ANALYSIS OF WAGE SYSTEM AND LABOR COST IN THE EUROPEAN UNION

Prof. Constantin ANGHELACHE PhD *(actincon@yahoo.com)*
Bucharest University of Economic Studies / „Artifex" University of Bucharest
Assoc. prof. Mădălina-Gabriela ANGHEL PhD *(madalinagabriela_anghel@yahoo.com)*
„Artifex" University of Bucharest
Doina BUREA PhD Student *(doina.burea@yahoo.com)*
Bucharest University of Economic Studies

Abstract

In this article, the authors start from the importance of the labor force in the production activity of each country. At EU level, it is important to ensure that labor force skills are improved so as to ensure the best possible use. The pay system is essential in attracting workforce into the system of producing goods and services. Salaries depend on the capacity of each economy, both for people working in the budgetary system and in the private system, to ensure convenient wages, and in this way the European Union seeks to achieve, as far as possible, a close approximation of the level of pay in the countries of the European Union . In this analysis, the authors look at the concrete conditions in the European Union, analyze the purchasing power parity as an essential indicator in assessing the quality of life in each country, and concretely determine what the situation and prospect in each country is to achieve an improvement quality of life. An element of analysis over which the authors have stopped is represented by the minimum wage in the economy and especially the extent to which this minimum wage is used in the European Union as a whole, as well as in the Member States of the European Union. The examples given are sufficient to understand that the minimum wage level in the national economy must be correlated with the number of employees in a country, of those employed in this category. There are countries, among which Romania, where out of the total number of employees, over 35%, still receive incomes that are at the minimum wage level in the economy. In this regard, we must also note that the European Union's strategy, although it provides some directives in this respect, is differently implemented in some Member States. In the case of Romania, we are still aware of the difficulties that exist with regard to the wage law that is likely to be approved and will come into force on 1 January 2018, but which still raises controversy. There are countries where the general government policy is geared towards either a social policy, support for people with low incomes, to provide some revenue growth opportunities, and so on, and countries that have exceeded this threshold. However, a social

policy has at least a short-term effect on reducing the volume of investments that create new jobs and provide higher wages, leading to higher wages, but still maintaining higher unemployment.
Keywords: *wage, social policy, income, investment, job*
JEL Classification: J31, O15

Introducere

The use of labor in a national economy is a decisive factor in the medium and long term development of the economy. The workforce is stimulated in the workplace both to look for places but also in the prospect of trying to achieve high efficiency and productivity. From a business point of view, the workforce has a cost that includes not only the income and wages paid to workers but also non-salary costs such as social contributions, accident contributions and other similarly similar contributions but differentiated from one country to another. In general terms, it is pay that provides employment on a satisfactory level and creates the prospect of improving the professional quality of the workers concerned. In the free market economy the labor force is the one that meets in the labor market with the job offer. A key element of the individual labor cost is their level of performance, the employer's efficiency and, last but not least, the prospect of professional promotion. From this point of view, it is also appreciated to study the level of labor cost. When we say „labor cost", we mean the total costs of an employer for each employee and total employees, including not only salary as part of income, but also incentives, other employer contributions in the social field, accidents and other items which may lead to an increase in costs.

Literature review

Anghel and Anghelache (2017) analyzed the labor market in the Member States of the European Union by carrying out a comparative employment survey in the EU Member States and other countries with high economic potential in other geographical areas. Anghelache, Anghel, and Solomon (2017) studied the main effects of migration on labor resources. Burda and Hunt (2011) addressed issues related to employment and unemployment in Germany. Chen, Kacperczyk, and Hernn (2011) investigated the role of operating capital cost flexibility in establishing the labor market. Dube, Lester and Reich (2010) have used a local identification strategy that takes advantage of all the minimum wage differences between certain regions. Gomez-Puig (2008) studied the reasons for the adjusted spreads of sovereign securities in the euro area over Germany. Hili (2016) compared a series of globalization scenarios and considered them to improve global social well-being and that a choice of countries ,co-operation in a globalization scenario would lead to Goods' Mobility - the mobility of goods. Jorgenson and Slesnick (2008) proposed an econometric model of aggregate demand and labor supply, using microeconomic data from consumer spending surveys, supplemented by price information obtained from the consumer price index. Majlesi (2016) has shown that labor demand shocks that change women's opportunities on the labor market compared to men's health affect children's health outcomes in the same way that they affect the relative power of women in decision-making. Moreno-Galbis and Tritah (2016) have developed a model applied to 13 European countries demonstrating that the occupancy rate of natives is increasing in occupations and sectors that receive more immigrants. Rogerson (2008) presented key points on the evolution of labor market outcomes in Europe relative to the US. The Hall, Soderstrom and Trigari (2008) have shown that the inflation / unemployment compromise faced by monetary policy makers is important in quantitative terms.

