
SOCIAL POLICIES AROUND THE MINIMUM WAGE IN ROMANIA DURING THE COVID-19 CRISIS

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Abstract: *Given the current circumstances regarding the economic difficulties and uncertainties caused by the Covid-19 pandemic, the study of the evolution of the minimum wage is important in order to perform a radiography on the main trends, opportunities and problems in related social policies. The first and second part of the study bring upfront the importance of public policies on the minimum wage for ensuring a decent living and motivation of employees, for creating equal opportunities or access to the necessary resources for the poor. Through secondary data analysis, the third part of the study focuses on the impact of the Covid-19 crisis on the changes in the minimum wages in Romania compared to other countries in the Balkans, as well as the recent evolution and correlation between the minimum wage and the present situation of employment from the labor market in Romania. The last part offers conclusions in order to clarify several problems aiming at the minimum wage policy under the impact of the Covid-19 pandemic. One of the main limitations of the study was the multitude and complexity of the uncertainties related to the current pandemic context regarding the effects of the progress of the minimum wage at national and international level.*

Keywords: *minimum wage, Covid-19 crisis, employment, public policy, social economy*

1. Introduction

The research of minimum wage policies is important in order to understand the impact that the increases or decreases of minimum wages have on employment (Clemens, 2021). The Covid-19 pandemic has generated unprecedented socio-economic changes both domestically and internationally, while also revealing vulnerabilities of individuals

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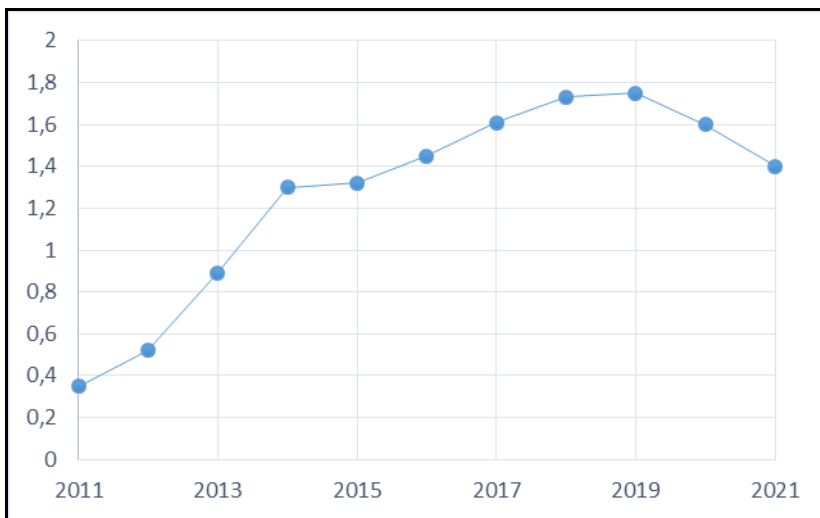
and societies (Medrano et al., 2021; Pascaru, 2021; Rosca, 2021a, 2021b; Tomescu, 2021). Specifically, the needs to protect employees and to help reduce social inequalities were outlined by establishing a minimum monthly income considered as decent. In this note, in November 2021, the European Parliament addressed a negotiating mandate for the establishment of a minimum wage of 60 percent of the average gross salary, that would allow for a decent living, designed to cover the expenses and necessities of daily life (Council of EU, 2021). At the European level (EU-28), approximately 10 percent of full-time employees are exposed to the risk of poverty (Almeida and Santos, 2020; Stanciu, 2018), while in Romania approximately 20 percent, especially those who are employed part-time (Ilie, 2017; Neagu, 2015). Romania has witnessed a staggering 400 percent increase of labor contracts on minimum wage in only eight years, from 0.35 million minimum wage contracts (7.7 percent of all labor contracts) in 2011 to 1.75 million in 2019 (31.5 percent of all labor contracts) (Guga, 2021: 6). It is claimed that the increases of the minimum wage versus the social welfare assistance have encouraged people to seek a job and get employed: the minimum gross salary was 2,300 Lei in December 2021 (Bălan, 2021), an increase of 243 percent compared to the 670 Lei exactly one decade ago (Cornea, 2021). Under such circumstances, it should be no wonder that the supply for labor in exchange of even minimum wages has increased. At the same time, a growing number of employers (including foreign direct investors) create job opportunities paid by the minimum wage (ibid).

