

EVOLUTION OF GROSS MINIMUM WAGE INCREASE ECONOMY IN ROMANIA

FLOREA IANC MARIA MIRABELA

ASSISTANT PROFESSOR PH.D

UNIVERSITY "CONSTANTIN BRANCUSI" FACULTY OF ECONOMICS, ROMANIA

e-mail: mariamirabela04@gmail.com

CIURLĂU LOREDANA

LECTURER PH.D

UNIVERSITY "CONSTANTIN BRANCUSI" FACULTY OF ECONOMICS, ROMANIA

e-mai: lciurlau@yahoo.com

Abstract

Salary is the main source of income for the population of Romania, with direct impact on the living standards of the population and ensuring the country's economic growth. This paper examines the evolution of the minimum wage on the economy, performing a comparative dynamic analysis of the level of labor remuneration within the economy.

Keywords: *economy, Romania, budget, wage.*

Clasificare JEL : *M40, M41*

1. Introduction

The purpose of dealing with this theme is to highlight the evolution of the minimum wage in Romania in the last 18 years. Significantly, both gross average salary in Romania and the gross minimum wage in the economy increased significantly in the last 18 years. Despite these developments, however, Romania is far from what is happening at the level of the European Union, with some of the lowest salaries.

In economic theory and practice, salary occupies a particularly important place. The term as such is of Latin origin. The salary was the amount paid to each Roman soldier for the purchase of the salt. The soldier was a dependent person and was given salary, by virtue of these dependencies a free man did not receive a salary.[1]

The term has been preserved over time and has become the sense of a man who is dependent on another, either legally or economically. Salary appears to be income to the labor factor due to his direct participation in economic activity.

One of the factors that directly affect the economic growth and living standards of the citizens of a country is the income of the population. The problem of salary has been a constant concern of economists since the classical school. Adam Smith and his followers set out some fair ideas about salary, noting that out of all three incomes, salary is the only income based on work. Salary is an essential part of the employment contract, representing the total amount of money due to the employee for the work performed. By the International Labor Organization Convention 95/1949 on wage protection, the wage is: "whatever the name or method of calculation, the remuneration or gains that may be valued in money and established by the agreement of the parties or by national law, on the person who hires them owes to a worker on the basis of a contract of employment, in writing or verbally, either for the work done or to be performed or for the services rendered or to be rendered. Labor is considered to be a commodity that is sold and bought on a price that is nothing but the salary received by the worker. The salary is also appreciated as the amount paid to the one who rents the labor services, the amount being formed on the basis of the

same principles underlying the formation of the price of goods and services under market economy conditions

2. Evolution of the minimum gross salary in Romania

Most of the times, the tendency is to consider only workers with low wages, that is those who will directly benefit from raising the minimum wage, but changing the minimum wage affects workers who were earning above the minimum wage, but in its area, that at the bottom of the distribution of labor, up to the middle area. In other words, even workers with higher wages than the minimum wage may benefit from salary increases. This effect is justified by maintaining differentiated salaries at company level - increasing the base salaries of distribution at the firm level often involves wage increases on all levels, although in different proportions.[4]

Increasing the minimum wage through legislative intervention, along with maintaining a high level of taxation of labor to employers are expected to have serious consequences on growth. Taking measures aimed at wage levels must be accompanied by an impact assessment analysis that takes into account both the direct effect on the income of employees and the profound implications in generating employment, the development budget revenues and attracting investments. Always such an analysis must weigh properly bond that forms between labor productivity and wage levels and taxation thereof.

According to CDR (Coalition for the Development of Romania), long-term competitiveness of Romania depends on a set of factors including TRO include European context and regional macroeconomic stability, quality of infrastructure, low labor qualification, level of taxes, legal stability performance of public administration, etc.

In turn, labor costs (wage and tax level) has a significant role in increasing economic competitiveness. Therefore, the Government and Parliament should consider carefully this complex equation and adjust prudent and balanced component elements used in them

The minimum wage may consider a broader framework of labor market developments in Romania and the relevant legislation. But if all these factors are not taken into consideration, an increase in the minimum wage as a result of changes in legislation with maintaining a high level of taxation of labor to employers could have severe consequences on growth.[5]

For the last 18 years since 2000, the national gross wage in Romania has had an upward trend, with annual increases in the year, in many cases even in two annual installments.

