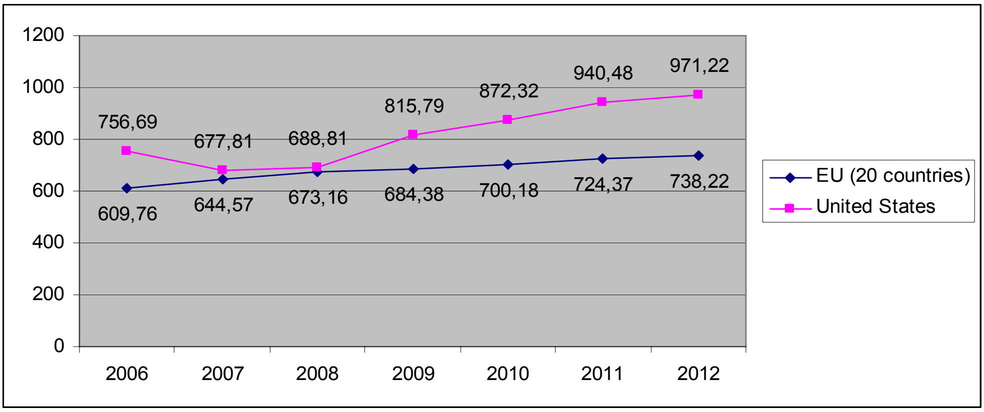

Figure 1 Minimum wages in Europe and United States (EUR/month)
Source : http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home

Forecasting wages trend in Europe

Hypothesis Development

The main objective of this study is to identify whether there is a clear link between total wage granted in EU and GDP development. It is obvious that any recession affects wages. If the hypothesis is validated I will make a prediction on total wage trends in the European Union.

Sample and variables

To validate working hypothesis we used a series of data (period 2001-2011) of the variables involved in the study: total wages granted in EU, GDP developments at EU level. Historical data were taken from the Eurostat database. For predictions on GDP we used IMF databases. GDP levels in the EU (independent variable) will be used to forecast total wage granted in EU (the dependent variable).

Methodology

The data collected will be used to establish correlations between the independent variable (GDP development in EU) and the dependent variable (total wage granted in EU). Based on the results found by studying the correlations I develop a model for predicting the total wages granted in the EU for the period 2012-2017.

Research results and interpretation

In order to ensure the links between the two main variables studied (Table 2) we considered necessary to establish the correlation between them.

Table 2

Historical trends of GDP and total wages growth in E.U.

	Total wage growth	GDP growth
2001	4,55	2,1
2002	3,18	1,3
2003	0,58	1,5
2004	3,66	2,5
2005	3,68	2,1
2006	4,86	3,3
2007	5,69	3,2
2008	1,77	0,3
2009	-3,27	-4,3
2010	2,73	2,1
2011	-1,69	1,5

Source : http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

As can be seen from Table 3, there is a significant direct correlation between the two variables, meaning that an increase in GDP increases the total wages. Pearson correlation coefficient calculated for the two variables has the value 0.809.

Table 3

Correlation between GDP and total wages growth in E.U.

		Total wage growth	GDP growth
Total wage growth	Pearson Correlation	1	0,809**
	N	11	11
GDP growth	Pearson Correlation	0,809**	1
	N	11	11

To estimate the evolution of total salary growth in 2012-2017 I used a forecasting model ARIMA (SPSS program) with stationary R-squared as measure (0,630). Using parameters forecast by IMF (GDP growth) I forecasted the evolution of total salary growth. The forecasted period is 2012-2017 and is based on data from 2001-2011 (Table 4).

Table 4

Forecast on total wages growth in E.U.

	Total wage growth	GDP growth	Total wage growth predictions	Lower Confidence Limits	Upper Confidence Limits
2001	4,55	2,10	3,08	-0,84	7,00
2002	3,18	1,30	2,21	-1,71	6,13
2003	0,58	1,50	2,43	-1,49	6,35
2004	3,66	2,50	3,51	-0,40	7,43
2005	3,68	2,10	3,08	-0,84	7,00
2006	4,86	3,30	4,38	0,47	8,30
2007	5,69	3,20	4,27	0,36	8,19
2008	1,77	0,30	1,13	-2,79	5,04
2009	-3,27	-4,30	-3,87	-7,79	0,05
2010	2,73	2,10	3,08	-0,84	7,00
2011	-1,69	1,50	2,43	-1,49	6,35
2012	-	0,00	0,80	-3,12	4,72
2013	-	1,30	2,21	-1,71	6,13
2014	-	1,80	2,75	-1,16	6,67
2015	-	2,00	2,97	-0,95	6,89
2016	-	2,00	2,97	-0,95	6,89
2017	-	2,10	3,08	-0,84	7,00

Source : http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/ and http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?pr.x=44&pr.y=3&sy=2010&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=163%2C998&s=NGDP_RPCH&grp=1&a=1

It can be observed a growing trend of total wages in the European Union amid economic recovery.

Conclusion

The global economic crisis of the years 2008-2012 had different effects on wages across Europe. Salaries in countries most affected by the crisis showed lower performance compared to pre-crisis trends (O'Farrell, 2010).

Countries entered recession relatively early (Portugal, Greece and Spain) have a policy of reducing prices and nominal wages (as required by the European Commission and the IMF which financed deficits and debts) in order to regain international competitiveness. These policies have had a negative impact on domestic demand. Propensity to consume declined at a rate higher than salaries. This has resulted in lower domestic demand. Due to weaker exports, lower domestic demand has led to the deepening recession and public debt increase. Negative effects on demand were partially offset by increased government investment in productive infrastructure, financed from European funds and borrowed funds from financial international organizations. Increased government investment in infrastructure would increase the productive capacity and economy will grow. This would improve, in the medium term, the capacity of governments to repay debt, and reduce pressure on the labour market.

In this paper I have tried to show that there is a clear link between economic growth and total wages.

Based on IMF forecasts on GDP in the European Union, I have predicted a slight increase in total wages, due to the end of recession.

Based on the research results it can be concluded that maintaining income workers is essential for economic recovery. Higher income workers can help maintain and increase domestic demand and improve the economy. Maintaining income workers provide financial and banking system stability because workers will be able to continue to repay loans. Wage cuts policy is as dangerous as currency devaluation policies used in the 30s. Wage cuts in one country leads to reduced ability to export of other countries, leading to global recession. If the recession continues, high unemployment could put even more pressure on wages and lead to a deflationary spiral.

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