Economic Insights – Trends and Challenges	Vol. II (LXV) No. 4/2013	63 – 72

Remuneration in Romania, between Desires and Possibilities

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Abstract

The salary is the amount of money that the owner of workforce receives for his contribution to the achievement of labour as a factor of production. In a healthy economy, raising salaries should be made in the context of increasing work productivity. Otherwise, the gap between them would create a higher inflation, a lower competitiveness of enterprises leading to losing jobs.

Key words: *raising salaries, increasing work productivity, healthy economy, social cohesion, social protection*

JEL Classification: *J5*

Introduction

The salary represents both an economic and a legal category. Salary comes from the Latin *salarium***,** representing *"the amount of every Roman soldier for buying salt. The Roman soldier was a dependent man and he was given salarium according to his dependence. This term has been preserved in time and gained the sense of an income of someone who is dependent of another one, legally or economically."*[1].

Salary represents the consideration of the work of an employee based on the individual employment contract. According to the economic and financial dictionary, salary is the amount of money that the owner of workforce receives for his contribution to the achievement of labour as a factor of production. *"Salary, as a marginal product of the worker, represents the materialization of his physical and intellectual efforts at a certain level of activity – production."*[2].

If we consider that every activity is accomplished by achieving goods and services that, in market prices, turn into money, i.e. income, and that this is divided among all who have contributed to its achievement, salary is thus the income of those who have contributed through their work to obtaining the results concerned. In this context, where salary represents on one hand a cost and on the other hand, an income, it is shown that it depends both on the work itself and on the obtained results.

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[1] *** *Political econom,* Economic Publishing House, Bucharest, 1995, p.215
[2] C r e ţ u , A.Ş., *Flexibilitatea pieţei muncii,* A.S.E Publishing House, Bucharest, 2010, p.221

Salaries over Productivity

In a healthy economy, the rhythm of labour productivity increase must surpass the rhythm of salaries increase. Otherwise, the gap between them would create a higher inflation, currency depreciation, debt and lower living standards. In the last decade, according to data provided by Eurostat, labour productivity has doubled and population's earnings have grown almost five times, in nominal terms. According to a 2008 analysis of the International Monetary Fund (IMF) regarding remuneration in the new member states of the European Union (EU), in Romania, the imbalance between productivity and wage increase was mainly determined by *four factors*:

- the recovery imposed by the very low level of salaries;
- the massive deindustrialization that generated the loss of many jobs;
- the migration of Romanian workers to other countries that contributed to weakening the pressure of the demand of the labor market;
- relaxed wage policies practiced in the public sector that have generated pressure against the private sector regarding the growth of the salaries.

Against this unfavourable context, where politicians have helplessly assisted, a wage-price spiral was created, that ultimately contributed to declining the purchasing power and thus the living standards. An unjustified increase of wages above the level of productivity did not reach inflation because Romania has benefited from consumer credit and mortgage loan, which generated a huge current account deficit and thus an explosion of private debt and public debt.

In its studies, the National Bank of Romania (BNR) analyzes the correlation between wage growth and increase of productivity, especially in industry, because this represents the main "tradable" sector (marketable or exportable) and an increase of wage over productivity generates, besides inflationary pressure, a deterioration of the external competitiveness of exports, by increasing the unit cost by labour cost.

About Romanians' salaries, Mugur Isarescu, the governor of the National Bank of Romania, affirms that salaries can not take into account the desires of a better living but the productivity that must be compared with other countries' productivity, in order to draw the most realistic conclusions. All Romanian employees want decent salaries as those of other developed European countries, but few of those think that the salary they can obtain is the result of their work performance, coupled with the existent resources of the level of the national economy.

