

The Evolution of Wage in Romania

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Abstract

Wages are the most common earnings of people. Perceived by workers, managers and employees in general, salary is the key element of revenue for most active people. This paper analyzes the evolution of wage in Romania, especially the minimum wage, between 2000 and 2018, and also shows a comparison between the value registered by this indicator in Romania and member states of the European Union.

Key words: economy, wage, employment

J.E.L. classification: J30, J31

1. Introduction

Salary is the main source of income for the population of our country, having a direct influence on the living standards of the population and contributing to the economic growth of the country.

Employee compensation has an important role because it is the center of the employment relationship, being essential for both employees and employers.

On one hand, employees depend on wages to secure a large part of their income and to receive income and health insurance, while for employers, compensation decisions influence the costs of doing business, and therefore, their ability to sell at a competitive price on the products market.

2. Theoretical background

In economic theory and practice, wage has always occupied an important place, and as a form of payment of labor has been applied since the earliest times. It referred to the amount of money that was offered to the Romans soldiers to buy salt. The soldiers were dependent people and were given salary by virtue of this dependence, while a free person did not receive a salary. Over time, this term has been preserved and took the sense of income of that person who is dependent on another, whether economically or legally (Florea Ianc, Ciurlău, 2018, p.104).

In Romania, terms such as salary, remuneration, fee, leaf or emblem are used. Of all these terms, the most used is the name of the salary. This name was established as official through a Government Decision, replacing that officially used before the 1989 Revolution, that was retribution.

The minimum wage is the lowest pay that employers can legally pay to workers. The move for minimum wages was first motivated as a way to stop workers from operating in storage by employers who were thought to have an unfair negotiation power over them. Over time, minimum wages have been seen as a way to help low-income families. Most countries have introduced minimum wage legislation by the end of the 20th century.

2. Evolution of salary in Romania

In Romania, the minimum wage in the economy has been on the rise for the past 18 years, from 2000 to the present. However, these consecutive increases in the minimum wage on the economy took place at a very fast pace, not supported by the corresponding evolution of the average productivity achieved in the business environment. Therefore, it can be said that the competitiveness of the Romanian companies will suffer.

The unsustainable growth of the minimum wage in the economy causes short-term negative effects, such as increasing the gap between large and small firms, discouraging entrepreneurship, and rising youth unemployment.

Table no. 1: Evolution of the minimum wage per country

Period	Values in national currency	Value in EUR	Legislation
1st February 2000	7.000.000 ROL	39€	H.G. 101/09.02.2000
1st Decembre 2000	1.000.000 ROL	45€	H.G. 1166/28.11.2000
1st March 2001	1.400.000 ROL	56€	H.G. 231/25.02.2001
1st January 2002	1.750.000 ROL	62€	H.G. 1037/18.10.2001
1st January 2003	2.500.000 ROL	65€	H.G. 1105/10.10.2002
1st January 2004	2.800.000 ROL	70€	H.G. 1515/18.12.2003
1st January 2005	310 RON	85€	H.G. 2346/15.12.2004
1st January 2006	330 RON	90€	H.G. 1766/22.12.2005
1st January 2007	390 RON	114€	H.G. 1825/2006
1st January 2008	500 RON	136€	H.G. 1507/20.12.2007
1st October 2008	540 RON	139€	H.G. 1051/10.09.2008
1st January 2009	600 RON	150€	H.G. 1051/10.09.2008
1st January 2011	670 RON	159€	H.G. 1193/24.11.2010
1st January 2012	700 RON	155€	H.G. 1225/14.12.2011
1st February 2013	750 RON	171€	H.G. 23/22.01.2013
1st July 2013	800 RON	179€	H.G. 23/22.01.2013
1st January 2014	850 RON	189€	H.G. 871/14.11.2013
1st July 2014	900 RON	205€	H.G. 871/14.11.2013
1st January 2015	975 RON	216€	H.G. 1091/10.12.2014
1st July 2015	1050 RON	236€	H.G. 1091/10.12.2014
1st May 2016	1250 RON	277€	H.G. 1017/30.12.2015
1st February 2017	1450 RON	321€	H.G. 1/06.01.2017
1st January 2018	1900 RON	409€	H.G. 846/29.11.2017

Source: <http://www.manuconsulting.ro>

As can be seen from the table above, starting with 2000, the gross minimum wage in Romania had an upward trend, with increased each year, in many cases even in two annual installments. In the period 2008-2018, the Romanian gross minimum wage had an annual growth rate of 11.4%. Thus, the gross minimum wage increased from about 139 euros in 2008 to 409 euros on January 1st 2018, in Romania, at the exchange rates of that time.

From January 1st 2010 to January 1st 2018, the minimum wage has risen by over 200%. Even so, raising the minimum wage in Romania does not solve the problem of living standards. The reality behind statistics shows that the Romanians continue to emigrate to Western Europe in search of a better living. Among those emigrating in recent years, there are also skilled labor force, such as specialists. The statistics showed that in the last 10 years more than 3.4 million Romanians left the country from 2007 until 2017 (Zaman, Goschin, 2014, p. 497).

