

Wage Implications at EU Level

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Abstract: *In all conditions of time and space, economic activity necessarily involves active work as a determinant factor of production and beneficiary of its results. In the market economy, labor services are provided to production, as with the other factors of production, through market transactions. This article aims labor factor, the role and characteristics of labor as a production factor and the employment in the EU. As a secondary market, labor market is influenced by other markets and generates, in turn, effects that are found in all other structures of the market economy system.*

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1. The price of labor

Labour market or workforce market is the area where labor demand by those who need it (firms) and supply of labor, represented by owners of labor, meet and are freely negotiated. Through specific processes for transactions taking place in this market, primarily through wage formation process balance between supply and demand of labor is secured.

The labor market is closely related to other input and product markets (material goods and services) . The rising prices of consumer goods will affect negotiations on the payroll, as input prices change will affect supply and demand in the product market.

Interrelation between real flows (factors and products) and monetary flows (income and expenses) resulting from transactions that occur on all these markets stems from the economic circuit unity.⁷¹

⁷¹ Mărcuță, L., Mărcuță, A., Tindeche, C., (2013) "Analysis of Romanian GDP during crisis", *20th International Economic Conference - IECS 2013, Post Crisis Economy: Challenges and opportunities*, Sibiu, România.

In the whole circular flow of economic activity, the role of the labor market is primarily played through the following functions: efficient allocation of labor resources between sectors, industries, economic and territorial units according to the volume and structure of demand for labor, which is at its turn determined by the request for economic goods; wage formation by comparing the labor supply and demand, as a price or income to remunerate labor; source of information for professional guidance and training as well as a means to control the information provided in connection with failures and imbalances that occur in the economy; through special organizations, labor market also fulfills the function of social protection of the disadvantaged working population due to economic circumstances in the economy.

On the labor market, like on any other market, wage is the result of the interaction of supply and demand for different skills and abilities, of free negotiation between resource owners and employers. Individuals, as bearers of labor supply, aim to obtain the best price for their offered services. In turn, entrepreneurs are interested in reconciling the specific qualities required in production at the most affordable price. Salary is the ultimate expression of the contribution that entrepreneurs consider employees bring through produced goods in order to satisfy anticipated consumer preferences. If, for example, consumers give a lower value to a specific good, all inputs that have contributed to obtaining it will be worth less. In other words, not only is the employee who will receive a lower salary, the entrepreneur will also be affected because its profits will be substantially reduced.

The corollary of this reasoning is the following: is the consumer who ultimately determines the factors of production and income distribution. A change in consumer preferences coming from the population is a first real way to change input prices. These will increase for the factors employed in the production of more wanted goods, and will fall for the others.⁷²

Right to salary appreciated as a corollary of the right to work - is a fundamental prerogative of the individual, and this is emphasized by the Universal Declaration of Human Rights, "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity"; minimum wage is the wage considered sufficient to meet the vital needs of the employees, taking into account economic and cultural development of each country.

Introducing and maintaining it is based on two main arguments. The first is to relieve poverty faced by some of the population. The second is aimed at reducing the level of employer's control over the wage.

A logical inference regarding the minimum wage is that it is always above the equilibrium wage established on the market, if it's equal to or less than the balance, the measure imposing the minimum wage would prove unnecessary.

Economic laws show that a price increase involves significant changes on supply and demand, meaning that there will be fewer jobs offered by companies, thus affecting a part of the workforce. It should be noted, however, that labor supply and demand do not meet a single labor market; there is a range of different skills and qualities. So the imposition of the minimum wage has the same effects for all individuals or in all economic sectors. Young people are among those who suffer most from the reaction of entrepreneurs when minimum wage rises.

⁷² Gheorghiu, A., Gheorghiu, A., Spânulescu, I., (2009) "Target market risk evaluation", Proceedings of the International Conference on Econophysics, New Economics & Complexity - ENEC-2009, Editura Victor, București, ISSN 2065-2550, p.113.

The reason is that they form the category of less experienced with the lowest skills and abilities and therefore the lowest performance in economic activity.

Damage to young people is twofold. On the one hand, they lose the opportunity to immediately earn a certain income and therefore to be able to meet their necessities to a greater extent. On the other hand, because the minimum wage sends them unemployed, they can not gain the experience and skills that, in a subsequent period, would have brought an increase in their salary. If there would be no minimum wage, young people could offer their services at a lower price until they gain the experience necessary to obtain a higher salary.