Through the revised European Social Charter, Romania is committed to ensure a decent level of the minimum wage which, in theory, should support an increase in the quality of life of employees, as well as their motivation to stay in work (European Parliament, 2021). Furthermore, according to the Social Progress Index 2021 Study, conducted by the nonprofit organization Social Progress Imperative with the support of Deloitte, Romania ranks 44th of 168 countries, in terms of peoples' quality of life (78.41/100 points) (Deloitte, 2021). The Covid-19 pandemic had a major impact on the labor market and, implicitly, on the income of the population, radically changing the opportunities and activities of employees (Bădoi, 2021). At the same time, the pandemic context has accelerated the growth of the inflation rate (as it also happened in other CEE countries, see Alekseycheva et al., 2021; Strichuk et al., 2021), creating multiple financial difficulties for employers and employees. According to Eurostat, in 2021, against the uncertain and unpredictable background of the COVID-19 pandemic, inflation in the euro area has reached its highest level in 13 years (Eurostat, 2021). Soaring price increases for energy, gas and fuel have contributed to the inflation. The inflation rate in Romania was 5.3% in August, 6.3% in September and 7.9% in October 2021 (INSSE, 2021). In this situation, the minimum gross salary in Romania experienced a moderate increase of 3.1% y-o-y (2021 vs. 2020). According to the Romanian Labor Ministry, approximately 1.4 million of 5.3 million employees worked on minimum wage in 2021 (Ministerul Muncii, 2021)¹. Many of those contracts occur

¹ Future data and future research should be used to test these figures against those of 2019 provided by Guga (2021). Studies show that the number of minimum wage labor contracts decreased in 2020, yet the exact number differs from 1.6 million with Guga (2021) to 1.21 million with Cornea (2021). Guga's estimation might be more

due to illegal or undeclared labor, whereby employees are contractually paid with the minimum wage so that the taxes and contributions of the employer towards the state remain minimal, but then the employer surreptitiously pays the rest up to the level considered to be the fair one (Cornea, 2021). Figure 1 shows an evolution of the number of minimum wage contracts registered in Romania between 2011 and 2021, based on data from Cornea (2021) for 2011-2018 and Guga (2021) for 2019-2021. After a plateau tendency in 2018-2019, the number of contracts drops in 2020 and 2021 amid the Covid-19 crisis.

Figure 1: The Evolution of the Number of Minimum Wage Contracts in Romania, 2011-2021 (in million units)



Source: own representation, based on data from Cornea (2021) and Guga (2021)

appropriate if correlated to the data provided by the Romanian Labor Ministry, which indicates 1.4 million contracts on minimum wage in 2021. Guga's (2021) estimations might indicate a linear decline as an effect of the crisis (from 1.75 million in 2019 to 1.6 million in 2020 and 1.4 million in 2021), while Cornea's (2021) estimations might indicate a decline caused by the first year of the Covid-19 crisis, followed by a slight recovery in the second year as an effect of social and economic policies (from 1.75 million in 2019 to 1.21 million in 2020 and 1.4 million in 2021). Also, a look at page 9 will show that the sectors in the Romanian economy with the highest numbers of labor contracts on minimum wage were those severely impacted by the Covid-19 crisis (retail, transportation, automotive, restaurants and food industry etc.). As large parts of these sectors had to shut down or restructure, many minimum wage employees had to be fired, so a decrease in the number of yearly minimum wage labor contracts on the background of the Covid-19 crisis is more than plausible.

