

ASPECTS REGARDING THE MINIMUM WAGE

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ABSTRACT: *The right to a minimum standard of living is recognized as a fundamental right by all international human rights institutions. As far as the right to work is concerned, the decent living standard can only be fulfilled if there is a remuneration to ensure that the worker and his / her family, in return for their work, cover all acceptable (minimum) social, cultural, educational, health and professional development - this standard can only be guaranteed by developing mechanisms to provide the worker with a minimum wage. In this context, the paper aims to deal with a number of aspects of the minimum wage in the European Union.*

KEY WORDS: *minimum wage, living standard, employment, labour cost.*

JEL CLASSIFICATIONS: *J30, J31.*

1. CONCEPTUALIZATION

From a historical point of view, a precursor of modern laws on minimum wages can be found in the Ordinance of Labourers (1349), decreed by King Edward III, which established a maximum salary for workers in medieval England. Although the first laws were originally issued to limit the payment of labour, they became a form of living wage, representing the minimum amount a family needs to meet their needs. The first law on setting the national minimum wage was adopted by the New Zealand government in 1894, followed by Australia in 1896 and by the United Kingdom in 1909. The United States introduced such a law in 1938. In the Great Britain, the minimum income law was reintroduced and expanded in 1998.

Fulfilling the right to a decent living standard depends on a number of economic, social and cultural rights, including the right to property, labour, education and social security.

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The minimum wage is the lowest (hourly or monthly) amount that employers can pay, according to the law, for the work of the employees. Equally, it is the smallest amount with which any employee can sell his work.

The guaranteed minimum wage is the statutory wage that serves as a basis for calculation, from which it will be able to set wages to a level that can provide decent living conditions in conditions of stability and economic growth. In case of an unfavourable economic situation, this minimum salary is corrected.

Also, in relation to the minimum wage, we should also refer to the term "living wage" or "family wage".

Living wage is the minimum income needed for a man who works to satisfy his basic needs. This is not the subsistence level, which only takes into account the minimum biological level - which means shelter, clothes and food.

In some European countries, like England and Switzerland, the living wage standard means that a person who works 40 hours a week without any additional income must be able to afford the basic expenses for himself and his family (family size being, on average, 4 people). Basic expenses include food, utilities, transport, health expenses, a minimum of recreational activities, a course / year to improve their skills, childcare and legal fees. Expenditure on insurance, other taxes or interest on loans is not included. Specialists call it a family's "poverty line". [1]

The indicators that can be used to set the starting level of the minimum wage include those that minimize the risk of losing jobs, while maintaining business competitiveness at a similar level to the international one.

The indicators used are:

- economic conditions, measured by actual nominal output and gross domestic product;
- inflation;
- demand and supply of jobs;
- level of salaries, distribution and differences between branches;
- conditions of employment contracts;
- increasing productivity;
- the cost of labour;
- operating costs of business;
- number and trends of bankruptcy;
- the degree of freedom of business operation in that state (and the influence of corruption);
- the standard of living;
- average salary level.

Regarding the optimal value and dynamics of gross minimum wage in the economy, the International Labour Organization published in 1970 three fundamental principles for setting a decent minimum wage level - correlating it with the consumption needs of workers and their families / the minimum consumption basket; correlation with government targets on increasing employment and taking into account factors related to the need to increase productivity and growth.

2. PROS AND CONS MINIMUM WAGE

Although minimum wage legislation has been adopted in many countries (European and non-European), there are many differences in views on the benefits and shortcomings of establishing a minimum wage.

Introducing / raising the minimum wage has the following effects:

- improves the standard of living of people from poor backgrounds;
- stimulate consumption of goods and services, which leads to increased money circulation throughout the economy;
- encourages people to look for a job and engage in legal forms at the expense of informal employment;
- encourages employers' efforts to increase efficiency and invest in new production technologies;
- encourages workers to form, improve and go to better-paid qualifications and jobs;
- increases motivation to engage in employment, unlike other income transfer methods (various social benefits, unemployment benefits, etc.) that are not linked to employment;
- increase labour productivity - employers, who will have to pay more, will require better results from all workers;
- lowering the costs of government social assistance programs, unemployment benefits, subsidies, etc.;
- It is a way to increase the number of jobs and to improve family life – when wages are too low, workers will be tempted to work overtime or take a second job to provide the family with a sufficient income; if wages increase, then workers will be allowed to work in normal hours and spend more time with their family; this will lead to the creation of another (full-time or part-time) job, on which another person may be employed.

The promoters of this concept claim that legislative measures in favor of setting a minimum wage increase the standard of living of the labor force, reduce poverty, reduce social inequalities, increase motivation for work, and "force" businesses / employers to find solutions to make production more efficient.