Research methodology, data, results and discussions

In our country, we are at the very moment when a change in the cost of labor is attempted through a financial-wage artifice. We know that the new tax law includes a provision that refers to the fact that starting with 2018, the employer's obligations to the employee's obligations are transferred from the payment of all tax liabilities to the state.

The measure itself is questionable on the basis of interpretation. On the one hand, skeptics, and especially those with the obligation to do so, object to the fact that they do not increase wages, only a burden on the conditions and accounting activity of economic agents is made. On the other hand, the shift to this cumulative system of tax collection to the state budget is interpreted as an action that would stimulate and preach the idea of wage growth. A more in-depth analysis shows that this measure, with not very different effects, can influence the increase in the contribution of each employee, which will give him the prospect of a higher pension and an increase of 3-4% in the net salary. This is a peculiarity of Romania which is also practiced in other countries.

Concerning wages and labor costs, we mean that on average the EU-wide hourly cost in 2014 was 25.3 euro / hour, rising to 29.50 euro / hour in 2015. There are countries that are well below this level, but and countries that have a much higher share of these labor costs. We find that in the European Union of the 28 states in 2015 the cost was 25.3 euro / hour, and in the first 19 countries of the European Union was 29.5 euro / hour. Countries with a cost and, consequently, much higher income are Denmark with 41 euro / hour, Belgium with 39.5 euro / hour, Sweden, Luxembourg, France, the Netherlands, Finland, Austria, Germany and Ireland, all with over30 euro / hour. There is an average revenue group, including Italy, Britain or Spain with over 20 euro / hour. In the group starting with Cyprus and ending with Bulgaria, the level of hourly labor cost is between 4 euro - Bulgaria and 14 euro - Cyprus. So, from the point of view of Romania, the labor cost is less than 5 euro / hour.

Here is a presentation model from which it is very clear why in the European Union and especially in European and international comparability there is the question of not the salary or the labor cost in determining the quality of life but the indicator „ purchase". Extending this assessment, we show that Purchasing Power Parity and Gross Domestic Product per inhabitant are fundamental indicators to be taken into account in ensuring real and consistent comparability among the EU Member States.

The cost of work is given by payments for income and wages plus non-salary costs of employees. I mention the two categories because there is a close correlation between them. Thus, the share of non-salary costs in the total economy of the European Union accounts for 24% of total costs, and in total Europe 26%, including the Member States of the European Union.

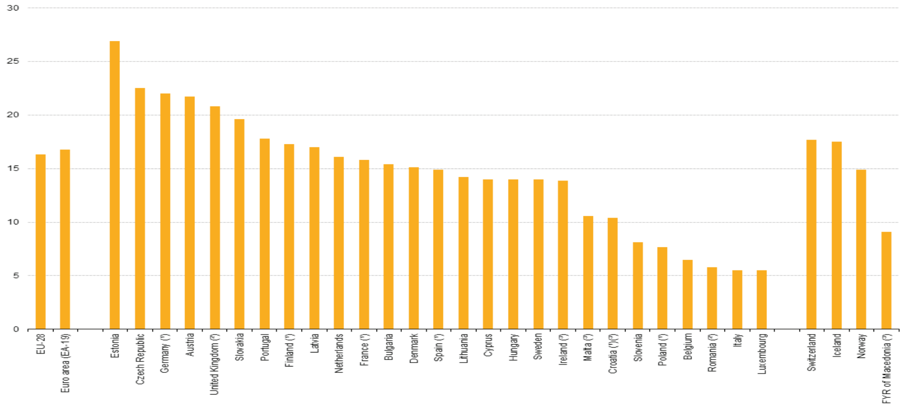
Long-term earnings for employees must be viewed in a rigorous manner in that one third of the national income of each country, on average on the European Union, is allocated to the income and salaries of the staff employed.

In 2015, the concept we use shows that the gender pay gap has tended to decline. Here we are talking about equal rights and the fact that equal pay for men and women must be equal to equal qualifications and jobs. The European Union has a directive that focuses precisely on this approach to working conditions, employment in the economy, salary and income payments, and especially the need for unconditional access to the two categories, men and women on an equal footing.

In 2014, the average earning of women was 16.1% lower than that of men. The smallest difference was in Slovenia, Malta, Italy, Poland, Luxembourg and Belgium where this difference was less than 10%. The biggest difference was recorded in Estonia - 28.3%, Austria - 23.9%, Czech Republic - 23.1%, Germany - 21.6% and Slovakia - 21.1%.

The gender pay gap in the European Union in 2015

Chart no. 1



Note: enterprises with 10 or more employees. NACE Rev. 2 Sections B to S excluding O. Greece: not available.
(1) Provisional.
(2) Estimate.
(3) 2014.
Source: Eurostat (online data code: earn_gr_gpgr2)

Source: Eurostat – Statistics Explained

Analyzing the previous chart showing the difference between the average gross hourly earnings of male and female employees as a percentage of gross male earnings, unadjusted, we find that Romania is in a positive position, with only a difference 10% between men's and women's wages. There are a number of other countries, such as the Czech Republic, Germany, Slovenia, Spain, the United Kingdom, Finland, who have too high a weight of wage differences that exist between men and women.