Tab no. 1 Evolution of the minimum wage since 2000

	PERIOD	MINIMUM GROSS BASIC SALARY (RON)	LEGISLATION
2000	January	45	H.G. 296/1999
	February - November	70	H.G. 101/2000
	December	100	H.G. 1166/2000
2001	January February	100	H.G. 1166/2000
	March - December	140	H.G. 231/2001
2002	January February	140	H.G. 231/2001

	March - December	175	H.G. 1037/2001
2003	January-December	250	H.G. 1105/2002
2004	January-December	280	H.G. 1515/2003
2005	January-December	310	H.G. 2346/2004
2006	January-December	330	H.G. 1766/2005
2007	January-December	390	H.G. 1825/2006
2008	January-September	500	H.G. 1507/2007
	October to December	540	H.G. 1051/2008
2009	January-December	600	H.G. 1051/2008
2010	January-December	600	H.G. 1051/2008
2011	January-December	670	H.G. 1193/2010
2012	January-December	700	H.G. 1225/2011
2013	January	700	H.G. 1225/2011
	February to June	750	H.G. 23/2013
	July-December	800	H.G. 23/2013
2014	January-June	850	H.G. 871/2013
	July-December	900	H.G. 871/2013
2015	January-June	975	H.G. 1091/2014
	July-December	1050	H.G. 1091/2014
2016	January-April	1050	H.G. 1091/2014
	May-December	1250	H.G. 1017/2015
2017	January	1250	H.G. 1017/2015
	February	1450	H.G. 1/2017
2018	January	1900	H.G. 846/2017

Source: posted on - www.cabineteexpert.ro

As can be seen from the table above, the country's gross minimum wage has changed even 3 times a year (as in 2000). Each change in turn referred to an increase. Moreover, two years in a row (2009 and 2010), based on H.G. 1051/2008, the gross national salary remained at the same value of 600 lei.

The gross salary has undergone significant changes each year so that for 2015 the country's gross minimum wage will increase in two installments, as we have been accustomed to in 2014.

Starting January 1, 2015, the minimum wage is increased from 900 to 975 gross RON, for a full work program of 168,667 hours per month in 2015, representing 5,781 RON/ hour.

Instead, as of 1 July 2015, the minimum wage will be increased again, from 975 lei gross to 1,050 RON, for a full work program of 168,667 hours per month in 2015, representing 6,225 RON/ hour.

The amount of the minimum gross national salary guaranteed in payment increased in 2017 by 16% as compared to the end of 2016, respectively from 1,250 RON to 1,450 RON.

The measure will have positive effects on economic growth by about 0.2 percentage points and on boosting employment and reducing black work.

At the same time, the measure will have an important social impact, ensuring an

increase in living standards and reducing social gaps.

Thus, with a minimum gross salary of 1,450 RON (as of February 1, 2017), the employer would bear, along with the social contributions from the employer, 1,783 RON (compared to 1,538 RON as he paid until the last increase), and the employee would receive a net pay of 1,065 RON (compared to 925 RON at present), taking into account the current level of contributions.

According to a study by the National Institute of Scientific Research in the field of Labour and Social Protection (INCSMPS) at the Ministry of Labor, Family, and Social Protection (MMFPSPV) showed that the minimum wage would lead to less competitive private firms in Romania, with negative effects primarily on so-called vulnerable businesses.

The value of the country's gross minimum guaranteed basic salary increased by 16% as compared to the end of 2016, respectively from 1,250 lei to 1,450 RON.

The measure will have positive effects on economic growth by about 0.2 percentage points and on boosting employment and reducing black work.

At the same time, the measure will have an important social impact, ensuring an increase in living standards and reducing social gaps.

So a minimum gross salary per economy of 1,450 RON (from February, 2017), the employer would have to bear with all the social contributions of the employer, 1,783 RON (compared to 1,538 RON as paid to the last magnification) and the employee would receive a salary of 1,065 RON (compared to 925 RON at present), taking into account the current level of contributions.