Also, there are negative implications on the company's economic prosperity, but they require some mental effort to be noticed. First, consumers are deprived of the services of those laid off, even if their marginal productivity was low. The total supply of goods is reduced, and this has significant implications on the level of personal satisfaction of needs and hence on living standards.

Secondly, part of the active population becoming unemployed implies a greater effort from the state budget and consequently rethinking the tax rate of population. Another unseen thing is that a tax increase leads to a reduction in income that individuals will have, ie a reduction in consumption and their economies. Further, a reduction in consumption, especially savings, generates a reduction of investment in the economy and employment. But as a rule, people only see what will appear immediately in front of them (minimum wage increase) and will not see what is lost: the production of those who were laid off or affected jobs.

Another segment of the population negatively influenced by taxation and increasing the minimum wage is made up of some national minorities.

Measures to increase the minimum wage highlights another error sometimes present in economic analysis, namely that an increase in labor costs leads to an increase in the total cost of production and thus the price of the good produced in the society.

Often, it is possible that due to stiff competition, many companies can not apply price increase for products. This has important implications for economic analysis of the effects of the minimum wage. If the minimum wage increases and a company can not transfer any cost increase in price, then it will seek to increase efficiency by eliminating employees became too expensive compared to their contribution to obtained production or by replacing them with more efficient technology, employees with higher qualification, etc.⁷³

In Romania, the Law 14/1991 established the principle of wage negotiation within public and businesses what is traditionally designated by the concept of wages liberalization. Theoretically, the only proper application of the principles of salary negotiation is to establish wages by law or by other regulations for personnel in state companies, as well as that of very specific state organizations. Also by law minimum wage is set, with a social protection objective. With these exceptions, currently wages are set by collective union negotiation. Implementing Rules of the Law no. 19/2000, approved by Ministry of Labour and Social Solidarity by Order no. 340/2001, which detailed elements that are included in the individual gross salary, it shows that it includes: gross base salaries, bonuses, allowances, amounts paid from salary fund, the amounts awarded at retirement, annual awards, payments in kind, other incomes. The base salary is the main part of total wages agreed in the employment contract; the specified amount is actually paid to the employee under prescribed conditions (actual time worked and the results obtained in relation to performance standards). It is established for each employee based on studies, experience, skills and outcomes of individuals, on the one

⁷³ Ciucur, D., Gavrilă, I., Popescu, C., Popescu, G., H., (2008). *Teorie economică generală*, Editura ASE, București.

hand, and wage policy of the firm, types of payroll, the importance, complexity and responsibility incumbent to the position on which the employee is enrolled.

Salary additions and bonuses form the variable part of the salary that is to be granted only for special outcomes of the employee, work performed under difficult conditions, significant results for the enterprise, loyalty and stability in employment (seniority).

2. The employment in the EU

European Union (EU) is an economic and political union, developed in Europe, which is composed of 27 states. Origins of the European Union come from the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) formed by six countries in 1958. In the coming years the European Union has expanded through the accession of new member states and increased its strength by adding economic, social and political to its abilities. The Maastricht Treaty established the European Union under the present name in 1993. The last amendment to the constitutional basis of the EU was the Lisbon Treaty, which entered into force on 1 December 2009. The EU operates through a system of supranational independent institutions and intergovernmental decisions through negotiation between member states. The most important institutions of the EU include the European Commission, European Council, European Union Council, the European Court of Justice and the European Central Bank. The European Parliament is elected every five years by EU citizens.

The EU has developed a single market within a standardized system of laws which apply in all member states. Within the Schengen Area (which includes EU Member States and non-EU states) passport controls have been abolished. EU policies aim to ensure the free movement of people, goods, services and capital, laws in justice and internal affairs were issued and common policies on trade, agriculture, fisheries and regional development were kept. A monetary union was also established, the eurozone currently consisting of 17 states. By the Common Foreign and Security Policy, the EU has developed a limited role in international relations and security.

With a combined population of over 500 million, representing 7.3% of the world population, the European Union has generated a GDP of 17.6 trillion U.S. dollars in 2011 (more than any other country in the world), which accounted for 20% of estimated GDP in terms of purchasing power worldwide.

