Review Article

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Role of remittances on the economic condition of households

Abstract

Romanian migrants have gone looking for resources designed to provide them with a decent minimum of living in a predictable time horizon. Until the onset of the economic crisis, the money sent to the remaining family in Romania reached significant rates, covering its full costs or representing investments for returning to the country, once sufficient capital or pension rights were accumulated in the country of destination. Even though data on migrants is sensibly unregistered, it still provides relevant information on the demographic structure of this segment of the population, as well as on the main destination countries and geographical areas where they emigrate. They were away for at least a year, almost equally, both men and women, many in the urban area compared to rural areas.

Keywords: migrant, destination, income, work, decent life

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Brief history

After the fall of communism, migration from country to country, especially large cities, was resumed, but a consistent wave of external migration was recorded. With the migration to trade outside the country, in the early years of the transition, was added the one for informal work, which started after 2000.

With the abolition of visas and Romania's accession to EU space, regional destinations such as Serbia, Greece or Turkey for trade and labor were completed with European destinations, Germany and France, followed by Italy and Spain, and more recently European Nordic countries or North America.[1] Romanian migrants have gone looking for resources designed to provide them with a decent minimum of living in a predictable time horizon. Until the onset of the economic crisis, the money sent to the remaining family in Romania reached significant rates,[2] covering its everyday expenses or representing investments for returning to the country, once sufficient capital or pension rights were accumulated in the country of destination.

Even though data on migrants is sensibly unregistered, it still provides relevant information on the demographic structure of this segment of the population, as well as on the main destination countries and geographical areas where they emigrate. The number of men and women (364.8 thousand and 362.7 thousand, respectively) was gone for at least one year, but more than in urban areas compared to rural areas (54.0% versus 46,0%).[3]

To other countries, especially those in the working age category are heading: 46.2% for 20-34 years and another 24.8% for 35-44 years. Of those who leave the country for a long period of 30-39 years, about 54% are men. Women predominate mainly in older age groups, and especially after 45 years (from 55.1% for the age group 45-49 years to 66.8% for women aged 65 and over). There are children and young people up to 25 years of age in rural areas (55.5% of people who have been on long-term 0-24 years of age) and adults and elderly people aged 50 and older in cities and municipalities[3] (69.6% of the total number of persons who have been away for over 50 years).

The main destination countries are: Italy with 46.9% of the total of 727.5 thousand and Spain with 23.5%. In the United Kingdom, 5.5% of those who left the country are 4.5%, in France 3.2%, and 2.2% in Greece. The main geographic basin of emigration is formed in the eastern part of the country, in the area of Moldova and in the neighborhoods, where the first five counties ranked among the hierarchical rankings according to their weight in the total of 727.5 thousand long-term residents abroad: Bacau, Neamt, Suceava, Iasi, Galati. Together they represent 31.2%. At the opposite pole, only 2,8% of the total, Covasna, Călărași, Giurgiu, Harghita and Ilfov counties are located.[3] Migration for work was an alternative to vacancy or too low wages in Romania. In 2013, the number of those born in Romania living abroad was approaching, giving credit to the World Bank data of 3 million and a half. An overwhelming proportion of them, over 85%, were in the European Union, with Italy and Spain concentrating more than half.

Remittances have risen sharply since 2004, 2008 was a peak year, and 2009-2010 was a period of sharp decline. Since 2011, the trend continues to decline. In 2013, remittances amounted to 1.9% of GDP.[4] The emigration of highly educated individuals seems to be also a growing phenomenon. In the Romanian public space the greatest visibility was the migration of doctors. Returning may have an upward trend as the retirement of migrant waves left in the early 2000s.

Economic status of households

Population revenues have begun to erode since 1991. But the value of net average wages has fallen since the first year of transition, reaching the lowest level in 1997-2001: 60-65% of 1989. After 17 years of transition, in 2007, the average salary is slightly above the 1990 level. The situation is more dramatic if we add that there has been a loss of wages, the main source of income. The second very important revenue category, in addition to the salary, pension, has even more costly to bear on the transition: pensions fell to 45% in 2000 from their initial value in 1990, slightly lower than in 2008 (Figure 1).