So the minimum wage gross state budget will have more to gain, given that most employees with minimum remuneration are in the private sector, and from them the state will be able to collect income tax and social contributions from salary increased minimum.

So, from raising the gross minimum wage, the state budget will have more to gain, given that most employees with the minimum remuneration are in the private sector, and from there the state will be able to pay income tax and social contributions to the salary minimally increased.

3. The Romania's position on the EU minimum wage

In 22 out of 28 EU Member States, a generally applicable statutory minimum wage exists; the level of this minimum wage varies greatly from one country to another. [7]

In 2017, some 22 out of 28 EU countries apply a generally binding statutory minimum wage – Belgium, Bulgaria, Croatia, Czech Republic, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and the UK.

Those with no general statutory minimum wage are Austria, Cyprus, Denmark, Finland, Italy, Sweden. In the majority of EU Member States where there is no statutory minimum wage (Austria, Denmark, Finland, Italy and Sweden), the minimum wage level is de facto set in (sectoral) collective agreements. It is important to note that the coverage of these agreements varies between countries and as some employees are not covered, they may not have any minimum wage.

The level of statutory minimum wages greatly varies between EU countries. As of 1 January 2017 (unless indicated otherwise), the lowest minimum wages (usually less than €500 per month) are found in the new Member States (NMS). Of these, Bulgaria applies the lowest monthly minimum wage in the EU – BGN 460 (€235). Immediately following is Romania, which from 1 February 2017 will apply a monthly minimum of RON 1,450 (€322). Two of the NMS – Malta and Slovenia – form a middle group, together with Portugal, Greece and Spain, in which the minimum wage ranges between €500 and €1,000 per month. Of the

EU15, Portugal has the lowest monthly statutory minimum wage. Notably, in Greece (only the private sector), Portugal and Spain, employees are entitled to 14 monthly wage payments per year; in many other Member States they receive 12 monthly minimum wages. A majority of the EU15 have the highest minimum wages, exceeding €1,000 per month: the highest – in Luxembourg (€1,999 per month) – is 8.5 times the Bulgarian minimum [7]

Tab. no. 2 Nominal levels of statutory minimum wage

Country	Date effective from	Level	Reference period
Belgium	01 June 2016	€1,531.93	Month
Bulgaria	01 January 2017	BGN 460.00	Month
Croatia	01 January 2017	HRK 3,276.00	Month
Czech Republic	01 January 2017	CZK 11,000.00	Month
Estonia	01 January 2017	€470.00	Month
France	01 January 2017	€1,480.27	Month
Germany	01 January 2017	€8.84	Hour
Greece	14 February 2012	€586.08	Month
Hungary	01 January 2017	HUF 127,500.00	Month
Ireland	01 January 2017	€9.25	Hour
Latvia	01 January 2017	€380.00	Month
Lithuania	01 July 2016	€380.00	Month
Luxembourg	01 January 2017	€1,998.59	Month
Malta	01 January 2017	€169.76	Week
Netherlands	01 January 2017	€1,551.60	Month
Poland	01 January 2017	PLN 2,000.00	Month
Portugal	01 January 2017	€557.00	Month
Romania	01 February 2017	RON 1,450.00	Month
Slovakia	01 January 2017	€435.00	Month
Slovenia	01 January 2017	€804.96	Month
Spain	01 January 2017	€707.60	Month
United Kingdom	01 April 2017	GBP 7.50	Hour

Source: <https://www.eurofound.europa.eu/observatories/eurwork/articles/statutory-minimum-wages-in-the-eu-2017>

The increase of the minimum wage to 1,900 RON (413 euro) in Romania would mean that we would outperform Latvia and Lithuania (both with 380 euro), reach Hungary and blow the head of Slovakia (435 euro) and Croatia (437 euro) .[7]