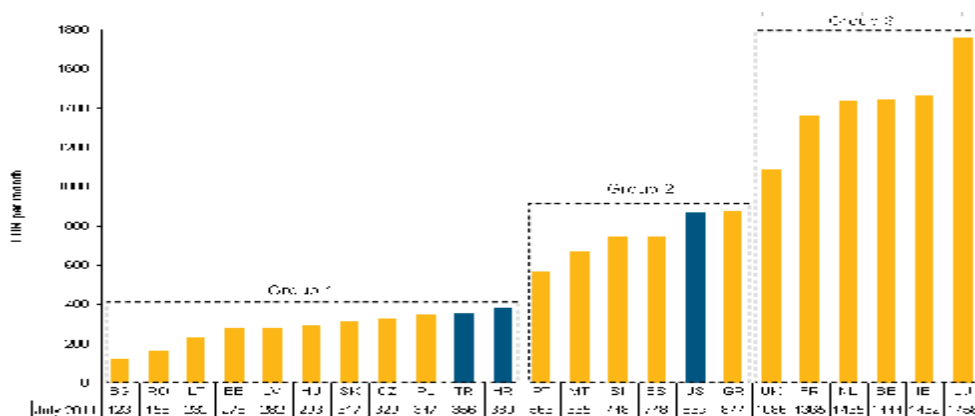
It is considered to be a sui generis construction, considered by some as a de facto confederation. Since 1 December 2009, the European Union has legal personality and may conclude international treaties.

In 2012 it was awarded the Nobel Peace Prize, "for over six decades has contributed to the advancement of peace and reconciliation, democracy and human rights in Europe." According to data provided by Eurostat, although most countries have introduced minimum salary differences between its levels are enormous.

Minimum wage statistics published by Eurostat refer to Monthly National Minimum Wage. National Minimum Wage is usually applied to all employees, or at least a large majority of employees in the country. Minimum wages are gross amounts, ie before deduction of income tax and social security contributions. These deductions vary from country to country. National minimum wage is required by law, often after consultation with the social partners, directly or through national intersectoral agreement (such as in Belgium and Greece).

In July 2011, the legal minimum wage varied from 123 to 1758 EUR per month, gross.

Figure 1. Minimum Wage levels in EU states



Source: www.eurostat.ec.europa.eu

Figure 1 shows the minimum monthly wage in euro in Member States, Croatia, Turkey and the United States in July 2011. Between Member States, the gross minimum wage in the economy varied from 123 EUR (Bulgaria) to 1 758 EUR (Luxembourg).

The 20 Member States together with Croatia, Turkey and the United States can be divided into three categories, depending on the minimum wage at 1 July 2011. The first group includes the eleven countries with the lowest minimum wages, between 100 EUR and 400 EUR per month: Bulgaria, Romania, Lithuania, Estonia, Latvia, Hungary, Slovakia, Czech Republic, Poland, Turkey and Croatia.

The second group comprises five Member States (Portugal, Malta, Slovenia, Spain and Greece) and the United States, with an intermediate level of the minimum wage from over 550 EUR to just under EUR 900 per month.

The third group comprises six Member States (UK, France, Netherlands, Belgium, Ireland and Luxembourg), where the minimum wage was over 1 000 per month.

According to data provided by Eurostat, although most countries have introduced minimum salary differences between its levels are enormous. Minimum monthly net salary in Romania is established by law in 2012 to 162 euros (750 lei) which places the Romanian state in the penultimate position in the European Union regarding the regulatory minimum gain, and the differences between the minimum wage in the EU are significant. EU countries that use the minimum salary can be divided into three categories according to its level: the first category includes 11 countries whose minimum wages are the lowest in the European Community, ranging between 100 and 400 EUR: Bulgaria, Romania, Latvia, Lithuania, Slovakia, Estonia, Hungary, Czech Republic and Poland. The second category includes countries whose regulatory minimum wage is between 400 and 1000 EUR: Portugal, Slovenia, Malta, Spain and Greece. The third category includes six countries in the EU whose minimum wage equals or exceeds the level of 1.150 EUR. They are: Great Britain, France, Belgium, the Netherlands, Ireland and Luxembourg.

However, according to Eurostat, the Romanians have the lowest purchasing power while Luxembourgers can buy most of their minimum wage. In Spain, the minimum monthly wage established by law is 748 euros and in the UK this amounts to about 1,202 euros.

Other Member States, where numerous Romanian currently work, such as Italy and Germany have no regulations on minimum monthly earnings.