Data source: Author's graph based on the average net salary values in the economy and the price indices taken from the Statistical Yearbooks 1990-2017, INS, Bucharest.[5]

The wage policy was centered on low wage policy, considered a positive factor of economic growth. Employees were sacrificed for illusory economic growth (Figure 2 & 3). In addition, there are no reinvestment facilities that encourage its unproductive consumption.

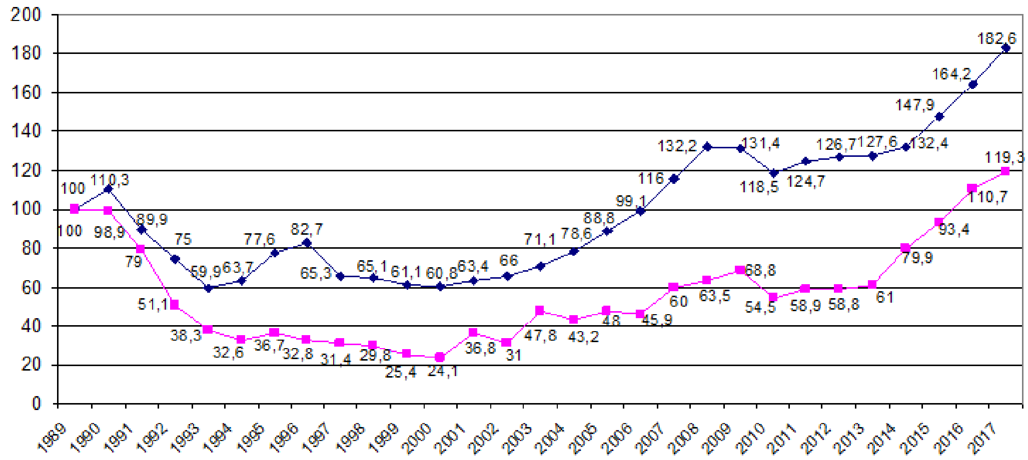

Figure 1 Dynamics of average and minimum wages in the economy in October, 1989-2017.

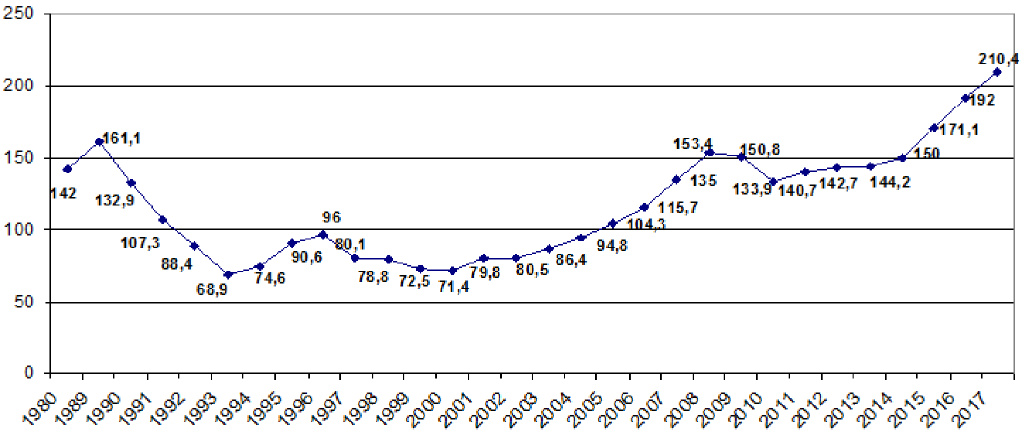

Figure 2 Dynamics of the ratio between two net average wages and allowances of two children to the minimum decent consumer basket in October, 1980-2017.