A decent minimum wage is the surest way to provide low income people with a decent income, compared to methods related to any form of tax exemptions, social welfare, etc.

Opponents of introducing / raising the minimum wage argue that this has the following effects:

- can affect small and medium-sized enterprises more than large firms, as they will increase labour costs;
- if the increase in labour costs will be covered by rising prices, it can generate an inflationary process;
- reduces demand for jobs either by reducing the number of hours requested by an employee (correlated with a requirement to increase hourly productivity but also with a lower monthly wage), or by increasing the number of hours and reducing the number of jobs from companies;

- may lead to the exclusion of specific groups (ethnic, gender, age - especially young people and over 50) from the labour market;
- can discourage the education of those in poor environments by tempting them to enter the labour market before gaining a higher qualification. At the same time, it acts as a discriminatory factor towards the unskilled / younger, less experienced, young people, giving them a higher salary from the start instead of encouraging them to experience, possibly improve their training and to target higher-skilled jobs, later;
- determines the relocation of businesses / jobs to less labour-intensive areas / countries;
- may increase long-term unemployment.

Opponents argue that setting a minimum wage leads to increased poverty, unemployment (including falling wishes to work) and affecting business efficiency, thus leading to both the impoverishment of the working class, a reduction in private initiatives and the impoverishment of the class entrepreneurs.

Apart from the theoretical debate among economists about the role of labor market regulations, there is tension in the real world in adapting minimum wage policies to the various goals of government economic policies.

Firstly, minimum wage policy may conflict with an economic growth approach that encourages the growth of low-wage sectors or the support of low-value industries that may be important for regional income or as a mechanism to attract the unemployed labour market.

Secondly, the minimum wage can be perceived as a possibility to undermine a low inflation target when lifting the minimum wage is coupled with "ripple effects" that lead to higher salary levels. But the perception of this risk varies - the level of inflation risk depends on the minimum wage level and its interaction with the national wage setting model. [1]

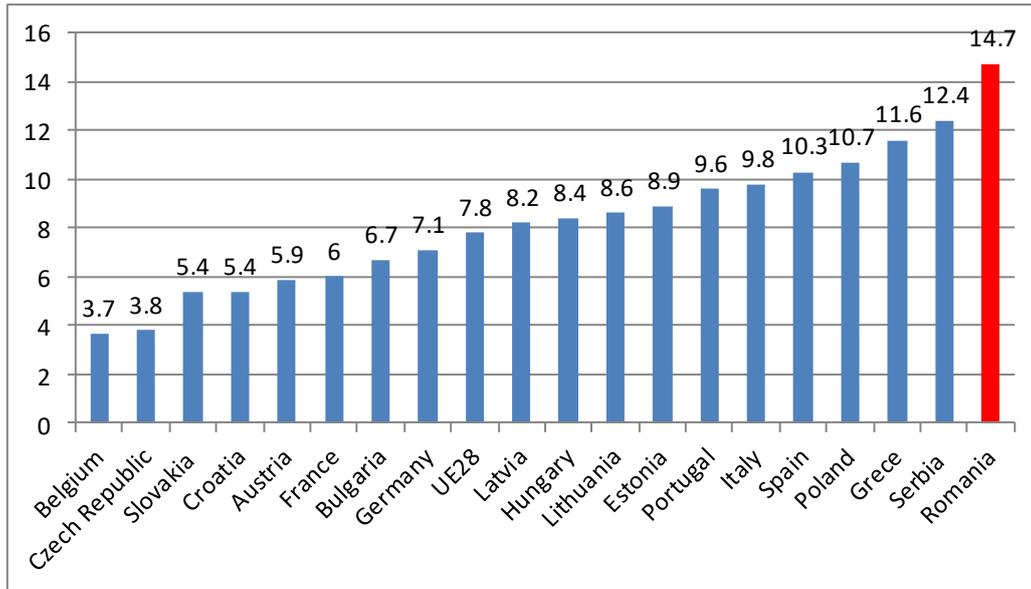
However, as impact studies conducted over the last 20 years have shown that the introduction or balanced increase of the minimum wage does not automatically lead to job losses and / or a significant increase in the prices of products or services, what how many economists claim that the minimum wage is a good balancing instrument.

3. ASPECTS ON MINIMUM WAGE IN THE EUROPEAN UNION

The intention of the European Commission is that all EU Member States introduce the minimum wage for their workers in an effort to combat social inequality and rising poverty. The Commission agrees that each Member State should be free to set its own minimum wage so that jobseekers should also have a guaranteed minimum level of income.

