

## THE LABOR COST AND THE INCOME SATISFACTION

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### *Abstract*

*The labor cost as income earned by the worker must provide the means for the workers existence and his family's sustenance. Life support is a variable that is influenced by a number of factors, and whether the workers are satisfied with what they receive can be seen from the answers to the questions from the survey conducted with them.*

**Keywords:** salary, labor cost, labor market, labor force

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The salary as an economic category is undoubtedly related to the labor market, the mechanisms of its functioning and the specificity of the relationships between the established labor relations entities - employers and employees. The labor market is a specific market sector in which there are daily meetings and transactions between:

- entities (organizations, individuals) wishing to hire for work, functioning labor force;
- entities (natural persons) wishing to provide their labor force against payment for a specified period of time.

Entities seeking and employing a functioning workforce are usually referred to as employers and those who offer their workforce for a certain period of time - hirers (employees) or, more generally, hired staff (Georgiev, 2009).

Most often, the labor cost is identified with the labor remuneration - the working salary negotiated between the employer and the employee at the conclusion of the contract. It is a contradictory economic category - on the one hand, it is an income for the employee and on the other - an expense for the employer (Dimov, Madero, Usheva, Zlateva, Yaneva, 2011). But besides the

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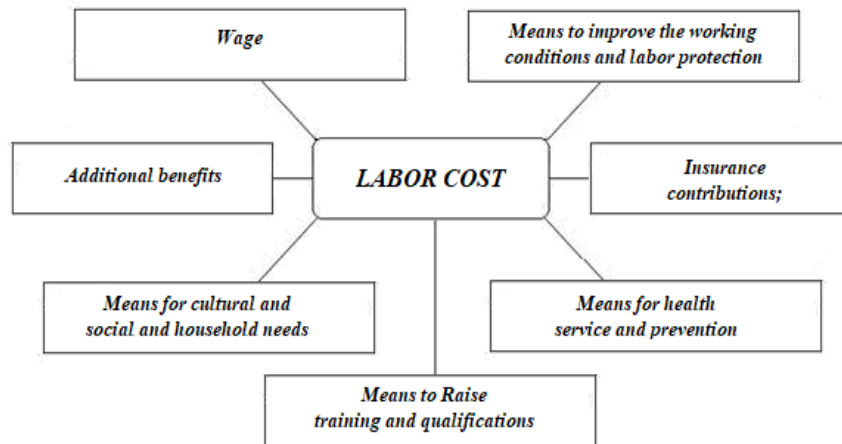
remuneration from the salary, the labor costs include additional payments to it. That is why the price of the labor must not be deducted or linked only to the salary that workers receive under a labor contract (Stefanov, Dulevski, 2007).

The costs that employers are making or are willing to make to assure their work and the incomes they receive or against which they are willing to provide their workforce the hire employees, determine the concept the cost of labor. The labor cost is the monetary amount against which the employer receives the right to use the labor force of his employees. It has a dual character (Shopov, Stefanov, Paunov, Dulevski, 2002), that is, it can be considered from two sides:

- in the narrow sense, on the part of the worker - the cost of labor is the income he receives for his work. The concept of labor costs as a salary agreed between the worker and the employer at the time of conclusion of the contract and paid at its full size is typical of the beginning of the twentieth century. This is a narrow sense of the cost of labor as a reward awarded to the worker under an employment contract (Stefanov, 2010). It is also reflected in our labor legislation, according to the Labor Code Art. 242, paragraph 1, the labour according to the employment contract is remunerated as agreed between the employer and the employee in the employment contract (Vuchkova, 2001);

- in the broad sense, on the part of the employer, the labor cost includes all the costs he makes for the recruitment and maintenance of the labor force and includes, besides the salary under an employment contract and all other funds in accordance with legislation, collective bargaining or according to the company's own desire, as additional benefits, social security contributions, current health care and prophylaxis, the means of vocational training and qualification, means of improving working conditions and labor protection, cf. for social, household and cultural needs - these are also the elements of labor costs in the broad sense (shown in Figure 1). It is apparent that the actual labor cost is greater than the salary for the employer, because all the costs he does are not received by the worker but they are significantly above the salary limit (Shopov, Stefanov, Paunov, Dulevski, 2002).

Figure 1. Elements of the labor cost



Source: Shopov, D. and others

The salary is a structuring component of the labor cost. At a microeconomic level, it is the remuneration established by agreement or by national legislation which the employer pays under a contract. From a macroeconomic point of view, the workers receive remuneration in accordance with the work done.

