

Implications of the gross national minimum wage guaranteed in payment. Case of Romania

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Abstract: *In 2015, the gross national minimum wage guaranteed in payment was “increased” twice, while as of May 1st, 2016, it was “increased” again. No matter whether we speak of the net or gross average wage, we will find out that it doesn’t cover, by far, the value needed for the basic needs, leaving aside the needs inferred from the quality of being a human, a superior, social being that has at least material, spiritual and cultural needs. In conclusion, the minimum wage barely provides the extreme survival of the, roughly, two million Romanian people that receive it.*

Keywords: *gross national minimum wage, guaranteed in payment; wage policy; minimum basket value.*

JEL Classification: *C2, H21, E62*

Introduction

An increasing chorus of voices, either of people who should know what they are talking about, or of different people asked for their opinion, saying that the minimum wage should increase, and they relate this to the *theory of efficiency wage*. Of course, it is good to give more money to the people, just hoping that they will perform better, but we should review the theory and see how things are.

The theory of efficiency wage in Romania comparative with EU countries

The theory of efficiency wage says that, under particular conditions, in specific markets, the entrepreneurs decide to offer their employees a wage that is higher than the one justified by their work productivity, because:

- The employees will work more carefully and with more responsibility, to keep their position and, obviously, to maintain the more attractive payment;
- The climate, at the job, would become more relaxed, which would yield better results;
- This would cut company expenditure for recruitment, because a responsible attitude of the employee would result in fewer situations of dismissal and, therefore, the need for new expenditures with the employment of new staff;

- The professional quality of the people applying for a job, under these conditions, would be higher, etc.

The theory of efficiency wage, from the perspective and interest of the entrepreneur, says his concern for the profit, makes the entrepreneur increase the pay. He only considers the expectations for better, as far as he is concerned, dismissing the potential adverse effects of this action. The wages that exceed the level of balance cause unemployment.

We may therefore conclude that the minimum wage has no other connection with the efficiency wage, except for the unemployment that it causes!

Not always, the calculations of an entrepreneur bring him large profits, but what can we say of the minimum wage granted within the public system, when there is no criterion for their increase. What can we say of the minimum wages granted without economic or social fundamentals, or of the wages that are increased in order to support some party or another in elections, when these increases don't take into account the whole system of wages, and when the minimum wage gets closer to the wage of a professor or doctor?

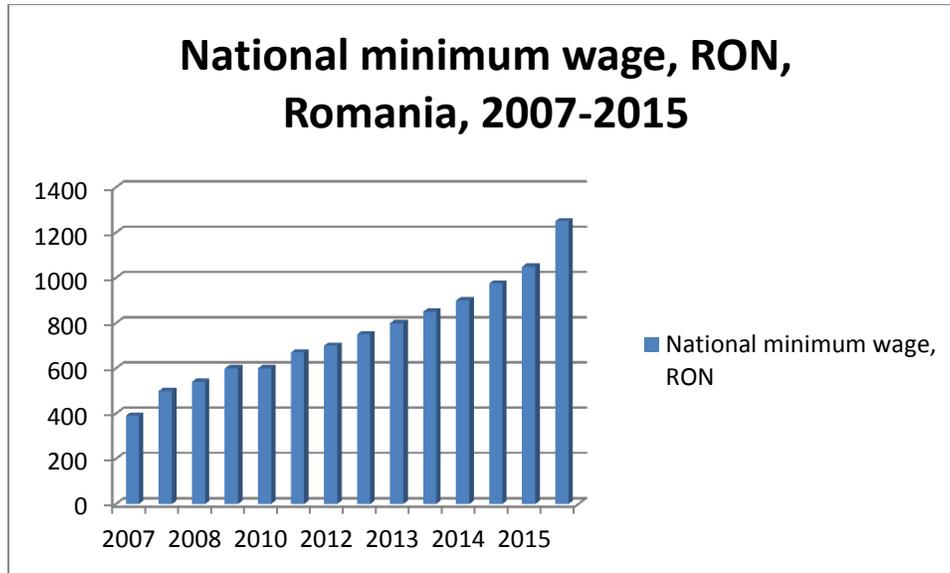
So that in this case too, the minimum wage increases unemployment, not the unemployment of doctors and professor, but that of unskilled workers and of the youth – exactly those categories of people targeted by the minimum wages, which the politicians pretend to come to help.