Given that the high inflation cancels out the effects of the minimum wage increases, the standard of living, as well as the quality of life of employees on minimum wage might be reduced. In an attempt to counteract this negative effect, the Romanian Government decided to increase the value of the minimum gross wage to 2,550 Lei as of January 2022, through Government Decision H.G. no. 1.071/2021 (Monitorul Oficial, 950/5.10.2021). The cautious increase in the minimum wage can be interpreted as a reflection of the difficulties and challenges posed by the Covid-19 pandemic in the economic context.

Another important decision with major implications for the labor market was made through Government Decision H.G. no. 130/17.12.2021, which stipulates that, as of January 1st, 2022, an employee can receive the minimum wage for a maximum of two years after the signing of his employment contract; at the end of the two years, the employer is obliged to raise the pay. There are many question marks left open around this decision. At first sight, it is a decision with implications for entrepreneurs and business owners who will need to deal with higher labor costs as of January 1st, 2024, when effects of the decision will come into force. However, the Government Decision only mentions that the employee will have to be paid a higher salary, but not how high the increase should be – which might lead to symbolic increases, but without real effects –, nor what duration the employment contract should have. Theoretically, the decision ought to bring the employer and the employee to negotiations for a higher payment towards the end of the two-year period, but at the same time, it might generate a tide of minimum wage labor contracts of less than two years followed by the discharge of the current employee and the employment of a new minimum wage laborer for another period of less than two years and so on, so that the employer avoids salary increases. As per basic managerial wisdom, if the employee receives a wage increase after the two years, then he or she will have to raise his or her productivity and prove a worth that justifies the wage increase (Harris, Holmstrom, 1982), which would be beneficial for the business. Another benefit would be if Irving Fisher's (1928) "*money illusion*" cognitive bias kicked in: the employee will be motivated to give his best and raise his productivity during the contractual period of two years, knowing that, at the expiration of this period, the amount of his wage increase (or his dispatch) will depend on how productive he has been. Nonetheless, if employees will actually raise their productivity as a consequence of the wage increase is questionable (Westley and Schmidt, 2006). A hidden effect of labor contracts capped at less than two years might be a decline in productivity and, subsequently, higher business costs on the long run (Yellen, 1984): assuming that their payment will not be increased after the contractual period, but, instead, that their contract will be terminated, the employees will not be as motivated as possible to give their best. A minimum wage labor contract capped in duration might lead to the "*set-up-to-fail*" *syndrome*, according to which employees who are perceived as mediocre will live down to this low expectation and produce nothing else than mediocrity (Manzoni and Barsoux, 1998; 2002). If the employer only regards the employee as a factor of production that will be replaced with another factor in maximum two years so that labor costs do not rise, then the employee who will sense

this will suffer motivational losses that will translate into weak performances and low productivity.

2. Theoretical Approach

Minimum wage legislation is considered to be a public policy intended to help the poor (Blais et al., 1989; Page et al., 2005). The concept of a statutory minimum wage – or a living wage, as it is also called – has been on the agenda of governments ever since the end of the 19th century, when the idea of a minimum pay emerged in order to protect employees in the manufacturing industries (Gooberman et al., 2019; Katselidis, 2019), to guarantee them a decent standard of living (and, subsequently, a positive quality of life), as well as to keep them motivated to work (especially there where the employer could not or refused to do so). The technological advances brought along by the Industrial Revolution opened opportunities for mass production, which business owners tried to exploit so as to pay their employees by substandard wages (Neumark et al., 2008: 1). The introduction or the raise of a minimum wage is generally a demarche supported by workers or labor unions, as it is meant to protect the employees (Rani et al., 2013). Governments are concerned with establishing equitable minimum wages for the employees, yet a debate still persists whether a minimum wage cap is helpful as well for the entrepreneur or not? On the one hand, businesses reject the idea of a minimum wage, as it forces them to pay employees more than they might have done, hence inducing higher costs (Lemos, 2008). In order to cover cost increases associated with the minimum wage, businesses are often forced to take decisions that can negatively impact upon their competitiveness, such as cutting employment or raising prices. On the other hand, some believe that a minimum wage actually protects entrepreneurs from unjust competition that uses substandard wages (Kau, Kau, 1973).