Table 1. Labour productivity per employee, during 2007-2011, in Europe, U.S.A. and Japan

Explanations	2007	2008	2009	2010	2011
EU 27	100	100	100	100	100
Belgium	127,7	127,1	127,9	128,6	127,6
Bulgaria	37,5	39,6	40	41,2	44,3
Czech Republic	76,4	74,1	75,9	73,8	74,1
Germany	108,4	108,0	104,3	106,1	106,6
Greece	95,5	97,7	98,2	93,3	90,1
Spain	103,2	104,4	109,6	107,9	108,5
France	115,6	115,4	117,3	116,5	116,6
Luxembourg	180,0	168,6	161,3	167,1	169,0
Hungary	66,6	70,7	72,4	70,9	71,1
Poland	62,3	62,4	65,5	67,4	68,8
Romania	43,4	49,2	49,4	48,5	49,2
Sweden	114,9	114,4	112,2	114,5	115,7
Great Britain	110,0	107,0	105,5	105,2	103,5
Croatia	67,4	67,2	69,6	70,4	71,4
United States (USA)	139,4	138,1	140,9	142,9	143,6
Japan	97,5	95,3	93,0	96,5	95,6

Source: Eurostat, 2012

Analyzing the data from the table above, we can draw the following *conclusions*:

- in the analyzed period, Romania has a productivity that is almost half the EU average, ranking on the penultimate place, ahead of Bulgaria;
- former socialist countries as Czech Republic, Poland, Hungary have a higher productivity than Romania;
- Croatia, a country wishing to adhere to EU, displays higher productivity than Romania;
- Romania's productivity is almost three times lower than in USA and almost two times lower than Japan's;

According to data provided by experts[3], in 2011 a Romanian's average net wage was of 356 euro, a Bulgarian had 311 euro, a Pole 632 euro, a French 2,139 euro, a German 2,154 euro, a Luxembourger 3,180 euro and the list could go on. Comparing these earnings to the data in Table 1 on labour productivity, we notice that in order to have higher wages, Romania must act in the direction of increasing labour productivity.

Pressure of Public Sector on Wage Growth

During the years preceding the economic crisis breaking out in Romania in 2008, the wage policy in the public sector was very relaxed and wage increases had surpassed the levels of the private sector. A 2009 World bank study shows that from December 2004 until December 2008 the government approved base salary increases on average by 86%, almost three times the inflation rate of the same period. According to statistics, in the European countries the level of remuneration in the public sector is 60%-80% of the level of the private sector, a condition that Romania does not comply with, there are also situations where public sector salaries exceed those from the private sector, by exerting pressure over them.

But not only base salaries from this sector increased rapidly, but also increments, bonuses and gratifications, which came to represent another salary in the meantime. This distortion in remuneration was the result of a thick, unclear and biased legislation that separately regulated the salaries of different categories from the public sector. The lack of performance criteria in establishing salaries in this sector resulted in decreasing the efficiency of the employees which determined their increasing number. In this context, it was reached the situation where there were people employed in the same jobs and with the same attributions but paid very differently.

During 2008-2012 the average nominal salary increased each year, as shown in the following table:

Table 2. Evolution of the average gross salary income in the period 2008-2012

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Year	2008	2009	2010	2011	2012
Public sector	2.217	2.223	1.988	1.931	2.058
Private sector	1.654	1.745	1.878	1.993	2.082

Source: National Bureau of Statistics

A comparative analysis of data on the evolution of the average gross salary income in the period 2008-2012 allows us to draw the following *conclusions*:

- the increasing trend of average gross wage in the public sector in 2009 compared to 2008 was interrupted by the economic crisis that determined its decrease between 2010 and 2011, followed by a slight recovery in 2012;
- during 2008-2010 the average gross salary in the public sector exceeded the average salary in the private sector, which has created pressure on the private sector;

[3] B u t a n , C., Financial Newspaper, 20.08.2013, www.zf.ro, Business International

- measures taken by the government in 2011 and 2012 decreased the average gross wage in the public sector, resulting thus in significant savings to the state budget;
- in 2012 we notice an increase of the average gross wage both in the public sector and in the private sector.