Huge differences between countries in terms of current level of the minimum wage is a major obstacle to a hypothetical future jointly guaranteed minimum wage. The European Union requires Member States to adopt common rules on minimum wage or mandatory collective agreements. Minimum wage in the economy is used as a tool for combating poverty

and social gaps, but also as an incentive to employment, being higher than unemployment or any other social allowance .

It will take at least five years before the average net wage in Romania will reach a level similar to that achieved in the countries of Central Europe in 2004, at the time of integration. At least this is what statistics and forecasts on the evolution of earnings show. Currently, the average monthly salary in Romania is 1751 lei, which would be the equivalent of 470 euros, according to the National Statistics Institute. In the European Union, Romania has the highest growth rate of gross wage. However, Romania still has much to achieve a decent level of this economic indicator reported in developed countries in the European Union.

Data on average hourly earnings and the cost of labor shows that currently, Romania levels of these indicators is quite similar to the data in some countries in Central Europe, 1996-1997. Thus, in Poland, in 1997, the labor cost was around 3.4 euro / hour, while in Hungary the level recorded was about 3.2 euro / hour.

On the other hand, taking into account the evolution of the average wage in our country, we can estimate the average hourly cost about 3.5 euros per person. This means that the price of labor in our country has reached a level similar to that of some countries in Central and West Europe in 1997. Furthermore, data published by the National Prognosis Commission show that in 2008, the GDP per capita was about \$ 5,400 (4,000 euros), quite similar to that in Poland in 1999. Also, at that time, the average net salary was in the range of 300 euros. Similarly, in Romania, the average net wage was in September of 2012 about 340 euros.

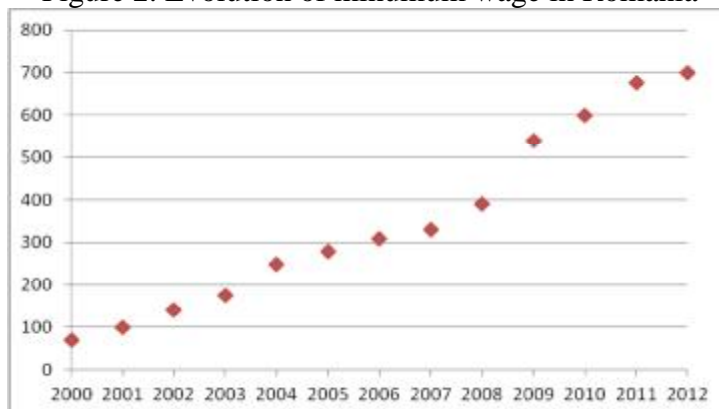
The average monthly wage in Germany reached 3,452 euros. This figure, pushed 12-month forward shows an excess of 195% of GDP per capita. Currently, France recorded an average salary of 2,440 euros, leading to an annual gain of 133% of GDP per capita. In the UK the average wage reaches 2,700 euros per month. In Austria, where GDP per capita exceeded 29.9% of salary, this is currently around 2,620 euros. Belgium has an average salary of around 2739 euros per month. In Spain, the average wage is 1,538 euros, so, unlike the other major western economies , this annual salary only goes up to 98.3% of GDP per capita. In Slovenia the average wage reaches 1,029 euros / month. The average monthly wage in the Czech Republic is 714 euros and the GDP per capita is 14 546 euros.

In Greece the average wage reaches 750 euros per month, while the average salary in Bulgaria was only 176 euros. In Hungary, the average salary is 646 euros, so that year a Hungarian employee received the equivalent of 61.5 % of GDP per capita, calculated at approximately 12 602 euro .

Croats are paid 82.7% of GDP per capita, at a monthly salary of 630 euros. Central and Eastern Europe has the poorest wage level. Although the new EU Member States achieving a higher growth rate of the old members , wage differences will be overcome soon. However, in the case of Romania, the period required to recover the gap will be even greater. Thus, based on current income situation and considering the evolution of wages and labor costs in Central European countries, we can say that in Romania it is possible that the net average wage to reach a level comparable to that of the Member States that joined the EU in 2004 (around 500 euros) only after 4-5 years.

In the past 12 years the minimum wage in Romania has undergone a considerable increase ranging from 70 lei in 2000 to 700 lei in 2012 (see figure 2).