As a social policy, the use of a minimum wage is regarded as a way to help individuals or households to become (financially) independent and, thus, as a possibility to climb the social ladder (Loeb, Corcoran, 2001). Yet the neoclassical economy critiques this assumption as, in order to raise the wages of some, others might be paid less or find themselves unemployed (Levin-Waldman, 2000). Thus, the neoclassical stance is that the minimum wage legislations have a negative impact on employment (Kaufman, 2009). For neoclassicists, markets are not flawless: the imposition of a minimum wage might have positive effects for some, but will have negative consequences for others (Syed, 2020). Within the neoclassical stance, wages should be regulated by the markets, which is against the very principle of social economics or of the social (welfare) state, where the minimum wage legislation is an instrument to intervene and guarantee fair and proper treatment for those less fortunate (Figart et al., 2005). Yet neoclassicism is skeptical about the ability of the minimum wage legislation to achieve this goal and is against state intervention in determining pay.

The idea of the minimum wage is mostly associated with social economics and with Marxism, as it is intended to create equal and fair opportunities for the poor (see Wilkinson, 2004). In social economics, minimum wages are normative issues, as governments use law enforcements to create the necessary minimal conditions for the workers. Yet these conditions and how wealth is distributed among the workers who receive them are not the only factors to be considered when setting minimum wages.

As equally as important is to choose minimum wages based on criteria of economic efficiency, for the worker, for the entrepreneur, and for the state (Waltman, 2000).

In many countries, especially in those with weaker economies such as Romania, the use of a minimum wage is also an attempt to restore the middle class (Levin-Waldman, 2018; Mora and Diorio, 2018), by paying more to those less fortunate. Yet this can lead to social disputes and class divides, especially since increases of the minimum wage are not backed up by productivity increases. Within the normative economics, the increase of the minimum wage intends to bring workers from the lower class towards the middle class. While the class gap in payments is reduced, not the same can be said about the labor productivity, where the government does not intervene, but leaves it at the discretion of the entrepreneur.

The entrepreneur often finds himself in the impossibility to develop his employees above a certain limit which has already been attained, so the raise in wages is not backed up by a raise in productivity, yet the lower class is paid similarly to a better educated middle class, which will then feel entitled to protest against a raise of the minimum wage. (Zamfir, Voicu, Stanescu, 2020)

3. The Minimum Wage and the Covid-19 Crisis in Romania

The recent Covid-19 crisis has revealed flaws in the liberal, neoclassical economics (Pandey et al., 2020; Wilson, 2021). While businesses had to fire employees, to shut down, or simply went bankrupt as consequence of the effects of the crisis (Dan et al., 2022; Grigorescu and Mocanu, 2020), governments seized the opportunities to intervene in the economy and make promises about minimum wage increases. These can also be considered populist measures, as it is relatively easy to gain the support of workers who are on the brink of being dismissed or of those looking for a new job (especially so when the wider social context is destabilized). For employees, however, such measures prove unsustainable. Within most of the EU member states, the minimum wages have slightly increased from 2020 to 2021; the only countries with no increase of the minimum wage were Belgium, Spain, Greece and Estonia, while in Hungary the minimum wage was reduced by 4.1 percent (Bechir, 2021).

The minimum wage policy can also show its limits during times of economic crisis, such as the ones created by the recent Covid-19 pandemic. If faced with the challenge to cut costs in order to survive the crisis, businesses will give up on employing new people, especially if the budget needed for the minimum wages exceeds their possibilities.