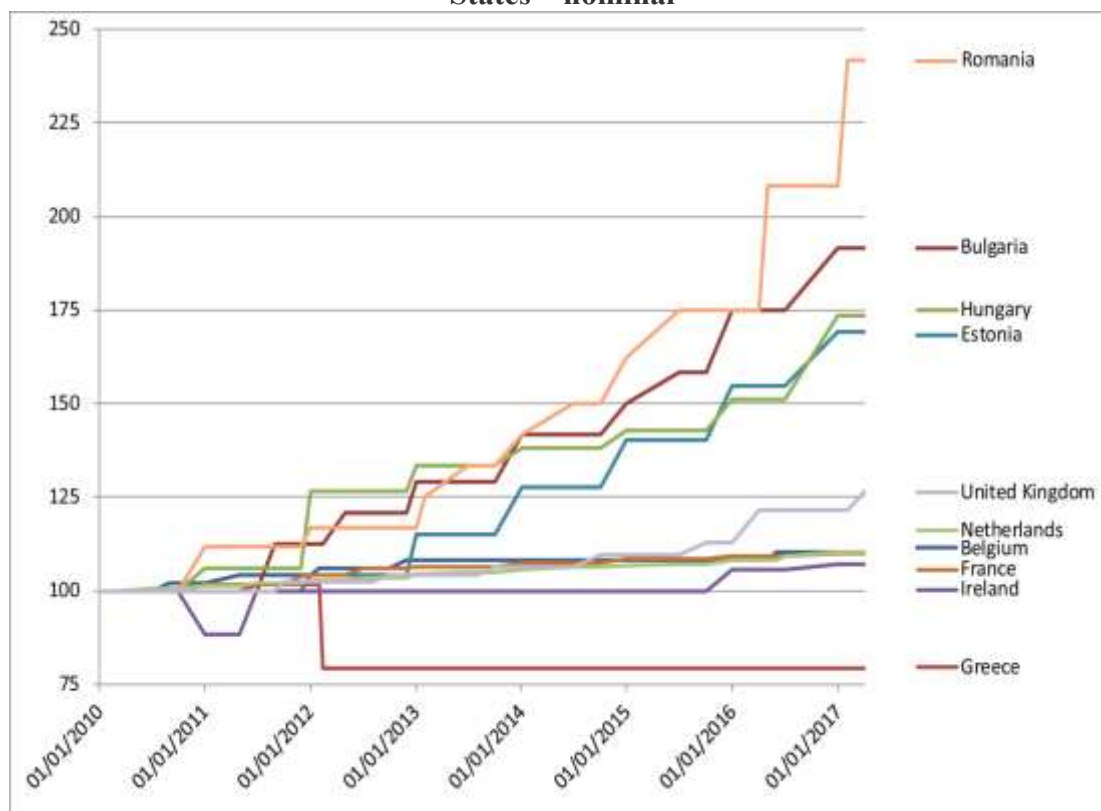
Romania recorded the highest minimum wage growth rate in the EU between January 1, 2016 and February 2017, 38% followed by Hungary (15%) and the Czech Republic (11%).

In the other countries, the increase was more modest, ranging from 1% in France and Malta and 9% in Bulgaria and Estonia. Greece was the only Member State to have a stagnation in the period considered.[8]

Accelerated growth is also noticeable over a longer period. Since 2010, the minimum wage in Romania has increased by 142%, our country being the champion in this chapter. Followed by Bulgaria (92%), Hungary (73%) and Estonia (69%).[8]

Another notable rise occurred in the UK (25%), and Greece is the only case of cutting the minimum wage.

Fig nr.1 Statutory minimum wage development since 2010 in selected Member States – nominal



Source: EurWORK Network of European correspondents

True, in Romania and Bulgaria, the minimum wage is very low, the nominal value, so a sustained increase is somewhat understandable. However, labor productivity has not progressed as fast (about 18% in our case, or 8.5% in the southern neighbors), which means that such growth is not justified.