Figure 2. Evolution of minimum wage in Romania



Source: www.insse.ro

In late October 2012 in Romania there were 4.3 million employees. Distribution of employees by the gross wages indicates that 5.0% of the employees who worked at least 23 days, full time, in October 2012 and were remunerated the minimum wage (700 lei) or less, 46.7 % of employees' gross salaries were between 701 and 1,500 lei, 32.1% between 1501 and 3000 lei, 11.0% achieved gross wages between 3001 and 5000 lei, while 5.2% had gross wages over 5000 lei.⁷⁴

Distribution of employees by the gross wages shows a concentration in wages below 2,000 lei, both among women (70.1%) and men (65.4%). Gross average wage base in October 2012 was 1828 lei for employees who worked 23 days of full and average gross salary realized was 2052 lei. Compared to the previous year, the average gross wage base increased by 6.3% and average gross realized wages by 6.8%.

Gross salary in October 2012 compared to October 2011 showed moderate increases in most economic activities except hotels and restaurants (-4.7 %) and other service activities (-0.3 %). The most significant increase in economic sector (excluding the following activities: public administration, education, health and social) were in the activities of administrative services and support services (13.0%), mining and quarrying (10.8%).

Since June 2012 GEO 19/2012 approving measures to recover wage cuts were applied. Compared with the same period last year, in October 2012 all budget sector activities registered increases of both the base salary and the salary achieved as follows: 12.5% in public administration and 12.6%, in education 9.1% and 9.7%, in health and social care by 8.1 % and 10.3%.

Average gross salary includes besides basic salary and a variable part consists of bonuses and additions as a percentage of salary or as a fixed amount.

Analysis of the relationship between basic salary and salary on activities, shows that the largest bonuses and additions are included in the following economic activities: mining and quarrying (35.5%), production and supply of electricity, gas, steam and air conditioning (28.3%), transport and storage (24.6%).

Average gross earnings of employees who worked at least 23 days full time was 2151 lei. Women earn on average 10.9 % less than men, making a gross average earning 2018 lei (versus 2266 men earned). Men are allocated higher average gross earnings than women in most economic activities, the largest differences being found in financial intermediation and

⁷⁴ Burghelea, C. (2011) "Economic Crisis perspective between current and forecast", *Theoretical and Applied Economics*, Vol. XVIII, No. 8, pp. 137-147.

insurance (38.1%), other services (33.5%) , manufacturing (30.8%), trade (23.4%), information and communication technology (16.0%), education (14.0%), health and social assistance (12.7%).

Distribution of average gross earnings by major groups of occupations shows that employees of one major group - members of the legislature, the executive, senior government leaders, managers and senior officials realized the greatest gains in all activities (4989 lei), with values between 2134 lei in hotels and restaurants and 9407 lei in financial intermediation and insurance. Lowest gross earnings are in the major groups of laborers and service workers (1092 lei and 1128 lei).

3. Conclusions

Unemployment is today one of the least embraced phenomena affecting the economy. Unemployment became a problem with industrial development, since the second half of the eighteenth century. In times of recession the industrial enterprises shrinking their production released a significant number of workers who became unemployed. Most often contemporary unemployment is addressed and analyzed as an imbalance of national labor market, as a place of encounter and confrontation between aggregate demand and aggregate supply of labor. The labor market does not function as a normal market both because of legal restraints (employers and unions) and the balance of forces between them. Contemporary labor market may find itself in the situation of balance or imbalance, ie underemployment or overemployment. Through social policies promoted by governments of all countries, the occupancy rate of the active population tends to get as close to full employment.

According to the opinions of various Romanian and foreign economists achieving a full occupancy is considered almost impossible, stating that satisfactory occupancy is 97-98 % and 2-3 % vacancy . Economic growth in conditions of high labor productivity is no longer able to create new jobs in order to ensure full employment .

Large imbalances manifest on the market segment of young labor force, which results not only in lack of jobs, but also in a professional training in conflict with the structure of labor market demand. There are also subjective reasons related to the retained behaviour of employers to recruit young people, either because of their lack of experience, either because of the fact that they do not fit in labor discipline. Economically there can be distinguished the negative consequences of unemployment nationally and at individual/family level.

The existence in Romania of a long-term chronic unemployment, which generated employment crisis, will require active employment policies aimed at micro and macroeconomic objectives. The main actions, measures to promote active policies are: organizing training courses for those who come on the labor market and desire proper qualification and qualification of the unemployed consistent with occupational structure of employment, economic stimulation through economic and financial levers, the expansion of economic activity by providing incentives to encourage investment in the development and economic growth, the creation of new jobs. All these measures to decrease the unemployment rate will improve quality of life.

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