There are also exist the so-called additional benefits - this includes cash payments or natural wages outside the salary that are provided to workers at the initiative of the employer or under an agreement included in the employment contract. Their determination should not be based on wages, as is sometimes the case in practice. They complement the wages and contribute to maintaining a higher standard of living for the worker. The additional benefits depend on the company's financial capabilities and aim to create better conditions for the reproduction of the workforce, to motivate workers to integrate them into the organization's goals and culture, to help stabilize the company. In this regard D.Yaneva notes that not only the basic wage but also the other elements - the additional remuneration and the incentive supplements, lead to the satisfaction of varied needs and give more self-esteem and satisfaction to the employed (Yaneva, 2006).

Additional benefits include:

- additional paid annual leave when the person has not worked;

- additional family allowances over the statutory ones;
- free or discounted food in the company's canteen;
- reduced prices of products in the stores of the company;
- preferential prices of goods produced in the establishment;
- free clothing, transport;
- free of charge or at reduced prices use of nurseries, gardens;
- free or discounted use of holiday homes, sports facilities, etc. ;
- granting of aid or loans at a reduced interest rate;
- providing different cash (for Christmas, Easter, like the 13th salary, etc.).

In the recent years there has been a tendency to increase the share of the additional benefits within the company's labor costs. The reason for their assertion is the strive for the earnings of the employees to be set according to the financial condition of the company and thus to motivate them to integrate into the organization (Georgiev, 2009).

The employers' contributions to employees are statutory contributions to the Social Security Fund, voluntary contributions to this fund, or to social security and social insurance organizations for the various insurance cases, the compulsory contributions to unemployment insurance and health insurance.

The current healthcare and prophylaxis includes the costs that the employer makes to ensure the health and fitness of workers in accordance with the requirements of the law. The Labor Code obliges the employer to provide conditions for sanitary and healthcare to the workers in accordance with the sanitary norms and requirements, to take preventive measures to prevent and reduce the general and occupational diseases.

The funds for social, household and cultural needs are the funds that the employer spends in accordance with the requirements of the law. According to the Labor Code, the employer must provide workers with: food, according to rational norms and specific working conditions, commercial and household services, transport services, recreation facilities, sports facilities, etc., cultural activities, clubs, caretakers, housing assistance for workers and their families, etc.

The costs of improving the training and professional qualification of the workers made by the employer are not obligatory, as they do not derive directly from the legal framework. It is especially important for the employer to provide

highly qualified workers to carry out activities that are characteristic of its production only. The funds that the company makes in this case are returning to the higher productivity of these workers. This labor cost element is related to the company's policy of investing in human capital and improving the quality of work to maintain the company's competitive ability.

The costs to improve the conditions and the protection of the labor or to ensure safe and healthy working conditions are mandatory. They stem from the legislation and the requirements of the Labor Code, according to which the employer is obliged to provide such working conditions so that the dangers to the workers' lives are eliminated, reduced or reduced. Employers' resources must ensure that any danger to the life and health of workers is avoided. Therefore, too many resources are sometimes needed, which are not always in the hands of the individual company. Thus the labor costs are high and unprofitable for the employer.

The labor elements that are not legally established or so-called specific costs are the subject of collective bargaining at the national, sectoral and company level between employers and workers.

The conflicting interests of the employer and the employee are manifested on the labor market when negotiating. When workers offer their labor, they seek to negotiate a higher remuneration that meets:

- the quality of the workforce, the investments made for its formation;
- the means of reproducing it, supporting the family and maintaining a higher standard of living;
- the workplace safety conditions, work-related risks;
- the requirements for professional realization (Shopov, Stefanov, Paunov, Dulevski, 2002).

When negotiating the labor costs, the employer is guided by the rule of minimizing the labor costs and maximizing the benefits. They increase the labor demand to the point at which the marginal cost of the last employed worker equals the marginal income created by him. The labor price offered by the employer is predetermined by:

- the worker's education, qualifications and occupational skills;
- the expected contribution of the worker to productivity and profit;
- the possibilities of interchangeability of labor with capital and others.

When the labor demand exceeds the supply in some industries and production, the proposed remuneration is growing. If labor costs increase, the employer seeks to reduce workers by releasing part of them or trying to reduce the remuneration of employees, with inequality in working life increasing in old age (Ivanova, 2017).

When labor costs are reduced, companies increase labor demand or strive to retain employees (Vladimirova, 2009).