According to Guga (2021), at the end of 2020, only a couple of months before the first Covid-19 infection cases in Romania, approximately 1.6 million labor contracts in the country were paid by the minimum wage. The importance of the minimum wage is, however, different depending on the sector of activity. Table 1 shows the sectors of activity with most labor contracts in Romania in 2020. As can be seen, among the sectors that employed the most by minimum wage were retail (804,000 contracts, en-

detail and en-gros cummulated), education (366,000), health (307,000), or restaurants, food industry and alimentation (289,000 cummulated), namely those sectors that have been directly and severely impacted by the Covid-19 crisis due to business closures, and also sectors that are generally characterized as being low wage sectors.

Table 1: Number of labor contracts (in thousands) in Romania at the end of 2020

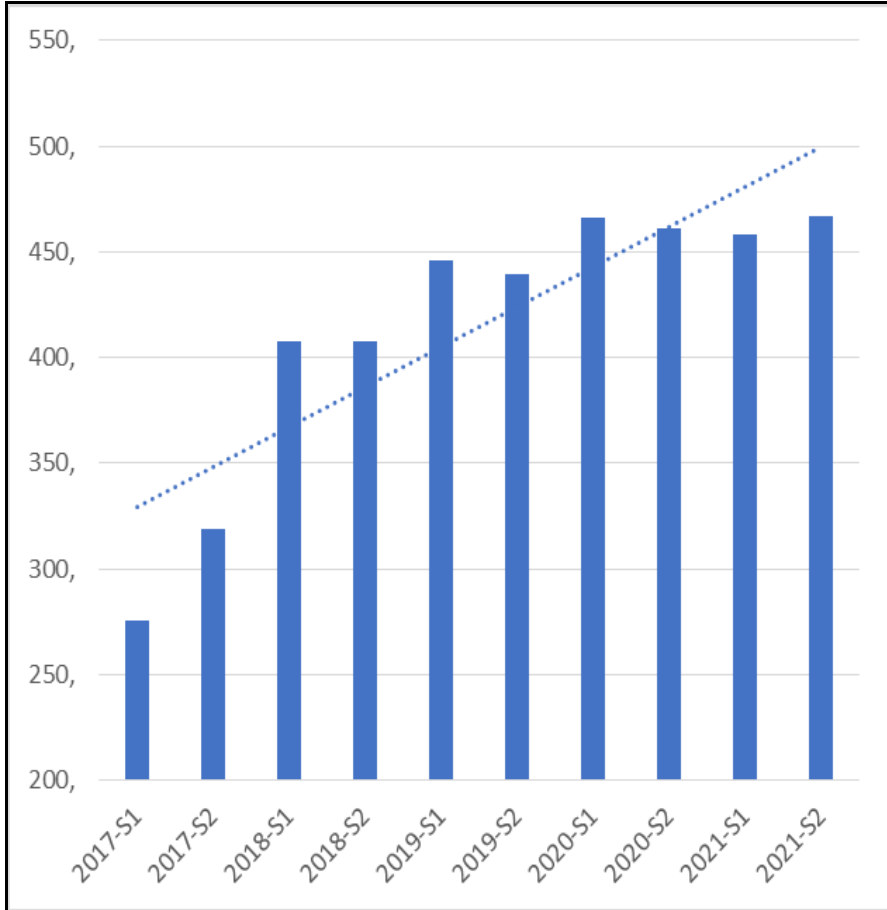
Sector of activity	Number of labor contracts (,000)
Retail (En-Detail)	489
Education	366
Retail (En-Gros)	315
Health	307
Transportation	269
Public Administration and Social Insurances	175
Automotive	169
Alimentation	164
Restaurants and Food Industry	125
IT Services	117

Source: Data collected from Guga (2021: 46-47)

The Covid-19 crisis is not only a health crisis, but also a labor market crisis, impacting upon the supply and the demand of labor (Amuedo-Dorantes et al., 2020; Brinca et al., 2021; Forsythe et al., 2020). As it often happens in many parts of the world, the discussions around the minimum wage often transform into controversies that make it onto the political agendas of governments (Chistruga, 2009; Oudot, 2020). Discussions around low wages and/or the welfare state often feed the populist discourse (Edwards, 2019). The worst paid jobs in Romania between January 1st, 2020 and January 1st, 2021, hence in full Covid-19 crisis, were situated under 4000 Lei gross (about 800 Euros), being found in industries such as woodworking, HoReCa, secretarial activities, textile industry etc. Better paid jobs can be found in service-based sectors such as IT, human resources, banking etc. The payments per industries do not though differ very much from the situation ten years ago (see Leovaridis, 2012).

