

An Overview of Wages in European Union

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Abstract

Labor, the most important factor of production, expects fair compensation in exchange for their work or services. In other words, all people employed within an organization work mainly for a monetary reward. Wage is an essential element for employees, as the value of the wage highlights the value of the work performed. Special attention is paid to the minimum wage, one of the wage categories, as it leads to improving the lives of the most vulnerable categories on the labor market. Therefore, this paper aims to present the minimum wages change in Romania, that wage which ensures a decent standard of living, over a period of 20 years. The second part of the study presents the situation of Romania in comparison with other European Union member states, from the perspective of the same indicator.

Key words: remuneration, pay, labour market, wage

J.E.L. classification: E24, J31

1. Introduction

Wages have an enormous impact on the economy, many aspects that fall within the research area of macroeconomics being related to wages: employment levels, price stability, consumption, production, income distribution. Wages are an essential factor in the social and economic life of any community. Wages are one of the most significant elements of job satisfaction, a major subject of collective bargaining and a subject of law in many countries. From an economic point of view, wages are seen as the payment of compensation in exchange for work performed. It is the most important for an employee, as his standard of living and that of his family depend on his earnings.

2. Theoretical background

The main source of income that an individual relies on when purchasing the goods or services necessary for themselves and their family is represented by the salary. The security of receiving a salary at a level that reflects the value of the work performed is given by the conclusion of an employment contract (Florișteanu, 2024, p. 30). Thus, the Romanian Labor Code explains that the salary represents the consideration for the work performed by the employee based on the individual employment contract. (Law no. 53/2003, 2003).

The wage can be viewed from the perspective of employers and employees within enterprises. Employers see wages as a cost to the enterprise. Although they have been tempted to save on this cost, employers have understood that it is not possible to attract and maintain a qualified, efficient workforce without adequate compensation. On the other hand, for employees (those people who use their knowledge, skills and together with other factors of production, produce goods or services) salaries are an income and the means to satisfy their needs that ensure a certain standard of living. They expect remuneration at least the same as that obtained by other people equipped with similar skills and performing similar work. (Investopedia, 2020).

In specialized literature, wage is defined as a monetary remuneration received by an employee for his contribution for achieving organizational objectives, as payments received regularly, monthly, weekly or hourly or even annually, quarterly as a result of their work. (Clark et al, 2009, p. 435). In the perception of Sorn et al (2003, p.3) the salary that an employee earns within an organization is an important factor in the success of achieving the company's objectives. The salary obtained by an employee consists of the basic salary, incentives, vouchers, facilities, insurance.

Suwatno et al (2007, p. 125) wrote that wage appears as a substitute for the services that were provided by workers in their workfield. Then Mulyadi (2013, p. 179) stated that wage is seen as a payment for the provision of services performed by employees.

In a study conducted by Obikeze et al (2003, p. 286) they explained that salaries are the reward that individuals receive from the organization in exchange for their work and that each organization has its own distinct salary system.

The minimum wage is a basic element of public policy, being a tool to combat poverty and reduce inequality, including that between men and women (Cámara et al, 2024, p. 198). It is explained as the minimum remuneration that an employer must pay to employees in exchange for work performed over a period of time, with the mention that it cannot be reduced by collective or individual employment contract.

The minimum wage aims to protect employees from unjustified wages and to ensure a minimum standard of living for all those in employment field. Determining the appropriate level of the minimum wage is a complex process, in which several factors must be taken into account, such as: the needs of workers and their families, the cost of living and its changes, relative living standards, the general level of wages in the country, labor productivity and the economic development of the country (the last two factors mentioned are economic factors). (International Labor Organization, 2017).

3. Research methodology

The purpose of this paper is to analyze the evolution of minimum wages in Romania during the period 2005-2024, as well as the value of this indicator among the member states of the European Union, taking into account the different level of development of the member states.

For this reason, we propose a quantitative approach, which involved the collection and analysis of statistical data, but also their interpretation by comparing wages at the national level and by comparing with the member states of the European Union.

4. Findings

4.1. Analysis of the minimum wage in Romania

In Romania, the gross minimum wage is the lowest monthly or hourly remuneration that employers are required by law to pay to the employees in the country. The amount is established by Government decision, after consulting unions and employers' associations, for a normal work schedule of 8 hours per day. It is reviewed and adjusted periodically, depending on economic indicators such as inflation. (Law no. 53/2003, 2003).