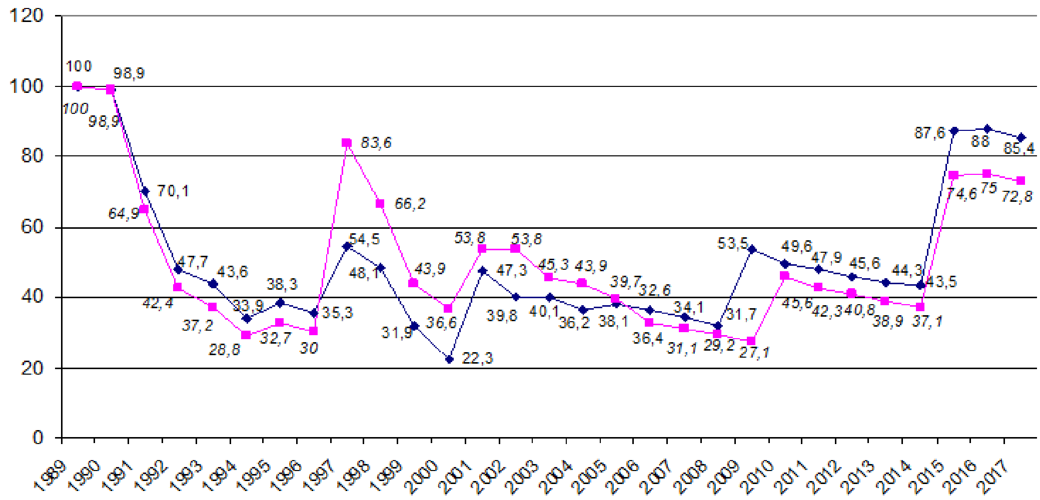

Figure 3 Dynamics of real allowances for first and second child in October, 1989-2017.

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Data source: The average net salary values in the economy were taken from the Statistical Yearbooks 1990-2017, INS, Bucharest. The values of the two children's allowances were obtained from the website of the Ministry of Labor and Family. The values of the minimum decent baskets for the family of two employees with two dependent children were taken from the ICCV database, Gheorghe Barbu's calculation from 1990 to 2000 and author from 2000 to 2017. The value of the 1980 report was calculated by author from the Statistics Yearbook of Romania in 1981.[6]

Data source: Authors' graph based on the values of the allowances taken from the Ministry of Labor and Family website and the price indices taken from the Statistical Yearbooks 1990-2017, NIS, Bucharest.[7]

The objective of Romania becoming prosperous and balanced can only be achieved through a radical change in wage policy, i.e. the policy of progressive wage growth to meet European standards. Over the next 20 years, wage policy will have one of the main mechanisms of collective wage bargaining and improved working conditions, complementary to employment growth. It is urgent to adopt the law of the single wage system with the projected increase of wages of national importance: health, education, social assistance, research, administration.

The low level of wages in the private economy will in the future create a difficult problem. It can only be solved by the active intervention of the state in supporting healthy economic growth, but also by promoting the labor/capital partnership. The collapse of spheres with valuable work, the technology overcome in many areas, and especially the management deficit led to a low labor productivity. Another reason that would explain the low wages would be the collapse of the bargaining capacity of the employees due to the activity of fairly marginalized trade unions in recent times.

The other transition countries, albeit with difficulty in relaunching the economy, attracting foreign investment, have managed to do so by striking a balance between wages and profit. An important objective of rebalancing the standard of living is the drastic change in labor-to-profit ratio: from 62.2% in favor of profit in 2014 to about 40% in 2038.

The minimum wage is the most important lever of wage policy, and it is set by government decision. Since January 1, 2015, ten EU countries have a minimum gross wage below €500 per month, namely: Poland with 410 Euros, short distance Croatia (396 euro), Estonia (390 euro) and Slovakia (380 euro); the middle of the interval places Latvia with 360 euro/month, followed by Hungary, Czech Republic and Lithuania with about 300 Euros per month; and the last two places are Romania (218 euro) and Bulgaria (184 euro). In Romania, the gross minimum wage in economy has increased from 139 Euros in 2008 to 218 Euros in 2015. And after this increase, Romania remains also the penultimate place in the European Union in 2015.[8] The highest values of minimum wages are found in countries such as Luxembourg (1,923 euro), Belgium and the Netherlands (1,502 Euros) followed by Germany 3rd place, 1,473 Euros and France 5th place, with 1,458 Euros.