The need to introduce and increase the minimum wage is mainly motivated by the fact that full-time workers earn incomes below the minimum subsistence level or the minimum standard of living calculated at the level of the households of employees (even if they are full-time workers, they thicken the ranks of the population at risk of poverty and social exclusion).

Ensuring a decent minimum wage is all the more stringent in countries on the periphery of the European Union / candidate countries because they are countries with a full-time poverty rate well above the European Union average (Romania 14.7 %, Serbia 12.4%, Greece 11.6%, Poland 10.7%, Spain 10.3%, Italy 9.8%), while the EU 28 is 7.8%. (Figure 1) [4].



Source: Eurostat

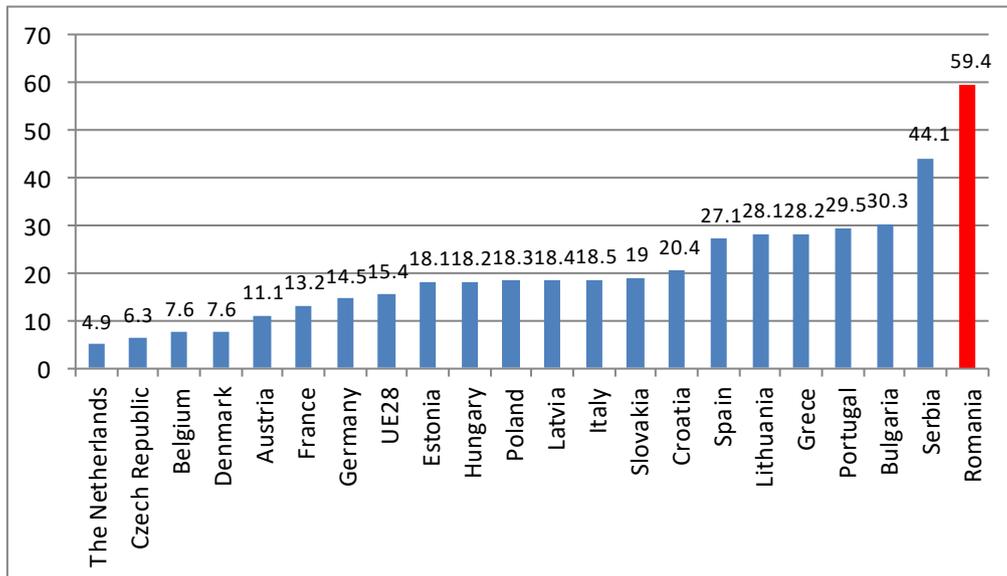
Figure 1. Share of employees at full poverty risk - full-time contracts (%)

The situation is even more worrying as regards the part-time rate of poverty among part-time workers, where Romania has 59.4% of the total at-risk-of-poverty rate, almost 4 times the average EU of 15.4%. Serbia has 44,17%, Bulgaria 30,3%, Portugal 29,5% and Greece 28,2% (Figure 2).

They are also countries where income inequality is sharply accentuated; for example, the Gini coefficient (poverty indicator), calculated on the equivalent disposable income, was 34.8 points in Estonia in 2015, 35.4 in Latvia, 37.0 in Bulgaria, 37.4 in Romania, 37.9 in Lithuania and 38.2 in Serbia, well above the EU-28 average of 31 points. [4]

Minimum wage systems vary considerably across the European Union. Some are defined for the entire workforce, others only apply to a part of the workforce. Some are relatively generous while others are relatively low. If trade unions are strong, minimum wages are often established through collective bargaining, usually depending on the sector. In this case, the minimum wage is higher.

If trade unions are weaker, governments often set a minimum wage level, regardless of the sector of activity. In these cases, minimum wages are not very generous.

