

The correlation of the minimum wage in the economy with the minimum consumption basket in Romania

Abstract

The official statistics - the National Institute of Statistics (NIS) - has, among other activities, the calculation of the minimum consumption basket, the monthly update of its value with the consumer price index. NIS uses the European methodology to determine the poverty line. The minimum monthly consumption basket was introduced in Romania by „Government Emergency Ordinance no. 217 of November 24, 2000 regarding the approval of the minimum monthly consumption basket”, for a household of average size considered to be 2,804 people, including all expenses necessary for living in a month through the purchase of: (1) food products, (2) non-food products and (3) services. In accordance with O.U.G. no. 217/2000 the minimum monthly consumption basket is the basis of the foundation of the minimum basic salary on the economy, the salary policy and other policies in the social field. The increase in the minimum wage was done without any objective criteria on the basis of which the increases should be made. The absence of such criteria creates a high degree of unpredictability for the business environment, companies being put in the position of not being able to estimate what the evolution of salary costs will be, which has a negative impact especially in the sectors of activity characterized by a high weight of minimum wage contracts.

Keywords: social policies, wage earner, decent living minimum, subsistence minimum

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Introduction

The minimum wage policy and the connection with what is necessary for a minimum decent living in Romania

The need for a minimum decent living comes from the study of human needs: biological, hygiene, education, health, culture of people. The complexity of this consumption minimum stems from the multitude and variety of elements, which compete to satisfy people's individual and family consumption needs, but also from the close relationship between these needs and the economic-social framework in which they manifest and develop. The relativity of the minimum standard of living stems from the fact that it is not given forever, but changes according to several factors, among which the most important would be: the level of economic development achieved by the country, the social and professional environment, the climatic conditions and geographical, civilization and culture level, income level, family size, traditions and customs. Individuals or families benefiting from a standard of living below this decent living minimum are considered poor. For the population in the risk area, preventive social protection measures can be taken, so that the probability of their entering poverty decreases as much as possible.

In absolute poverty¹⁻⁴ the individual does not have access to the satisfaction of basic needs (the individual cannot feed himself or wear clean clothes, does not have access to a home, etc.). This situation leads the individual and his family to a life of many deprivations. Relative poverty is assessed in relation to the evolution of the society in which the phenomenon is assessed. The new poor are people who used to be able to satisfy their basic needs, but who, for various reasons, are deprived of access to a socially acceptable way of life. These reasons by which a person and his family can fall into poverty are: long-term unemployment, a serious illness, over-indebtedness, the death of one

of the family members, divorce, are some of the causes that generate poverty. The inability to provide the goods and services fundamental to existence, for the reasons mentioned, should lead the authorities to these people to help them materially, financially or through any other social assistance services.

The type and structure of households directly related to the risk of poverty, in the sense of its increase or decrease, is the existence and number of children in the maintenance of the respective household. Poverty is more common among people living in households with dependent children (dependent children are considered people aged between 0-17 years), (in 2020 it reached 25.4%), than in the case of those living in households without children (20.8% in the last year). In 2020, among households with dependent children, the most affected by poverty were large households consisting of 2 adults with 3 or more dependent children (more than half), single-parent families, a single parent with at least one dependent child (almost three out of ten), of those with 3 or more adults with dependent children (a little over a quarter), but also people from households consisting of 2 adults with 2 dependent children (almost a quarter). In comparison with these, households consisting of 2 adults and 1 dependent child were affected by poverty to a lesser extent (11.0%). In households without dependent children, generally considered less affected by poverty, there are still notable differences determined by the number and age of people living in a certain type of household. Thus, single people are more exposed to the risk of poverty, especially in the case of women (40.8% compared to 25.6% for men).