The median of the minimum wage in the 27 EU countries is Portugal, of 565 euro. Romania is well below the median of 28% (Table 1).

Data source: Eurostat (in euro); (SPC - Purchasing Power Standard) http://epp.Eurostat.ec.europa.eu/statistics_explained/index.php/Wages_and_labour_costs/en.[9]

Wage growth in Central and Eastern Europe is largely dependent on government policies and, in particular, on raising minimum wages. And in 2017, the minimum wage has seen significant increases in eastern countries, with the exception of Latvia and Lithuania. + 15.1% in real terms in Hungary, + 14% in Romania, + 12.4% in the Czech Republic, + 11.7% in Poland (Table 2).

Table 1 Minimum wage 2013 (SPC) in the European Union

Luxembourg	1874.19
Belgium	1501.82
Netherlands	1469.40
Ireland	1461.85
France	1430.22
United Kingdom	1,264.25
Slovenia	783.66
Spain	752.85
Malta	697.42
Greece	683.76
Portugal	**565.83**
Poland	392.73
Croatia	372.35
Slovakia	372.35
Hungary	335.27
Estonia	320.00
Czech Republic	312.01
Lithuania	289.62
Latvia	286.66
Bulgaria	158.50
Romania	**157.50**

Table 2 Real growth of the minimum wage in the European Union (in Euro)

Countries	2017 versus 2016	Average annual growth 201-2017
Hungary	+15,1%	+4,9%
Romania	**+14,0%**	**+10,7%**
Czech Republic	+12,4%	+2,8%
Poland	+11,7%	+4,5%
Bulgaria	+8,2%	+9,2%
Slovakia	+5,9%	+3,6%
Estonia	+5,9%	+0,5%
Denmark	+2,3%	+0,9%
Louxemburg	+1,8%	+0,5%
Holand	+0,5%	+0,1%
Lituania	-0,2%	+4,4%
Belarus	-0,2%	-0,0%
France	-0,2%	+0,3%
Muntenegru	-0,2%	+0,0%
Switzerland	-1,1%	-3,5%
Latvia	-3,6%	+5,5%
United Kingdom	-4,6%	+0,6%

Data source: Eurostat, 2018.[10]

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Although satisfaction with daily life has increased in Romania in 2011, however, Romania remains below the EU average in both analyzed years. At a far greater distance from the European average, Bulgaria is positioned 2% below the EU average, Hungary by 1.5% below the EU average, Latvia by 1% below the EU average. Much above the EU average, the northern countries are: Denmark, Finland, Sweden, the Netherlands, Luxembourg and Iceland, with almost 1.5% above the EU average.

International migration

After the opening of the borders in 1990, but especially after obtaining the right to free entry into the Schengen area, starting January 1, 2002 (Government Emergency Ordinance No. 144/2001), the Romanian citizens started in the largest number to operate on the informal European markets or formal (through official employment contracts). Thus, the current restructuring of Romanian society is not determined only by the local market mechanisms, but also by the European ones.

Studies on international migration for work or business highlight the fact that Romania, together with Bulgaria, is the source country of migration in a European context, given the shortage of the internal labor market and, above all, the wage differential.

The selective research of the International Labor Organization in August 2003 raises the number of Romanian citizens living abroad to 1.7 million, i.e. 8% of the country's population and 14% of the population aged 20-60 (apud Gheţău, 2003).[12] This latter estimate is the closest to the 1.5-2 million people reported by the press, analysts and politicians. However, it is considered to be "unrealistically high"[13] by specialists, being promoted in the absence of an institutionalized registration system for migrants. As informal networks have developed and entrepreneurs have emerged (for example, transport companies or intermediaries), the phenomenon of temporary migration for work abroad has increased in size and has been institutionalized at an informal level. At the same time, the institutional activities related to the control of the outflows from / and the country's entrances have intensified, as well as the institutional efforts to develop contractual labor exchanges.