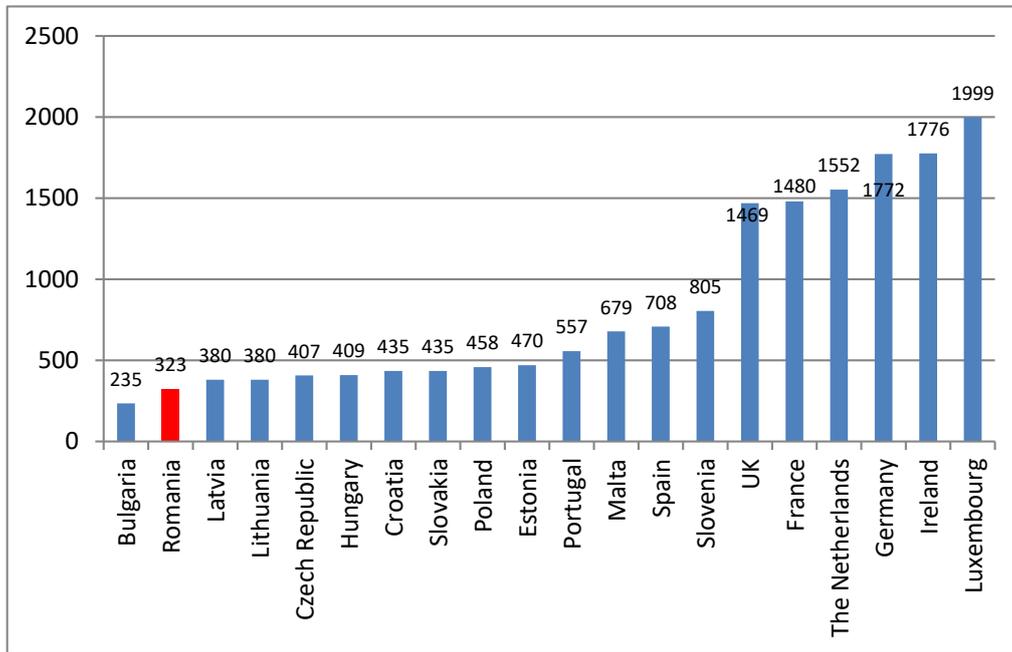


Source: Eurostat

Figure 2. Share of employees at risk of total poverty – partial time contracts (%)

At present, at European Union level, there are two categories of minimum wage, namely: the group of countries that have set a minimum wage by law and countries with minimum wages not established by national law, but they are formed through collective bargaining, through agreements, so that it may be different depending on the sector of activity, position, occupation, age, etc.

In countries that have a minimum wage set at national level, it varies between 235 euro per month in Bulgaria and 1999 euro per month in Luxembourg.



Source: *Minimum Wage Requirements within Europe in the Context of Posting of Workers, KPMG in Romania, 2017*

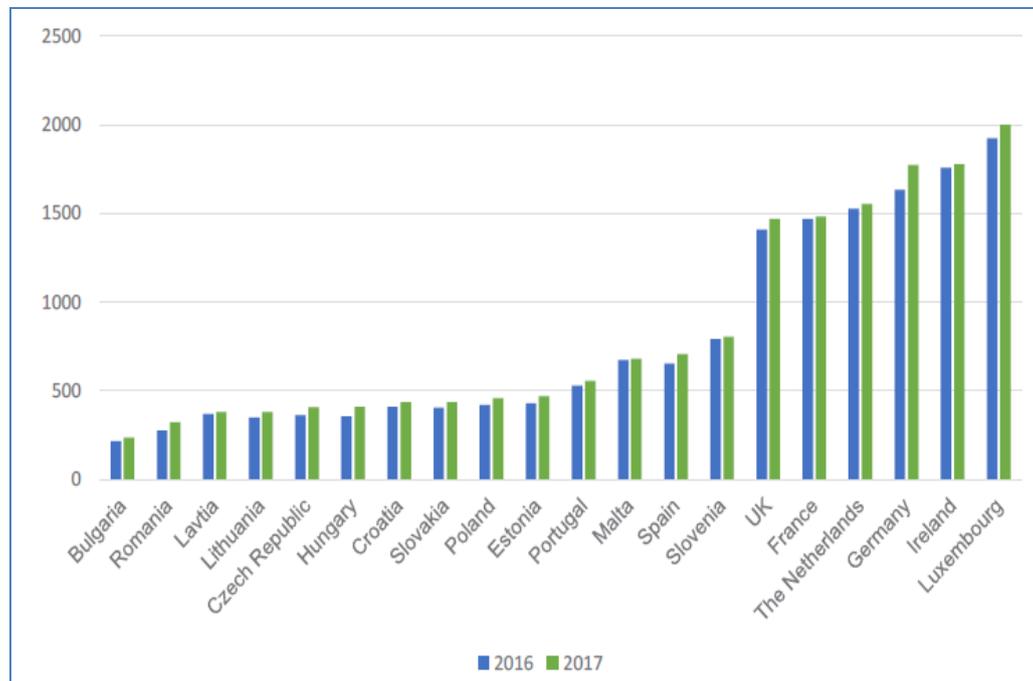
Figure 3. Minimum wage level in 2017 (euro)

EU Member States with the minimum wage set in the economy (in real terms equivalent to the euro) can be divided into 3 main groups:

- ❖ Minimum guaranteed salary of less than 500 Euro per month in 10 Central and Eastern European EU countries: Bulgaria (235 euro), Romania (323 euro), Latvia and Lithuania each 380 euros, Czech Republic (407 euro), Hungary 409 euro), Croatia (433 euro), Slovakia (435 euro), Poland (458 euro) and Estonia (470 euro);
- ❖ Minimum guaranteed salary between € 500 and € 1,000 per month in member states located in southern EU: Portugal (€ 557), Malta (€ 679), Slovenia (€ 805), Spain (€ 708);
- ❖ Minimum guaranteed salary of over € 1000 per month in the following EU member states of the northern and western EU: United Kingdom (1469 euro), France (1480 euro), Netherlands (1552 euro), Germany (1772 euro), Ireland (1776), Luxembourg (1999 euro).