Implications of the Increase in Salary Earnings

During 2007-2012 the average gross wage on the economy increased from 1.410 lei in 2007 to 2.117 lei in 2012, according to data shown in the following table:.

Table 3. Evolution of the average gross wage on economy during 2007-2012

Explanations	2007	2008	2009	2010	2011	2012
Gross average wage on economy	**1.410**	**1.742**	**1.889**	**1.936**	**2.022**	**2.117**

Source: National Institute of Statistics

The minimum wage on the economy is the lowest value of the monthly wage that the country's law can afford to pay to the employees. Today the minimum wage on the economy is established in over 90% of world countries. In the Nordic countries there is no minimum wage on the economy but only some sectoral agreements between unions and employers, followed by an established wage.

In our country the wage on the economy increased from 390 lei in 2007 to 800 lei in 2013, which represents an increase of 2.05.

Table no. 4. Evolution of the minimum gross wage in Romania between 2007 and 2013

Explanations	2007	2008 (01.01-30.09)	2008 (01.10.-31.12)	2009	2010	2011	2012	2013 (01.02. 2013)	2013 (01.08. 2013)
Level of minimum wage	390	500	540	600	600	670	700	750	800

Source: National Institute of Statistics

A guaranteed increase of the minimum wage represents a favourable premise for stimulating the domestic consumption, as shown by professor Ovidiu Nicolescu, president of the National Council of Small and Medium sized Private Enterprises in Romania, [4] *"must be placed in the context of labour productivity because- in case of decoupling these two elements – we will face negative effects on medium and long term, such as increased inflation, decreased enterprise competitiveness…reduced exports...as well as a series of bankruptcies among small enterprises, which will lead to job losses for thousands of workers"*.

Based on data provided by the National Institute of Statistics (INS), labour productivity increased in 2009 compared to 2008 by 11.9%, in 2010, compared to 2009 by 17.8% and in 2011, compared to 2010, by 3.4%. In 2009 and 2010 labour productivity increased faster than salaries due to a significant reduction in the number of employees, as a consequence of the crisis.

According to data provided by INS, in the first 11 months of 2012 labour productivity in industry decreased by 2.3%, compared to the first 11 months of 2011, while the average wage increased by 5.4% in the same period. In this context, an average employee earned more but

[4] Increasing the minimum wage should be linked to the evolution of labour productivity, in *Monitorul de Galați*, March 4th, 2013

produced 2.3% less. This phenomenon is all the more concerning as *"it is the first time when labour productivity in industry decreases compared to the previous year"*.

In order to increase labour productivity, there are two main methods: the extensive and intensive ones. "*The extensive path involves increasing the working hours, mainly by shortening dismissals and removal of some legal holidays*." [5]The intensive path, more difficult in Romania over other countries, would increase the productivity per working hour by increasing the work performance.

In order to be correctly positioned among EU countries, we have taken into account the latest Eurostat data on GDP per employee, GDP per working hour, and working hours per employee for 2011.

Table 5. GDP situation per employee, working hour and working hours per employee in the euro zone

Country	GDP per employee %	GDP per working hour %	Working hours per employee %
E.U. 27	100	100	100
Euro Zone	108,6	113,2	95,9
Belgium	127,6	136,4	93,5
Bulgaria	44,3	44,3	100
Czech	74,1	66,8	110,9
Denmark	110,4	119,4	92,4
Germany	106,6	125,1	85,2
Estonia	68,0	58,3	116,6
Ireland	142,7	130,7	109,2
Greece	90,1	73,0	123,4
Spain	108,5	106,3	102,1
France	116,6	130,4	89,4
Italy	109,0	101,4	107,5
Cyprus	90,9	81,6	111,3
Latvia	62,4	52,8	118,2
Lithuania	64,8	57,6	112,5
Luxembourg	169,0	183,8	91,9
Hungary	71,1	59,9	118,6
Malta	94,8	66,7	142,1
Netherlands	111,6	133,3	83,7
Austria	116,7	115,9	100,6
Poland	68,8	59,7	123,5
Portugal	75,5	65,3	115,6
Slovenia	80,6	80,6	100,0
Slovakia	80,1	73,7	108,6
Finland	109,4	107,4	101,9
Sweden	115,5	116,2	99,4
Great Britain	104,1	105,9	98,3
Romania	49,2	43,1	114,2