The share of the minimum wage in the average salary

Regarding the share of the minimum wage in the average salary in developed countries in the EU, in Romania and in the surrounding states the situation is as follows:

Tab no.3 -The share of the minimum wage in the average salary

Country	Gross average salary	Gross minimum wage	Proportion
Luxembourg	4.412 euro	1.998,09 euro	45,2%
Belgium	3.401	1.531,93	45%
France	2.957	1.480	50%

UK	2.482 euro	1.359 euro	54,7%
Poland	1.051 euro	454,52 euro	43,24%
Hungary	988 euro	412,91 euro	41,7%
Bulgaria	544 euro	235 euro	43,1%
Romania – years 2017	720 euro	321 euro	44,5%

Source: <https://www.eurofound.europa.eu/observatories/eurwork/articles/statutory-minimum-wages-in-the-eu-2017>

At the end of 2017, our country was in the EU-registered parameters and only a few countries were over 50%, but these are small exceptions, with most of the Member States turning around 45%.

With the increase in the gross minimum wage to 1,900 lei (413 euro) from January 1, 2018 in Romania, its share in the gross average salary will be the highest in the entire European Union, and we will exceed the share of developed countries such as Luxembourg , where the standard of living is much higher.

Romania (January 1, 2018)

Gross average salary: 740 (estimate)

Gross minimum wage: 413 euros

Proportion: 55.8%

In order not to create disparities between categories of workers, the ideal ratio would be 50%, so the average gross salary would need to reach at least 750 euros

For companies that pay their employees with a gross salary of 1,900 lei, they should significantly increase their salary as of January 1, 2018. Otherwise, they will get their work to be rewarded with the minimum wage on the economy, which you will not be happy.

But raising salaries will be a difficult task in 2018, as employee contributions will only go to their task.

Because of this, Romania could end up in a paradoxical situation: it will significantly reduce the inequalities for the employees with the minimum wage, but those who receive a 1,900 RON leaf before January 1, 2018 will be wronged because it is possible they did not have an increase because of the "fiscal revolution" adopted by the Government.

4. Conclusions

The impact of the minimum wage on labor productivity is negative, an increase in the minimum wage of 10% would result in lower labor productivity by 2.3%. It seems that in Romania the increase in costs - determined by the increase in the minimum wage - is not compensated by the increase in productivity. The numbers, although statistically valid, should be interpreted with caution as productivity can be influenced by a multitude of factors and the link between the minimum wage and productivity is not very tight.

Any increase in the guaranteed minimum gross salary increases the number of employees paid in this salary. It has been noticed that the minimum salary increases of more than 12% increase the increase in the number of employees that are part of the minimum wage.

The impact of the minimum wage on labor productivity is negative, an increase in the minimum wage of 10% would result in lower labor productivity by 2.3%. It seems that in

Romania the increase in costs - caused by the increase in the minimum wage - is not compensated by the increase in productivity, on the contrary, the productivity decreases.

A 10% increase in the real minimum wage leads to an increase in the average wage by 7.5% at the macroeconomic level, so the minimum wage is indeed an important determinant of wage growth.

An increase in the minimum wage will make some of the employees paid at a minimum in the economy no longer benefit from state money to supplement their income because they would exceed the level set by law by family member.

This may have a negative impact on employees because it would reduce the number of families of employees in poverty and on the other hand would have a positive impact because it would release the state from a small part of the social assistance expenses. In the opinion of employers, this would mean transferring a small part of the burden of social assistance to companies.

But according to Eurostat statistics, Romania has the highest rate of work poverty.

5. Bibliography

- [1.] Bianca Marina Mitu –ABC-ul angajarii de success, Editura C.H. Beck, 2014
- [2.] Carmen Sauciu-Osz, RMT - Creaza-ti Usorul @Servici (Vol.2), Editura Eurostampa, 2017
- [3.] Elena Floristeanu – Salarizarea Personalului – Repere teoretice și practice , 2014
- [4.] Tribuna Economica nr 1/2016
- [5.] <http://www.incsmps.ro> -Institutul Național de Cercetare Științifică în domeniul Muncii și Protecției Sociale
- [6.]***http://www.stirilekanald.ro/ministerul-muncii--analiza-a-ministerului-muncii-cresterea-salariului-minim-are-efecte-reduce-asupra-saraciei-si-scade-productivitatea_73819.html
- [7.]***<https://www.eurofound.europa.eu/observatories/eurwork/articles/statutory-minimum-wages-in-the-eu-2017>
- [8.]*** EurWORK Network of European correspondents
- [9.]*** <http://ec.europa.eu/eurostat>