The cost of the workforce has three main functions - reproductive, stabilizing and motivating:

- the reproductive function of labor costs stems from its role as an essential source of income for the worker and his family. It has to provide for the labor that it has done to maintain the standard of living according to the usual way of life for the time and the country. Thus, the reproduction function of labor costs is dominated by economic considerations;

- the stabilizing function of labor costs is conditioned by the role of workers' earnings in the currency of the country. When the economy is in equilibrium, the population's income system, or aggregate searchable demand, is balanced by the supply of goods and services. If, for one reason or another, it breaks down, in order to suppress inflation and stabilize the economy, the state takes measures, including labor cost control. Restrictive measures by the government are considered to be of central importance in curbing inflation, stabilizing employment and reducing unemployment;

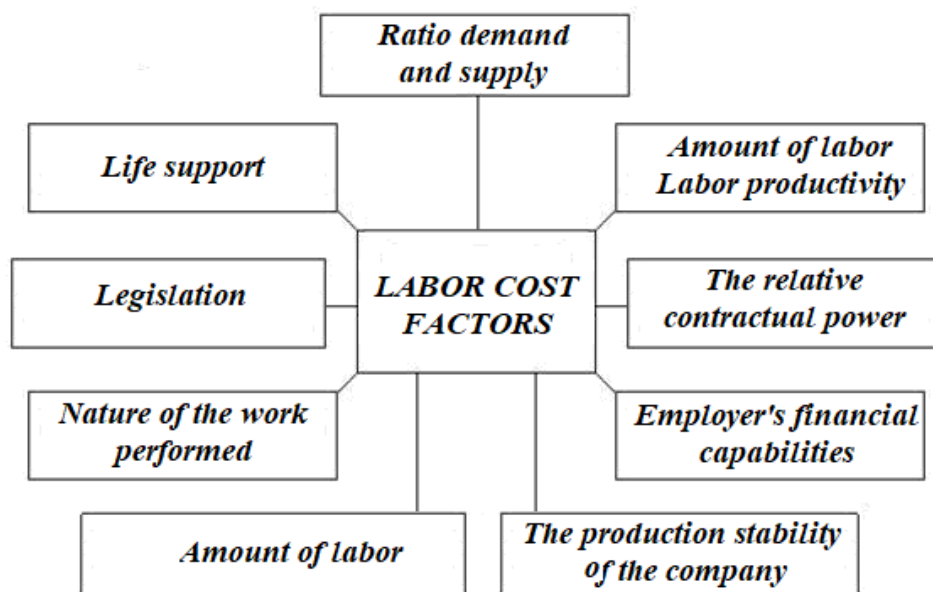
- the motivating function is related to the link between labor costs and the level of income to influence the workforce to invest in more quality and productive labor in the company. The higher the labor cost, the higher the incomes and the opportunities for a better life for the worker and his family, the stronger the incentive to increase the qualification, education and work activity. For the employer, the motivating function is expressed in the efforts to form one or the other motivation, in order to obtain a certain production result from the manpower it employs, allowing it to secure a profit.

Recently, there also has been mentioned a specific function of the labor cost - social, which appears as a derivative of the three main functions (Stefanov, Dulevski, 2007).

There is a close relationship and interdependence between the functions of the labor costs that depend on the specific conditions, and contradictions sometimes arise between the different functions.

The formation of labor costs is influenced by various factors (shown in Figure 2). To the most important of them, the ratio between the labor demand and supply, the cost of living, the laws and regulations concerning the labor cost, the nature of the job - the work performed, the amount of labor, the labor productivity, the relative contract power of the agreement, the financial capacity of the employer, the production and technological stability of the company, etc. (Shopov, Stefanov, Paunov, Dulevski, 2002).

Figure 2. Main factors, defining the labor cost



Source: Shopov, D. and others

In the neoclassical theory, the labor cost is determined by the market forces of labor supply and demand. In a perfectly competitive labor market, wages are higher where demand is greater than supply, and vice versa. When the workers are directed to industries and higher remuneration industries, this will lead to a reduction and trigger a reverse process - reducing the demand and

the balancing market forces. In this way, the market mechanism will form a labor price that will ensure optimal employment and productivity of the labor force (Ustapetkova, 2007).

The impact of the supply and the demand on the labor costs is influenced by all those forces that contract the free competition and disorder the market equilibrium in the labor market, which results in the price of labor. One of the reasons for the equilibrium and the deviation in labor supply is the limited mobility of the workforce due to lack of housing, unwillingness to change the social environment or to the qualification, etc. Deforming effects on labor costs may also be attributed to the actions of some of the employers or trade unions, state interference, and the principle of equal pay for equal pay.