Table no. 1 Evolution of the gross minimum wage, per month, in Romania 2005-2024

Year/month	Gross minimum wage, per month	Increase (%)	RON/hour	Gross value in euros
2005	310 RON	-	-	85€
2006	330 RON	6,5%	1,95	90€
2007	390 RON	18,2%	2,29	114€
2008 January	500 RON	28,2%	2,94	140€
October	540 RON	8,0%	3,17	142€
2009	600 RON	11,1%	3,52	142€
2010	600 RON	-	3,52	142€

2011	670 RON	11,7%	3,94	159€
2012	700 RON	4,5%	4,13	155€
2013 February	750 RON	7,1%	4,44	171€
July	800 RON	6,7%	4,47	179€
2014 January	850 RON	6,3%	5,06	189€
July	900 RON	5,9%	5,38	205€
2015 January	975 RON	8,3%	5,78	216€
July	1050 RON	7,7%	6,22	236€
2016 June	1250 RON	19,0%	7,38	275€
2017	1450 RON	16,0%	8,73	320,51€
2018	1900 RON	37,9%	11,40	413,25€
2019	2080 RON	7,89%	14,04	444,84€
2020	2230 RON	7,21%	13,32	466,63€
2021 June	2300 RON	3,0%	13,87	472,36€
2022	2550 RON	10,9%	15,23	515€
2023	3000 RON	17,6%	18,14	607€
2024 January	3300 RON	10,0%	19,96	663€
June	3700 RON	12,1%	22,02	743€

Source: www.insse.ro [Accessed on 10.09.2024]

The gross minimum wage in the economy has increased steadily, the increases highlighting both inflation and the authorities' efforts to support the purchasing power of employees. The year 2016 is distinguished by a substantial increase in wages as a result of legislative changes and the year 2019 by the change in the method of payment of contributions, more precisely the transfer of contributions from the employer to the employee. Also in 2019, those with higher education and those employed in the construction sector are paid differently. Thus, the gross minimum wage of employees with higher education was 2.350 Ron and for those who work in construction the gross minimum wage was 3.000 Ron.

The year 2023 brought changes to the salary system. According to Government Decision No. 1.447/2022, the guaranteed minimum gross basic salary per country became 3.000 Ron per month, representing 18.14 Ron/hour, for an average work schedule of 165.33 hours per month.

The year 2024 marks two increases in the minimum wage: in January it increased to 3300 Ron and in June it was increased with 400 Ron, reaching the value of 3700 Ron, from it benefiting approximately 1.8 million employees. This means that it is with 12.12% higher compared to the previous year, the increase being higher than the consumer price index in 2024 (6.6%). In other words, workers have gained purchasing power in the last year. The value of the gross minimum wage is 743.5 euros per month, or 8,922 euros per year.

The nominal increase in 2024 of 700 ron (300 in January and 400 in July) is almost as big as the increase recorded over 10 years, between 2006 and 2016. In 2006, the gross minimum wage was 330 Ron per month, and in July 2015 the gross minimum wage had reached 1050 Ron (the increase being 720 Ron over the entire period).

For 2025, is expected an increase in the gross minimum wage of 9.5%, reaching 4050 Ron/month (814 euros), which means 24.5 Ron per hour, in an attempt to reduce Romania's gaps compared to other European countries.

4.2. Wage analysis within the European Union countries

Income inequality, job insecurity, ensuring sufficient income to allow employees to pay their living expenses are some of the aspects that have been the basis for the implementation of the policy of establishing a minimum wage among European Union countries. (European Commission, 2020, p.3).

In general, the establishment of minimum wage levels returns to the national governments of each country. However, the mechanisms for establishing these minimum wages differ from country to country, depending on the adjustment process (indexation), exemptions for different groups of population (young people, trainees) and whether different social partners are consulted. As a result, the level and evolution of minimum wages differ within the member countries of the European

Union.

In the European Union, 22 countries currently have a minimum gross wage set by law. Finland, Sweden, Austria, Denmark and Italy are exceptions, as these countries do not have a minimum wage set by law, but a minimum wage set by collective agreements. For example, in Sweden, wage rates are set through collective bargaining between employers and unions, which is considered a reliable method of ensuring fair remuneration for workers in different sectors. (Eurofound, 2024, p 12).

Analyzing the data in the table below, it can be seen that the monthly minimum wage varies greatly between the member states of the European Union, from 477 euros recorded in Bulgaria to 2 571 euros reached in Luxembourg. The group of 6 countries formed by Luxembourg, Ireland, Netherland, Belgium, Germany and France continues to report the highest gross minimum wages in the EU, the level being over 1500 euros. Employees earn a gross minimum wage ranging between 1000 and 1500 euros in Cyprus, Spain, Slovenia. Poland, Greece, Portugal, Malta, Lithuania, Croatia, Estonia, Czech Republic, Slovakia, Romania, Latvia, Hungary and Bulgaria are the countries where the minimum wage per economy varies between 477 and 1000 euros per month.