One of the most appreciated university economy textbooks, of Professor N. G. Mankiw, from Harvard University, refers explicitly to this issue, saying that “79% of the economists consider that the minimum wage increases the unemployment rate among the young people and the people with poor skills”.

Some economists consider that youth unemployment in Romania is four times higher than for the other age categories. They show that the minimum wage increased by about 50% in a few years, exceeding the increase of the average wage, which is why so many people receive the national minimum wage.

Table 1, National minimum wage from 2007 to 2016, Romania, RON

Year	National minimum wage, RON
2007	390
2008	500 Ron as of February 1 st , and 540 as of July 1 st
2009	600
2010	600
2011	670
2012	700
2013	750 Ron as of February 1 st , and 800 as of July 1 st
2014	850 Ron as of January 1 st and 900 of July 1 st
2015	975 Ron as of January 1 st , and 1050 as of July 1 st 2015
2016	1250 Ron, as of May, 1 st , 2016

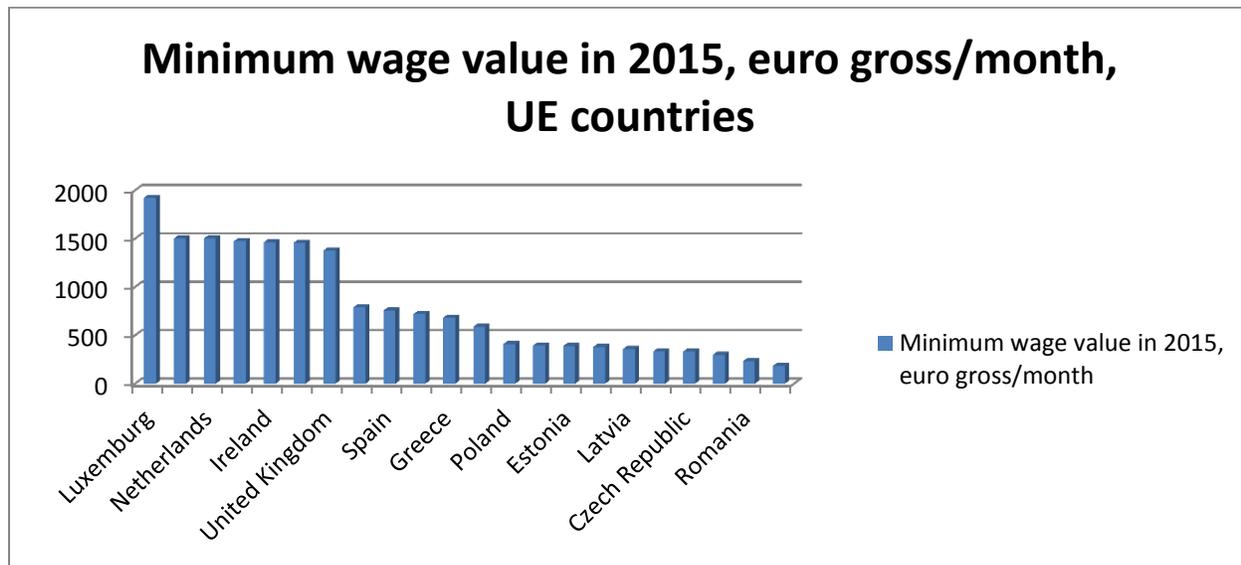


After two increases in 2015, the gross minimum wage in Romania reached 1,050 lei (232 Euro), and 1,250 lei (276 Euro) as of May 1st, 2016. A statistic of this income shows that the Romanians have much lower incomes than other Europeans, only the Bulgarians earning less (184 Euro), according to Eurostat.