Also, all countries that have fixed minimum wage in the economy have seen a minimum wage increase in 2017 compared to 2016, as can be seen in Figure 4:

However, we must remember that frequent changes to the minimum wage can have a major impact on employers, especially as it directly influences its costs. Employers must always be aware of changes in minimum wage requirements and adjust salary levels accordingly.



Source: *Minimum Wage Requirements within Europe in the Context of Posting of Workers, KPMG in Romania, 2017*

Figure 4. Minimum wage in 2017 compared to year 2016 (euro)

4. THE MINIMUM WAGE IN ROMANIA

In Romania, the minimum wage is the result of negotiations between trade unions, patronage, government. It is set at the economy level and is corrected to some extent by the inflation rate. Minimum wage economies remain largely driven by rising prices, and for this reason they provide modestly a decent living for living.

At the same time, Romania's labour resources are in a visible trend of reduction and precarriage, the population is aging and the labour reserves are located in real poverty poles, counties where the job offer is extremely low and the potential of the development of the area is generally directed towards poorly-engineered economic activities and, implicitly, with low added value.

In Romania, the minimum wage has been increased 12 times over the last eight years, and has grown much faster than the average productivity level, its share in the gross average wage in the economy rising from 27% in 2008 to 43% in 2016, as it may reach up to 48% this year and slightly above 60% by 2020. [6]

This dynamic confirms that consecutive increases in the minimum wage in the economy were achieved at a very fast pace, which was not sufficiently supported by the corresponding evolution of the average productivity at the level of the business environment. In this context, the competitiveness of the Romanian companies has suffered.

The table below shows figures for the evolution of the minimum and average wage across the economy.

Table 1. Minimum and average gross salary in Romania

Year	Gross average wages (lei)	Gross minimum wages (lei)	%
2008	2023	540	27%
2009	2023	600	30%
2010	2067	600	29%
2011	2209	670	30%
2012	2343	700	30%
2013	2430	800	33%
2014	2582	900	35%
2015	2880	1050	36%
2016	2918	1250	43%
2017	3034	1450	48%
2018*	3186	1900	58%
2019*	3345	2024	61%
2020*	3512	2208	63%

Source: National Institute of Statistics, processing
*estimated value

In this context, a number of sectors have experienced a steady increase in staff expenditure relative to total operating expenses. Thus, with the exception of the IT sector (where wage growth is recorded against the background of excess demand), the rest of the sectors record a significant share of employees paid at the minimum wage level.

According to a study by the National Institute for Scientific Research in the Field of Labour and Social Protection, the profile of the employee with the minimum salary can be outlined as follows:

- Male in the 35-44 age group and with an average level of education;
- He lives in the South-Muntenia and Bucharest-Ilfov regions;
- It benefits from an indefinite contract (96.8%);
- He has a working life of less than one year in small firms, 10-49 employees or 1-5 years of work in medium-sized firms;
- He is engaged in companies in the fields of: public administration and defence, insurance and social assistance; food industry; retail; mining, construction, manufacturing and transport industries; care staff; vehicle drivers and operators of mobile installations and equipment.

5. CONCLUSIONS

The minimum wage is the lowest amount that employers can pay, according to the law, for the work of the employees. Equally, it is the smallest amount with which any employee can sell his work.

The intention of the European Commission is that all EU Member States introduce the minimum wage for their workers in an effort to combat social inequality and rising poverty. The Commission agrees that each Member State should be free to set its own minimum wage so that jobseekers should also have a guaranteed minimum level of income. In Romania, the minimum wage is the result of negotiations between trade unions, patronage, government.

At present, some countries, such as Romania, have a single national minimum wage decided by the Government, while others have more than the minimum wage, set by collective labour agreements according to the field of activity, the occupied position and the employee's age. Some countries also provide a lower minimum wage for unskilled workers and higher for highly qualified workers.

At the level of the European Union, Romania occupies the penultimate place with regard to the minimum wage.

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