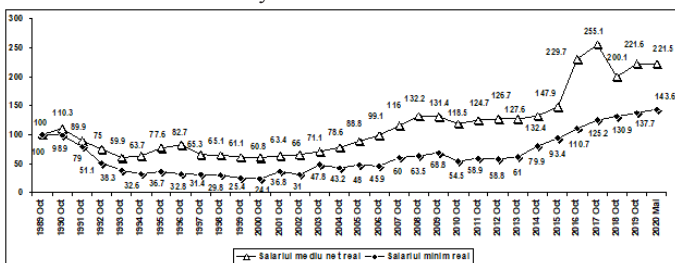
The minimum wage policy in Romania

The evolution of the minimum wage in the period 1989-2022

In the time period 1989-2022, the standard of living of the Romanian population was affected in different ways. The incomes of families with children could not keep up, sometimes, with the

price increases applied to products and services on the market. The incomes and expenses of the population provide a concrete picture of the quality of life of the population and contribute to taking the necessary measures, through socio-economic policies, for the benefit of society members.

The critical moments for employees paid at the level of the minimum wage in the economy were the years: 1999 (25.4%) and 2000 (24.1%). From 1994 to 2002, it can be seen that the purchase level of the minimum wage was about a third of the products and services that could be purchased in 1989, the base year, taken into account, a decrease reflected by the increase in prices at fuels, energy and water. The situation is improving since 2014 (79.9%). Towards the end of the analysis interval, the year 2022, the purchasing power of the minimum wage indicator remains relatively constant, around 140% of what could be bought in the reference year 1989. Next, we present (Graph 1), where we have the evolution of the average net wage in the economy and of the net minimum wage, in the time interval October 1989-May 2022.^{5,6}

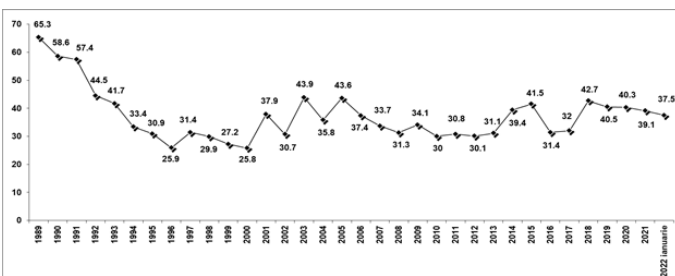


Graph 1 Dynamics of the average net and minimum net salary, in the period October 1989-May 2022.

Data source: RIQL database. Calculations performed by author.^{5,6}

Dynamics of the average net and minimum net salary, in the period October 1989-January 2022

During the period 1989-2022, the ratio between the minimum wage and the average wage remained between 65.3 and 37.5%. The lowest values reached were the years 1996 (25.9%) and 2000 (25.8%). In the rest, the values of the ratio were positioned between 30 and 40% (Graph 2).^{5,7}



Graph 2 The dynamics of the ratio between the minimum net salary and the average net salary, in the period 1989-January 2022.

Data source: RIQL database. Calculations performed by author.^{5,7}

Mechanisms for establishing the minimum wage (legal framework)

The National Institute of Statistics (NIS) is also responsible for calculating the minimum consumption basket. His duties are stipulated in O.G. no. 9/1992 on the organization of official statistics, with subsequent amendments and additions, only for the quarterly update of the value of the minimum monthly consumption basket

with the consumer price index, until the repeal in 2004 of article 2 of the O.U.G. no. 217/2000. NIS uses the European methodology to determine the poverty line.

In order to better clarify the legal and methodological context of the evaluation of the minimum consumption basket, we make the following clarifications:

- 1) The minimum monthly consumption basket was introduced in Romania by «Emergency Government Ordinance no. 217 of November 24, 2000 regarding the approval of the minimum monthly consumption basket», approved by «Law no. 554 of October 17, 2001 for the approval of the Government Emergency Ordinance no. 217/2000 regarding the approval of the minimum monthly consumption basket». The minimum monthly consumption basket established for a household of average size considered to be 2,804 people, the totality of expenses necessary for living in a month through the purchase of (1) food products,
- 2) Non-food products and
- 3) Services. In accordance with O.U.G. no. 217/2000 the minimum monthly consumption basket is the basis of the foundation of the minimum basic salary on the economy, the salary policy and other policies in the social field.