Source: Eurostat, data for 2011

Regarding the *GDP indicator per employee* we find that the best position is occupied by Luxembourg (169.0%), followed by Ireland (142.7%) and Belgium (127.6%) and from the former socialist countries, the top three positions are held by Slovenia (80.6%), Slovakia (80.1%) and Czech Republic (74.1%), Romania having only 49.2%, less than half of the EU average 27.

[5] Pălăngean, D., Trecerea pragului de jumătate din productivitatea UE – provocare pentru România.Calea de urmat,*Economistul* Magazine, no.8 (108)/2013, p.18

Regarding the *GDP indicator per working hour*, the best performing countries are Luxembourg (183.8%), Belgium (136.4%) and the Netherlands (133.3%), while from the former socialist countries, the top three are Slovenia (80.6%), Slovakia (73.7%) and Czech Republic (66.8%), Romania having only 43.1% of the EU average 27.

Regarding *the working hours per employee indicator***,** we notice that in the developed countries work can be better even if it is less, the top three being the following: the Netherlands (83.7%), Germany (85.2%) and France (89.4 %). In the former socialist countries there are more working hours than the EU average, as follows: Poland (123.5%), Hungary (118.6%), Latvia (118.2%), Estonia (116.6%) and Romania (114.2%).

In order to claim higher salaries that can bring us closer to the developed EU countries, we must act in the direction of intensive labour productivity growth, which will allow us to obtain a higher GDP per employee.

Developing the Middle Class Promotes Social Cohesion

The economic crisis that the world is facing today affects different layers of population due to inequality as reagrds the income. In order to measure the inequality of distributing incomes, most experts use the Gini coefficient that indicates the proportion of national wealth owned by a certain part of the population. Number 0 of this coefficient shows that all citizens of a country have the same income and number 1 shows that the national wealth is concentrated in one person only. Given this statement, we can notice that, when entering the EU, Romania had a coefficient of 0.31 and it stood around the average of the European states. A coefficient of 0.25 is found in more developed countries, such as Denmark, Belgium and the Czech Republic, which shows a level of inequality lower than Romania's. On the other hand, in countries such as France, the Netherlands and Switzerland (non-EU country) we found a coefficient of 0.33 which shows a higher level of inequality than in Romania. This situation amplifies in countries like Italy and Great Britain where the coefficient is 0.36 and rises rapidly in countries like China and Russia, where the coefficient is 0.45. In order to get a clearer picture regarding the significance of these figures, it should be noticed that a Gini coefficient of 0.50 shows that a quarter of a country's population owns three quarters of national wealth and the remaining three quarters are owned by the remaining part, a quarter of population.

In Romania, the evolution of this coefficient was of 0.28 until 1998 and increased continuously to 0.29 in 1999, 0,30 in 2000 and 0,32 in 2008, indicating an increasing social inequality. The economic crisis accelerated this phenomenon, thus in 2012 the coefficient increased to 0.36, a situation which places us at the top of the European countries regarding the inequality of income distribution. In order to counteract this phenomenon that leads us to rough capitalism in which an increasingly small part of the population owns an increasingly large part of the national wealth, all actors of the economic environment, such as businessmen, investors, governers, unions, must develop a set of realistic measures to make possible increasing the number of those in the middle class. This class can be a bridge between the rich and the poor, to mitigate and prevent a social explosion, resulting from the combination of a large mass of underprivileged and a thin layer of enriched. To achieve this goal, decisive action is needed to stimulate the middle class and wealth accumulation through highly qualified personal work that is properly paid[6].