The labor cost as income earned by the worker must provide the means for his existence and his family's subsistence. The living standard is a variable that is influenced by a number of economic and social factors, natural and climatic conditions, customs and traditions, demographic factors, the state of the economy, the level of prices and taxes and other types of charges, etc. This is the reason for the differences in the content that the economists place in the notion of the living standard.

It is obvious that in order to achieve better results in the company it is good to observe some basic motivational rules regarding the personnel such as: complex satisfaction of the material, social and psychological needs; timely application of motivational impacts; objectivity in the evaluation of the motivation results; review, evaluation and correction of the motivation complex, etc. (Yaneva, 2006). According to their specificity, the factors influencing the labor costs can be broadly grouped as:

- economic factors;
- socio-demographic factors;
- institutional factors (related to the State interference and to the industrial relations entities - employers and trade unions) (Georgiev, 2012).

In some of the countries of the transition, there is a labor cost close to, or around the amount of, the funds that provide only the physical existence of the workers. The reasons for this are the deep economic crisis, low labor productivity and production efficiency. Under these conditions, the labor market is characterized by high supply and low labor demand, which reduces the labor market price. The factors on which labor costs depend interact, are supposed



and complementary. They act simultaneously, albeit with different strength and intensity, which implies using the complex approach in their research and reporting (Shopov, Stefanov, Paunov, Dulevski, 2002).

Every employee or worker has a clear attitude to the income he receives for his work. On the question "are you satisfied with the income you receive," the different categories of employees respond differently, depending on the education they have, the length of service in the company, the opportunities and the desire to increase their qualification and retraining, of the social benefits provided to them and others. From the survey conducted with 176 people working in different companies in the Blagoevgrad region and the one-dimensional and two-dimensional frequency analysis, we can summarize:

- Regarding the educational level of respondents and income satisfaction, three groups are formed, with relative percentages of speakers:
  - 28.9% dissatisfied, 33.6% are satisfied, and 37.5% are satisfied;
  - of the graduates, only 12.1% are dissatisfied with their income, while those with secondary and lower education are dissatisfied with 42.7%, partially satisfied with 31.6% and 25.7% with their income.

The results of the two-dimensional analysis show that education has a statistically significant impact on income satisfaction.

- Every company employs people with different work experience:
  - naturally the most inexperienced workers start working at lower pay and most of them are not satisfied with their income - 45.1%;
  - 40.2% of respondents are partially satisfied;
  - many of the most experienced workers (those with an internship over 10 years) are also not happy with their salaries - 42.1%;
  - more than half of those with work experience of 6 to 10 years approve their remuneration for work - 53.6%.

• The development of technology requires the workers to raise their level of qualification and sometimes retrain. Unfortunately:

- a small proportion of respondents - 19.8% understand that increasing their qualification depends on getting higher incomes;
- more than half - 56.8% do not wish to increase their qualification;
- 23.2% fluctuate, with about 1/3 of the respondents satisfied with their income;

- the percentage of those who do not want to retrain is higher - 69.3%, with a balance between the satisfied and dissatisfied with the salaries they receive;

- those who want categorically only 12.5%, naturally most of them are not satisfied with the earnings.

- The opportunities for raising the income through the social benefits provided by the company should not be overlooked:

- 39.3% are not satisfied with social benefits, half of them are not satisfied with their total income;

- the fluctuating group is the largest - 42.3%, with the satisfied and in part satisfied with their income more than 60%.

Workers with higher education and those with an experience of 6-10 years are most satisfied with their income. The need for upgrading and retraining is still not sufficiently understood by most people and is not associated with higher earnings, which is why more than half of respondents do not want to be further qualified and retrained, as there is a balance between satisfied and dissatisfied with the wages earned. Relatively few are satisfied with the social benefits they receive, most of them are not satisfied with their total income.

The labor-need-to-supply ratio compares the labor costs with salary rates, respectively. Different schools and theories determine differently the impact of this factor on the pay of labor. Depending on the specific situation of the labor market (labor shortage or surplus), the behavior, the employers' strategy regarding the labor cost is different. Usually, in the case of insufficient labor supply, they tend to offer higher prices or wages, and vice versa; in the case of oversupply, they tend to pay salaries that are in line with the minimum salary set by the government.

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