An important element of analysis is the minimum wage on the economy. In January 2016, 22 out of the 28 countries of the European Union, Denmark, Italy, Cyprus, Austria, Finland, Sweden were exceptions given the high level of their minimum wage in the economy. The lowest monthly wage in January 2016 was recorded in a number of countries, of which Romania is the last one, with less than 500 euros a month, on average on the economy and, of course, Bulgaria, Lithuania, Latvia, the Republic Czech, Estonia or Slovenia. We find that in this group of countries, if we add to Slovakia, Croatia and Hungary, there are eastern European countries that later entered the European Union. The minimum wage level of the national economy must also be correlated with the number of employees out of the total employed in a country that is in this category.

Another necessary analysis is to see the relationship between the minimum wage level for employees in the total national economy income. In Slovenia, 51.3% have this salary, in Greece 59%, in Turkey 50% but the most difficult ones in this category are the countries that later entered the European Union. However, Romania is in a good position, meaning that only 38% of the number of employees in the economy have this salary and with very high shares, besides Slovenia and Greece there are also France, Luxembourg, Hungary, Poland, Portugal , Belgium, Malta and Lithuania.

Here is a complete analysis that takes into account the minimum level of salary in the national economy, which is important in terms of assessing the standard of living in one country or another.

Conclusion

Concluding, we can assume that wages, labor costs and the minimum wage in the economy are three essential elements to be taken into consideration when we appreciate the quality of life in a European Union country or another. Of course, this analysis can be extended by considering the European Union as a whole or even other states with significant international economic potential. Some conclusions are drawn from the analysis.

Firstly, the European Union has set an evolving agenda for the period from 2020 to 2030, so that there are two aspects: on the one hand, raising the minimum wage levels in the economies of the member countries in an attempt to balance the cost of labor and wages ; on the other hand, the need for countries lagging behind from this point of view to make their own efforts or in association with the other Member States to recoup the differences that separate them from high-level states in this area;

The second conclusion we can draw from is that if the living standard depends on the level of income, materialized in wages, non-wages and other social benefits, additional investments need to be created to create jobs, then a conversion professionalism that will provide additional income by increasing the quality of work and qualifications and, last but not least, cooperation in the intra-community project accessible to as many countries as possible in this European economic community.

For Romania, the conclusion is clear: Community funds must be accessed more efficiently, foreign investments must be attracted, and last but not least, the qualification of the labor force on the structure of the national economy so that, in particular, the young generation should have access to the labor market and then progress in concrete work carried out;

One final conclusion would be that discrepancies that separate Member States from the point of view of wages, labor costs and minimum wage will make it difficult for the countries that have joined the last batches to evolve to European Union standards.

References

1. Anghel, M.G. and Anghelache, C. (2017). Analysis of the labor market in the Member States of the European Union. *Romanian Statistical Review, Supplement*, 11, 13-22
2. Anghelache, C., Anghel, M.G. and Solomon, A.G. (2017). The Effect of Migration on Labor Resources. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 7* (3), 6-13
3. Burda, M.. and Hunt, J. (2011). What explains the German labor market miracle in the Great Recession?. *Brookings Papers on Economic Activity*, Spring, 273–319
4. Chen, H.J., Kacperczyk, M. and Hernn, O.M. (2011). Labor unions, operating flexibility, and the cost of equity. *Journal of Financial and Quantitative Analysis*, 46, 25 – 58
5. Dube, A., Lester, W. and Reich, M. (2010). Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties. *Review of Economics and Statistics, 92*, 945 – 964
6. Gomez-Puig, M. (2008). Monetary integration and the cost of borrowing. *Journal of International Money and Finance*, *27* (3), 455-479
7. Hili, A., Lahmandi-Ayed, R. and Lasram, H. (2016). Differentiation, labor market and globalization. *The Journal of International Trade & Economic Development, 25* (6), 809-833
8. Jorgenson, D. and Slesnick, D. (2008). Consumption and Labor Supply. *Journal of Econometrics, 147*(2), December, 326-335
9. Majlesi, K. (2016). Labor market opportunities and women′s decision making power within households. *Journal of Development Economics*, 119, 34-47
10. Moreno-Galbis, E. and Tritah, A. (2016). The effects of immigration in frictional labor markets: Theory and empirical evidence from EU countries. *European Economic Review*, *84*, pp. 76–98
11. Rogerson, R. (2008). Structural Transformation and the Deterioration of European Labor Market Outcomes. *Journal of Political Economy*, 116, 235–259
12. Sala, L., Soderstrom, U. and Trigari, A. (2008). Monetary policy under uncertainty in an estimated model with labor market frictions. *Journal of Monetary Economics*, 55 (5), 983–1006
13. *** http://ec.europa.eu/eurostat; European Statistics