In April 2018, more than 44% of Romanian employees receive the minimum wage, compared with 37% in 2017, according to official Business Review data. On March 31st, 6.808.066 contracts of indefinite duration were recorded in the labor register of Revisal Romania, of which 2.775.545 (or 44.2%) were gross minimum wage contracts (1900 RON or 409 EUR).

Increasing the minimum wage is primarily aimed at reducing inequalities, combating poverty and improving labor market participation. This policy is controversial because of the possible negative effects on employment (Neumark, Wascher, 2006, p.7).

3. Minimum wage in Romania and in the Member States of the European Union

The minimum wage in Romania has increased the most in the last 10 years compared to other EU countries. The amount has doubled, but remains one of the smallest wage in Europe. From 2010 to 2018 the minimum wage has risen by over 200%. So, from this point of view, Romania is ranked first in the European level. And as from 2010 almost every year an increase in the minimum wage was more than obvious, the figures should not surprise. In cash, this means an increase of just over 1200 lei, that is, the equivalent of 260 euros. In spite of all these percentage increases, Romania continues to count among the countries with the lowest minimum wage in Europe: just over 400 euros per month.

However, Romania has a low minimum wage among EU countries. In 2018, our country is on an antepenultimate place at the value of the gross minimum wage on the economy, with 409 euros on January 1st. The country has thus increased its position over last year's ranking, but this is not due to the real increase (of the net minimum wage), but to the government's artifice on 1 January 2018 to move social contributions from the employer's to the employee, meaning to take the value of the total wage cost (gross wage) and move it into the gross wage. This is also evidenced by the fact that, in terms of net amounts for 2018, Romania has the second lowest net wage (EUR 243), after its neighbor Bulgaria (EUR 202).

Tabel no. 2: Minimum wage within EU Member States in 2018

Country	Values in EUR	
Luxembourg	1998,6	High-range
Ireland	1614,0	
Netherlands	1578,0	
Belgium	1562,6	
France	1498,5	
Germany	1497,8	
UK	1462,6	
Spain	858,6	Mid-range
Slovenia	842,8	
Malta	747,5	
Greece	683,8	
Portugal	676,7	
Poland	502,6	Low-range
Estonia	500,0	
Slovakia	480,0	
Czech Republic	477,3	
Croatia	462,5	
Hungary	444,1	
Latvia	430,0	
Romania	407,3	
Lithuania	400,0	
Bulgaria	260,8	

Source: Eurofound (2018)

On 1 January 2017, the lowest minimum wage was recorded in Bulgaria, 235 euros, followed by Romania (1,450 lei, or 322 euros). In the category of countries with minimum wage values of around 500 euros or less are included Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia.

These countries are ranked by Portugal, Greece, Malta, Slovenia and Spain, where the minimum wage is between 500 and 1.000 euros.

Countries with minimum wage values of approximately € 1.450 per month are Belgium, France, Germany, Ireland, Luxembourg, the Netherlands and the United Kingdom.

At the opposite side, there is Luxembourg where the monthly minimum wage is 1.999 Euros. Bulgaria had – at 260.8 EUR - the lowest minimum wage, representing about 1/8 of Luxembourg's minimum wage. The following places are occupied by the Irish, who earn 1.614 euros per month, the Dutch with 1.578 euros, the Belgians who gain 1.563 euros (Eurofound, 2018, p. 25).

Surprisingly, countries with a low minimum wage (including Romania) have high tax rates (over 40%), while countries with a high minimum wage (such as Luxembourg, Ireland or the UK) have effective rates taxing less than 30%. When calculating effective tax rates, are taken into account tax rates, as well as contribution rates, relative to the gross wage.

It is interesting to mention that, of the 28 EU Member States, there is no regulate a minimum wage in Denmark, Italy, Cyprus, Austria, Finland and Sweden.

As for the growth of the minimum wage, in 2016-2017, at the level of states with a minimum wage law, from 22 states, 15 of them had a significant increase in the minimum wage. Romania, Hungary and the Czech Republic had minimum wage increases of 38%, 15% and 11%. At the level of the Member States, in the period 2010-2017, Romania benefited with the highest growth of 142%, followed by Bulgaria by 92%, Hungary by 73% and Estonia by 69%.

There is an interesting positive relationship between the share of paid workers with the minimum wage and the increase in nominal minimum wages in the period 2010-2018. The four countries with the highest wage growth - exceeding the 10% threshold in 2010 - namely Bulgaria, Estonia, Hungary and Romania, reported large proportions of employees receiving the minimum wage.

4. Conclusions

Of the 28 EU Member States, 22 countries have a statutory minimum wage applicable in 2018. However, there are large variations in the range of levels, from 260 euros in Bulgaria to about 2000 euros in Luxembourg.

From 2010 until now, the highest increases in minimum wages have been achieved (both in nominal terms and in real terms) in Bulgaria and Romania. Even so, both Bulgaria and Romania (and other low-level countries) have to cross a long way in succeeding to reach the minimum wage levels existing in Western European countries.

Compared to the minimum guaranteed wage of just 136 euros in 2008, Romania has made significant progress, managing to double its wage over the past 18 years. This growth places the country on the second place in Europe in terms of wage changes, but the gap with the European average remains significant.

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