Figure 2 shows the evolution of the minimum wage in Romania between 2017 and 2021, included. As the trendline in the figure indicates, an increase of the minimum wage can be witnessed across the five years being analyzed, in spite of some minor decreases in S2 2018, S2 2019 and S2 2020 compared to the previous semester.

Figure 2: The Evolution of the Minimum Wage in Romania, 2017-2021



Source: own representation, based on Eurostat data: Monthly minimum wages - bi-annual data [EARN_MW_CUR\$DEFAULTVIEW], Data extracted on 08/11/2021 11:22:17

S2 2021 saw a minimum wage increase by 69.5% compared to S1 2017. Table 2 presents the detailed, semester-over-semester (S-o-S) percentual changes in the monthly minimum wages in Romania between 2017 and 2021. As can be seen, high increases have alternated with lower, but repetitive decreases.

Two of these decreases have occurred in the second semester of 2020 and the first semester of 2021, hence during the Covid-19 crisis, while the most recent data available (S2/2021 vs S1/2021) indicates a 2% S-o-S increase, which might be speculated as a sign of recovery after the severe effects that the lockdowns and similar Covid-19 restrictive decisions had on the economy.

Table 2: Semester-over-semester (S-o-S) percentual changes in the monthly minimum wages in Romania between 2017 and 2021

Semester	Monthly minimum wage	Percentual change vs. previous semester	Legislative act	Employment (% of total population)
2017-S1	275,39		H.G. 1/2017	
2017-S2	318,52	16%		68,8%
2018-S1	407,86	28%	H.G. 846/2017	
2018-S2	407,45	0%		69,9%
2019-S1	446,02	9%	H.G. 937/2018	
2019-S2	439,35	-1%		70,9%
2020-S1	466,23	6%	H.G. 935/2019	
2020-S2	460,77	-1%		70,8%
2021-S1	458,07	-1%	H.G. 4/2021	
2021-S2	466,72	2%		

Sources: own representation, based on data from Eurostat, *Monthly minimum wages - bi-annual data* [EARN_MW_CUR\$DEFAULTVIEW], Data extracted on 08/11/2021 11:22:17; *Employment and activity by sex and age - annual data* [LFSI_EMP_A\$DEFAULTVIEW], Data extracted on 30/11/2021 10:33:56

The two percent increase of S2 2021 is an effect of the Government Decision H.G. no. 4/2021, in January 2021 (included in Monitorul Oficial, 40/13.01.2021). In September 2021, discussions were already carried out at governmental level to have a second increase by the end of the year of 8 to 12 percent (Digi24.ro, 2021), which should have lead the minimum wage to about 2500 Lei net (approximately 505 euros). At the same time, according to the Romanian Labor Inspectorate, subordinated to the Ministry of Labor and Social Protection (MMPS), in February 2021, 236,787 employment contracts were registered with a gross monthly salary of approximately 10,000 Lei (Inspeția Muncii, 2021).

Increases of minimum wages during the current Covid-19 crisis are considered as not sustainable by specialists and many countries in Central and Eastern Europe reached bottlenecks when it came to raise the minimum pay (Kahancova, Kirov, 2021). An increase of the minimum wage is presented by many governments as a solution to reduce unemployment / boost employability during times of crisis and to reduce poverty. In spite of this, studies show that the real effects of a minimum wage increase are rather small, since only a minority of poor people are helped by higher minimum wage, while accross other sectors the increase might even have downturn effects (Gindling, 2018).