[6] Labour productivity fell last year for the first time in 12 years, Business dox.ro, January 30, 2013

Romanian Increased Wages Are below the EU Ones

Starting in 2007, when Romania joined the EU, the monthly minimum gross increased from 390 lei, 114 euro respectively, in 2007, to 770 lei, 175 euro respectively in 2012.

Table 6. Evolution of minimum gross wage on the economy on the economy during 2007-2012 - lei/euro-

Explanations	2007	2008	2009	2010	2011	2012
Minimum net wage on the economy	390/114	540/147	600/142	600/142	670/160	770/175

Source: National Institute of Statistics

According to data provided by Eurostat, published in February, 2012 in România[7], in 2011 *Romanian employees had minimum wage of 160 euros/month, which puts them second to last in EU, ahead of Bulgarians who have a minimum wage of 138 euro/month. In this top, Hungary has 296 euros/month, the Czech Republic has 310 euros/month, Poland has 336 euros/month, Portugal has 566 euros/month, Spain has 748 euros/month, Great Britain has 1.202 euros/month, France has 1.398 euros/month, and on the first place is Luxembourg with1.801 euros/month.*

Experts say that Romanians are the least productive, relating to the cost of labour, in the sense that they generate among the less gross incomes for each euro, dollar or leu received from the employer. According to a 2012 PWC Saratoga study, this affects Romania's competitiveness and attractiveness as a destination for investment. This study shows that head profitability decreased by 9% in 2011, marking the second consecutive decrease after a reduction by 12 % in 2010. At the same time, labour costs reported to total costs of enterprises increased from 10,13% in 2010 to 11,45 % in 2012.

European Strategy on Employment

Modern economies are based more on knowledge than on raw material. In this context, in order to meet the emergent competition, Europe must create jobs that a dynamic society needs, based on knowledge. For this, it is necesary to invest in education and in employment policies, in order to keep pace with changes in the global economy.

To exploit the benefits of the knowledge economy for creating more jobs, thus increasing the social cohesion, it is necessary for Romania to apply a set of coherent measures, developed by experts and supported by all actors of economic environment, represented by the parliament, government, businessmen, unions, employees.

In order to efficiently use the labour force, EU countries must find a balance point between the stimulation of competition between the member staes and providing social cohesion. In this context R. Jolly, coordinator of the 1999 Human Developing Report, cited by experts, thinks that "*until now, people have been too rushed to gain market profitability and economic efficiency. Time has come for human development and social protection to enter the equation.*[8]"

European strategy on employment is based on *Strategy Europe 2020* and represents a reaction of the European Commission to the high level of unemployment, being supported by the *European Observatory on Employment and Mutual Learning Programme*. To this end, in April 2012 the Commission launched a set of measures regarding employment which aims to achieve the following *objectives*:

- to support creating jobs by:

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[7] V î r l a n , C., *Harta salariilor minime in U.E.*, 21.02.2012, www.gandul.info

[8] C r e ț u , A.Ș., *Flexibilitatea pieței muncii,* A.S.E Publishing House, Bucharest, 2010, p.238

  - reducing taxes of the workforce;
  - efficient use of employment subventions;
  - exploiting the potential key-sectors such as green economy, information technology, healthcare;
- to re-establish the dynamics of the labour market by:
  - supporting workers who want to change jobs or to reintegrate on the labour market;
  - mobilization of all those involved in implementing necessary reforms,
  - investing in skills based on better anticipation and monitoring of the market's needs;
  - promoting the free movement of workers.
- to strengthen governance in the employment policy by:
  - improving their monitoring along with the member states;
  - guaranteeing that the social aspects and those related to employment receive the same attention as the economic ones.

Romanian Strategy in the Field of Employment

Austerity programs implemented in Romania had the effect of increasing social polarization (in the sense of enriching those with high incomes and impoverishing those with low incomes), by reducing wages, freezing pensions, increasing taxation, socializing the costs of financing banks affected by the financial and economic crisis.