Table 2, European ranking according to the value of the minimum wage in 2015, Euro

Country	Minimum wage value in 2015, euro gross/month
Luxemburg	1923
Belgium	1502
Netherlands	1502
Germany	1473
Ireland	1462
France	1458
United Kingdom	1379
Slovenia	791
Spain	757
Malta	720
Greece	684

Portugal	589
Poland	410
Croatia	396
Estonia	390
Slovakia	380
Latvia	360
Hungary	333
Czech Republic	332
Lithuania	300
Romania	232
Bulgaria	184



For Romania we considered the minimum gross wage of 1,050 lei (232 de euro), the last value reached in 2015, while the data for the other countries are for the first quarter 2015.

Of the 22 European countries which have a minimum wage, the lowest pay is in Bulgaria, the equivalent of 214 Euro, while the highest is in Luxemburg, 1,923 Euro.

Although the Romanian Government decided to increase the national minimum gross wage to 1,250 as of May 1st, 2016, this decision is criticised both by the labour unions and by the employers, since any change in the national minimum gross wage entails changes in the:

1. Calculation of the contribution for work accidents and professional diseases, in the case of sick leave
2. Calculation of the contribution for holidays and for social health security benefits
3. Calculation of wage elements, related to the basic wage.

But the problem doesn't lie in these inherent changes. The increase of the national minimum gross wage puts pressure on the private enterprises, since most of the people paid from the state budget earn more than 1,250 lei gross.

Of a total of 1,131,600 employees that will benefit of the higher national minimum gross wage, only 39,322 are employed by the public sector, the balance of 1,092,364 working in the private sector. For a national minimum gross wage of 1,250 lei, the private employer must actually spend about 1,538 lei, including the social contributions which the employer must pay, according to the acting Fiscal Code.

For the previous national minimum gross wage of 1,050 lei, the total expenditure was of 1,292 lei per employee. Therefore, there is an additional 250 lei, roughly, which must be paid for each employee hired with the national minimum gross wage. The employers, who pay their staff less than the minimum gross wage, are liable to fines of 1,000 to 2,000 lei.

Conclusion

The governmental measure dissatisfies both the employers, who will have to bear higher costs, and the labour unions, which wanted an increase of the national minimum gross wage to 1,200 lei by January 1st, 2016, followed by another increase to 1,300 lei, as of July 2016. Another variant demanded by the unions was a minimum gross wage of 1,275 lei as of May 1st, 2016.

Even if the minimum net wage increased from 785 lei to 925 lei, the additional gain is extremely small and it can not change significantly the standard of living, not to speak of the quality of life, of the people earning such wage.

We consider that a family of two spouses, paid with the national minimum gross wage, earns insufficiently, even for the basic needs. We don't need to make any calculation to see what this would mean if they would also have one or two children.

Unfortunately, we cannot say that our wages are increasing, only that the minimum wage is increasing, and this has no connection at all with the "minimum basket value", a relevant indicator for the standard of living provided by our wages. Until May 1st, 2016, the monthly minimum basket value was of $4.48 \times 1,050 = 4,704$ lei, for an average size household, consisting of 2.804 people, which means 1,678 lei per person.

If we repeat this calculation of a minimum wage of 1,250 lei, we obtain 2,130 lei per person. According to these calculations, we can only ask ourselves, how many households /families afford, in May 2016, a monthly minimum basket value of 2,130 lei per person?

Not very many are in this fortunate position, and the answer should be given by the Govern, Parliament and politicians, who should also make clear why all of them, irrespective of their political affiliation, gave up this extremely important indicator.

But we are not as they think we are, we don't worry; the "minimum basket" is not for the poor. If Romania would have "normal" fiscal revenues, as it happens in the neighbouring emergent economies (34-35% of the GDP), it might be easier to make a reform of wages, and improve the significant and historic

underfinancing of the education and health care, with less than 4% of the GDP, for each of these key-sectors in the life of the people, for economy and society.

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