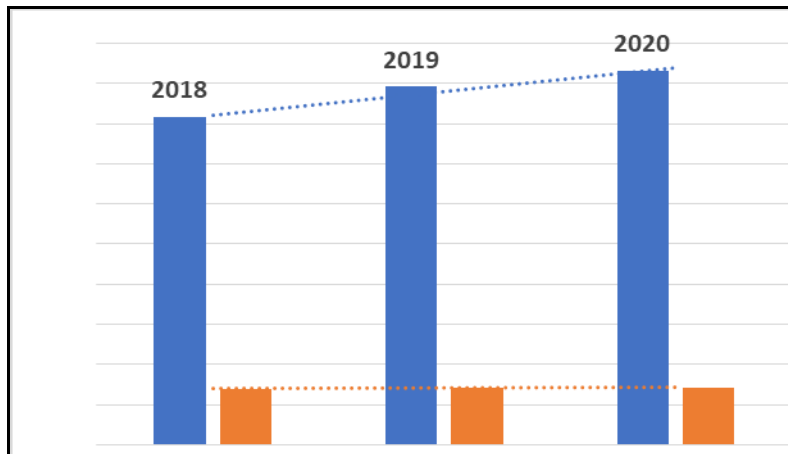
Yet increases of the minimal wage during periods of crisis can be regarded as a way to improve social protection, especially in a country like Romania where many low-skilled

workers used to find employment overseas prior to the crisis (Zamfir, Cace, 2020). If these people are kept in the country due to the Covid-19 pandemic and are unable (or unwilling) to find a proper job, they would represent a higher burden on the public budget due to the unemployment benefits they ought to receive. Hence, higher minimal wages should reduce unemployment and strengthen the labor market so as to enable it to cope with the crisis. It is questionable, though, to what extent this really happens.

When looking at Table 2, it can also be seen that at the end of 2020, 70.8 percent of the Romanian resident population aged between 20 and 64 was employed, an increase of two percentage points compared to 2017. If correlating the minimum wage levels at the beginning of the year with the situation of employment (percent of total population aged 20-64), the coefficient indicates a strong and positive correlation of 0.9.

Minimum wage increases should at least theoretically lead to an increase in people's desire to work, so that people are more inclined to get a job (Cornea, 2021; Martin 2018; O'Neill et al., 2006). However, if looking at the trendlines in Figure 3, it can be seen that between 2018 and 2020, the minimum wage increased faster than the employment did. This indicates that, even if higher minimum wages can be more attractive for job-seekers, there are other dimensions to be taken into account as well when it comes to employment opportunities, which will counter-balance the rapid growth of the minimum wage. Although advantageous for the employee, a higher minimum wage can represent a disadvantage for the employer, for example, who will face higher costs.

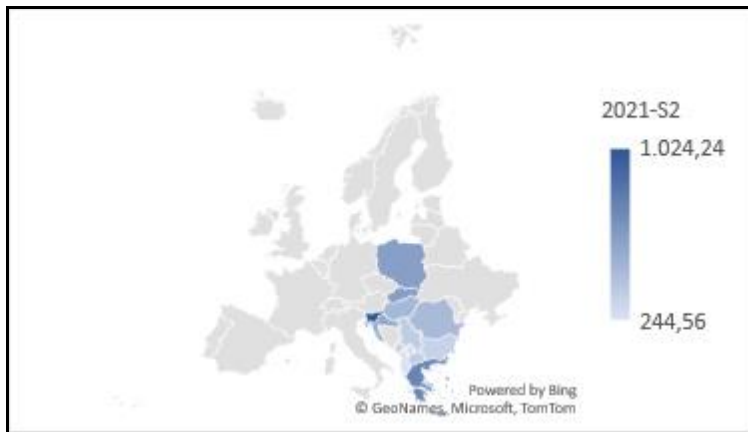
Figure 3: Correlation between the evolution of the minimum wage (blue) and the evolution of the situation of employment (orange)