In order to overcome this situation it is necessary to reconsider the strategy of economic development and employment by:

a) stimulating employment in the private sector by reducing taxes and social contributions and by simplifying the rules for setting up new businesses;
b) the consolidation of the budget by cutting public spending;
c) encouraging economic recovery based not on credit expansion, but on the accumulation of capital resulted from actual savings and on the reinvestment of profits by private companies;
d) stopping the socialization of bad investment costs, including in the financial sector.

It requires a clear program of economic recovery, focused on supporting the development of SMEs by creating internal facilities of subsidized crediting by the joint contribution of banks and the public sector but also by using the financing possibilities of the Community funding.

At the first level one could establish a bank or a development fund that could take over this role (following the model of KFW in Germany) to help increase the absorption rate of EU funds. Another model is provided by France, where a *sovereign investment fund* allocates resources for:

a) SMEs participating in a national development program;
b) medium-sized enterprises that have a high potential for value creation;
c) medium-sized enterprises that activate in changing sectors.

The Romanian sovereign fund could be created with the money from listing of stakes in energy companies, airports, marked increase in the rate of royalties for the extraction of soil and subsoil deposits. The sovereign investment fund will have an investment policy focused on two coordinates:

a) investments made by buying shares of powerful companies in Western Europe and the United States engaged in significant activities in Romania so that our country regains its proprietary strategic resources;
b) the yields obtained from the previous mentioned investments to be reinvested in Romania by participating in initial public offerings of Romanian companies that are listed on the Bucharest Stock Exchange (BSE).

*On the second level***,** stimulating the economic development and creating new jobs require the recovery of the capital market by:

a) granting tax incentives for companies that are listed;
b) creating a special section in BSE for the listing of very small companies wishing to obtain financing;
c) significantly reducing or even eliminating taxes on profits derived from transactions on the capital market, given the low level of domestic capital market

Last but not least tax evasion must be fought because it led to the misappropriation of huge funds from the public budget in favour of small groups of people and it affected the development potential of Romania. According to estimates made by the Romanian Intelligence Service (SRI) in 2012 tax evasion amounted to 28% of GDP (over 30 billion euro), implying indirect taxes (VAT, excises), direct taxes (income tax, dividends, income from salaries, etc.) and social contributions of individuals and companies.

Drastic reduction of evasion involves both the adoption of a law on strict control of wealth and income of all natural persons, but especially the reorganization on other bases of tax and customs control, of registration of enterprises and their financial and accounting reports. In this context we need to consider the implementation of measures recently announced by the European Commission among which we recall the introduction of a transnational identification code and a charter of the EU taxpayer.

The Provisions of the Covenant for Economic Growth and Jobs on the Community financing for investment and employment provided by SMEs indicate the possibility of using funding provided by the European Investment Bank and by the European Investment Fund, but also the substantial support for research and development for the new enterprises and innovative SMEs, through the future Program for business competitiveness and SMEs (COSME) and through *Horizon Program 2020*, which will contribute to accessing the financing for innovative SMEs.

Conclusions

Joining EU in 2007 meant for Romania an opportunity and a means of increasing the life standards of citizens along with the European citizens. The fact that Romania has currently a GDP per capita below the European average "*highlights the need to efficiently use its own resources and community funds to actively stimulate the foreign and domestic investments."*

In order to create a favourable climate to the business environment to help attract foreign investors, Romania should focus on modernising the infrastructure, adapting education to the new requirements of the business environment, revigorating research and innovation, focusing on the practical applicability results. Also, priority should be given to developing agriculture and rural areas, taking into account the favourable natural conditions that Romania possesses in this sector. In order to achieve these objectives that can contribute to a more efficient workforce and thus to increased work productivity and salaries, it is necessary for Romania to apply the EU fundamental principles and values: solidarity, unity and spirit of compromise.

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