Table no. 2 Evolution of the gross minimum wage in the European Union, January 2024

Country	Minimum gross wage monthly, in euros	Monthly minimum wage in purchasing power standards (PPS)
Luxembourg	2.571	1877
Ireland	2146	1508
Netherlands	2070	1778
Germany	2054	1883
Belgium	1994	1729
France	1767	1599
Spain	1323	1374
Slovenia	1254	1408
Cyprus	1000	1087
Poland	978	1491
Portugal	957	1086
Malta	925	1029
Lithuania	924	1172
Greece	910	1031
Croatia	840	1143
Estonia	820	840
Czech Republic	764	948
Slovakia	750	869
Latvia	700	823
Hungary	697	1007
Romania	664	1129
Bulgaria	477	816

Source: www.eurostat.eu [Accessed on 10.09.2024]

As it can be seen, *Luxembourg* is the country with the highest wage level in the European Union, being famous for its solid economy and high standard of living. Here, wage adjustment is done automatically, the process is called wage indexation, to match inflation. It occurs when the cost of living becomes expensive enough, thus requiring higher wages. Usually, indexation takes place twice per month, but last year, in 2023, due to very high inflation, minimum wages were adjusted three times. In 2024, the value of the minimum wage in Luxembourg was influenced by the experience and age of the employee. Unskilled adult workers were remunerated with at least 2.571 euros per month, while skilled employees received 3,086 euros. In the case of teenage employees, the minimum payment is somewhere around 75-80% of the salary of an unskilled worker. In the case of the average gross salary, employed people are paid 5.144 euros per month, 3.540 euros net, almost twice as much as the average wage in European Union, 1.531 euros per month.

In the case of *Germany*, the minimum wage guaranteed by law was established starting from January 1st 2015, the country being of those with a minimum wage level of over 1500 euros. The purpose of introducing the minimum wage in the economy was to unify the wage system, which was previously established according to the industry. It is adjusted regularly (without mentioning a specific period when it should be reassessed), taking into account factors such as the local cost of living, the state of the economy. The last adjustment was made on January 1st 2024, after it had previously been increased in October 2022.

Romania is the country that has experienced consecutive annual increases in the minimum wage in the last ten years. Thus, in the period 2014-2024 the average annual growth rate of the gross minimum wage in Romania was 13.3%, followed by Lithuania with an increase of 12.3% and Bulgaria with a rate of 10.6%. The lowest growth rates of the gross minimum wage were identified in Luxembourg (3%), Greece (2.9%) and France (2%). However, the wage level in Romania is below that recorded in other countries in Central and Eastern Europe, ranking in the penultimate place with a value of 664 euros per month. Only Bulgaria has an income lower than Romania, with a wage of 477 euros per month. Most employees who receive the gross minimum wage in Romania come from the construction, agriculture and food industry sectors.

Immediately ahead of Romania with a guaranteed gross minimum wage of 697 euros per month in 2024 is *Hungary*. It should be noted that in Hungary there are two types of minimum wage, depending on the education required to fill in a position. The guaranteed minimum wage requires education, while the minimum wage does not require a higher qualification.

However, the gaps between countries are significantly smaller if price level differences are eliminated. This indicator is called the purchasing power standard (PPS) and allows a more objective comparison of the purchasing power of the minimum wage between countries. Thus, minimum wages in member states with lower price levels expressed in purchasing power standards become relatively higher compared to those countries with higher price levels. For example, in 2024 Luxembourg had the highest minimum wage in euros and was 5.4 times higher than that in Bulgaria, which was the lowest wage in the EU. Expressed in PPS, the gap narrows, the highest (in Luxembourg) being 2.4 times than the lowest one. The highest value of the monthly minimum wage in purchasing power standards was recorded in Germany, but values above 1.200 euros were also recorded in the Netherlands, Luxembourg, France, Spain, Belgium, Ireland, Slovenia and Poland.

5. Conclusions

Nowadays, the wages offered by enterprises tend to determine the standard of living and social position in the community. Over time, one of the main functions of the minimum wage has been to protect against poverty, but other functions can be listed such as: the minimum wage contributes to setting fair wages, supporting disadvantaged groups, maintaining the purchasing power of employees, avoiding conflicts in the workplace, supporting labor productivity, reducing social inequalities and a tool to combat high unemployment.

In this context, national governments and European Union institutions have stressed the importance of paying an adequate minimum wage in the economy so that all people in employment have decent living conditions. Of the 27 member states, 22 have a minimum wage set by law (many of them with a long historical tradition of minimum wages) and the other 5 have a minimum wage level set through collective bargaining.

Although the minimum wage in Romania has increased in the last ten years, its value remains one of the lowest in the European Union. These increases should be accompanied by appropriate economic policies and the foundation of the minimum wage policy should be represented by the minimum consumer basket for a decent standard of living.

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