Sources: own representation based on Eurostat data, Monthly minimum wages - bi-annual data [EARN_MW_CUR\$DEFAULTVIEW], Data extracted on 08/11/2021 11:22:17; Employment and activity by sex and age - annual data [LFSI_EMP_A\$DEFAULTVIEW], Data extracted on 30/11/2021 10:33:56

The COVID-19 pandemic had a rapid negative impact on the Romanian labor market, causing a series of changes (Bonea, 111, 2021). This is also due to the fact that, when the Covid-19 crisis hit Romania, in March 2020, of the nearly 5.5 million employed people in the country, 63 percent (about 3,47 million) were working in services and 34 percent (about 1,88 million) in industry and constructions, two sectors profoundly impacted by the crisis. The constructions and industries were put to a hold by the crisis, while much of the services sector had a similar fate, mainly due to the fact that the hospitality industry was shut down by restrictions. On the other hand, some sectors of the economy continued their activities, yet only by adapting to the changes forced by the Covid-19 pandemic, such as, for example, remote work (work from home, regardless of where the employee was based), or hybrid work (part remote work, part at the employer's premises). These adaptations have also contributed to keeping the Romanian labor market at a fairly decent level, in spite of the effects of the crisis. Figure 4 shows a comparison of the minimum wages in the Balkan region for S2 2021, the most recent data available from Eurostat. As can be seen, Romania, is situated at about mid-level, slightly above Bulgaria and Serbia, at par with Hungary, yet below Poland, Greece or Slovenia.

Figure 4: Geographical comparison of the minimum wage situation in S2 2021 in the Balkans



Source: own representation, based on Eurostat data, Monthly minimum wages - bi-annual data [EARN_MW_CUR\$DEFAULTVIEW], Data extracted on 08/11/2021 11:22:17

4. Conclusions

In the context of the COVID-19 pandemic, multiple imbalances have been created in the economy (Fetiniuc and Luchian, 2020; Martin and Péres, 2021) (i.e., wage increases outpaced by high inflation; decrease in production; increased unemployment; insolvency of SME's etc.), which have led to a diminishment of standards of living and

quality of life. The shy increases in the minimum wage will not be able to cover the rapid inflation. Thus, the increase of the minimum wage (e.g., the case in January 2022) will remain mostly ineffective for employees, but it will make it even more difficult for employers, who will have to cope with higher labor expenses. Hence, the most recent increase of the minimum wage might not do anything else than destabilize SME's and raise unemployment, as evidenced by past researches (Belman and Paul 2014; Brown 1982; Card and Crueger 1993). As a matter of fact, studies have shown that the minimum wage increases in Romania between 2013 and 2016 only had small effects (Heemskerk, et.al., 2018). In conclusion, an increase in the minimum wage can have, theoretically speaking, several advantages (i.e.: increased quality of life and standard of living; reduced unemployment and increased purchasing power; labor motivation; increased competitiveness among employees etc.). However, due to the Covid-19 crisis, the small increase of the minimum wage in Romania will most likely not have a considerable positive impact on the quality of life of employees, nor on the wider economy as a whole.

Authorship

Georgiana-Virgina Bonea (GVB) had the idea of this article and took the role of the leading author. Vlad Rosca (VR) did the literature review for the theoretical approach (chapter 2), as well as the analyses in chapter 3 (The Minimum Wage and the Covid-19 Crisis in Romania). VR collected the Eurostat data for the analyses in chapter 3 and contributed with the managerial/economic perspectives in the first and the third section. Thanks to her formation, GVB contributed with the sociological perspective and public policy information to the aforementioned two sections. GVB and VR wrote the Introduction and the Conclusions to the study. VR has edited, proofread and formatted the work. The research was carried out between September 2021 and January 2022.

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Declaration of conflicting interests

The authors declare no conflicting interests.

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