As a result of the development of international migration, private transfers abroad have steadily increased, contributing greatly to reducing the current account deficit and far exceeding the volume of foreign direct investment.[14] A gross estimate of average remittances per external migrant reaches around €2,000 per year.[15] This money income is largely used for consumption and not for investment, providing in some cases only a safety net (Table 3).

Table 3 Evolution of money sent to the migrant country (net transfers, EURO million, 1991-2005)

1991	1992	1993	1994	1995	1996	1997	1998
17	80	89	153	237	436	456	623

1999	2000	2001	2002	2003	2004	2005*
535	861	1031	1322	1823	2371	4300

Source of data: NBR, in Financial Journal of 3.09.2005 apud Constantinescu (2006).[16]

* NBR data published in the Evenimentul Zilei, 24.02.2006; 40% of the amount was transferred "with a bag", i.e. through relatives, friends, transport company employees or other people, while 60% of the amount was officially transferred through institutional channels.

Concerning the consequences of international migration, authors such as Sandu rely on the positive impact of poverty reduction[17] on household consumption, but also on "sharpening the gaps in development between the poor rural society and socially wealthy rural areas".[18] On the other hand, Lăzăroiu[19] observes that even if Romanian migrants acquire specific abilities abroad by contact with new technologies, they are not likely to be put into practice in Romania only in the long run due to the slow technological transfer. The real capital transfer, he argues, is the learning of a foreign language, the observation of the capitalist type of management and a certain labor ethic that is missing in Romania.

Conclusions

Although the number of migrants is high, most of them change Romanian villages with the migrant community abroad and work in diverse and unskilled jobs, as in Romania, but for more money. Because the reason for going abroad is "to stand up," migrants do not aim for development, they are not integrated into the capitalist market, and therefore keep almost unchanged traditionalist lifestyle. What will be the long-term effects[20] remains to be seen. It is, however, clear that international labor migration is now a mechanism with a growing contribution to social inequality. "The role of remittances is to help people get out of poverty, there is evidence that migration and remittances support the progress of world countries, education, the installation of drinking water systems, medical and social services," said Hans Timmer, Director DPG (Development Prospects Group) within the World Bank.[21]

The reasons why people choose to migrate to another country are different and numerous. Europe's population migrating from one country to another has reached 30 million people and is constantly growing. Some of them left home to escape the horrors and atrocities that took place in the country of origin, others due to the financial situation that led to the massive collapse of the industries where they worked and the high unemployment rate.[21]

A migrant sends home annually around $12,000. These remittances make between 5-7% of European GDP. The annual income in most countries of origin is about $20,000 so the amount sent is equivalent to a salary for that household. This makes the family considerably improve their living standards.

For years, the remittance market has been dominated by two major companies: Western Union and MoneyGram. The commissions they perceive made the impact that money sent home is diminished. In other words, the money received by homeless people is less, and this is not a thing to be overlooked when migrants work hard for every ban.

Recently, companies are emerging that provoke this remittance market and intend to work in favor of the consumer, the migrant who sends home money. TransferGo offers a fast, easy and secure way to send money home. By implementing state-of-the-art technology and "local in-local out" payment system in collaboration with banks in over 30 countries, TransferGo allows users to send and receive money from anywhere.

"These money, that people send home makes the difference between living from one day to the next and having a more than decent lifestyle". Just two years after we started this journey, migrant workers who send home money can to save more than 90% of the transfer costs, and the money is sent home to the family on a business day. It's a huge step, "says TransferGo, CEO and co-founder Daumantas Dvilinskas.

TransferGo has attracted by the innovative method an impressive number of users who are individuals, but also businesses that make their international payments using this trusty service and much cheaper.

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Conflicts of interest

There is no conflict of interest among the authors.

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