By «Government Emergency Ordinance no. 11 of March 23, 2004 regarding the establishment of reorganization measures within the central public administration» by art. 23 it was decided that, starting from March 25, 2004, «On the date of entry into force of this emergency ordinance, the following shall be repealed: a) art. 2 of the Government Emergency Ordinance no. 217/2000 regarding the approval of the minimum monthly consumption basket, published in the Official Gazette of Romania, Part I, no. 606 of November 25, 2000, approved by Law no. 554/2001 [...]». The government of that period, on the grounds that there are in this calculation «elements that aim at the public interest and constitute emergency and extraordinary situations», ordered the abandonment of the calculation of the minimum monthly consumption basket and, consequently, also the substantiation of the minimum basic salary on the economy, of the wage policy and other policies in the social field based on this very important indicator.

Between 2005-2017, the minimum wage in the economy increased from 310 RON to 1,450 RON. However, the increase in the minimum wage was done without any objective criteria on the basis of which the increases should be made. The absence of such criteria creates a high degree of unpredictability for the business environment, companies being put in the position of not being able to estimate what the evolution of salary costs will be, which has a negative impact especially in the sectors of activity characterized by a high weight of minimum wage contracts.

Likewise, the non-correlation of minimum wage increases with the value of the minimum consumption basket generates social problems and contributes to the worsening of poverty among employees. The existing studies show us that in the period 2001-2015, in the case of a household with two minimum wages and two allowances for children, the income could not cover the minimum of decent living, nor that of subsistence. In 2015, the share of income in the minimum expenses related to a decent living was 76.6%. This is all the more alarming as the share of minimum wage contracts tripled from 2011 to 2015, exceeding one and a half million contracts.

The consumption basket for a minimum decent living

There are opinions according to which the minimum consumption basket would be one of the tools necessary to assess poverty at a given time. For this reason, the minimum consumption basket for families with children could be a relevant indicator of the quality of life, but it would also explain the vulnerability and social risk of this segment of the population, giving a response to national or local social policies. The calculation method for calculating the basket corresponding to a minimum decent standard of living in RIQL is the normative method.

The normative research method is an analytical method, which establishes amounts that do not depend on the levels of consumption recorded at a given moment, but expresses the current scientific norms of consumption that concern the development and normal manifestation of the individual in everyday life, in the family and in society. The advantages offered by the use of the normative method in the calculation of the living wage are the rigor and objectivity of the amounts established by the specialists. The method offers transparency in the detailed knowledge of material, cultural, educational, health, etc. elements. It covers at a minimum the essential goods and services needed by the individual and his family, at home and in society. A separate analysis is the evaluation of self-consumption in the rural environment. Among the products that are bought in the urban environment, in the rural environment they are produced and consumed within the household.

The minimum basket of decent living covers the need for goods and services for current consumption. In RIQL it is calculated for two employees with two children of school age, from urban and rural areas. The structure of the minimum decent basket includes the following chapters: 1. food; 2. clothes, shoes; 3. housing; 4. services; 5. education; 6. professional training; 7. social status (the development and participation of the individual in society).

The minimum subsistence basket is different from the decent minimum by the elements of development and social affirmation of a person, which do not exist in survival. In RIQL it is calculated for two employees with two children of school age, from urban and rural areas. The two baskets are updated monthly with the inflation rate taken from the National Institute of Statistics.

Equivalence scale. The consumption needs of the adult man/head of the family, of the adult woman/wife of the head of the family, of school-aged boys and girls are calculated using the equivalence scale or the consumption per equivalent adult. The calculation of consumption per equivalent adult starts from the needs of the first active adult in the household, who receives the value 1; it continues with the second adult in the household, the wife of the head of the household, who has a consumption of 0.9 of what is needed by the first adult, i.e. the husband. The expenses for the first child represent 0.7 of the expenses of the first adult in the household, i.e. the child's father. The second child consumes 0.5 of the consumption of his father, the first adult in the household. The equivalence scale for the family of two active adults with two dependent children calculated in RIQL is: $3.1 (1+0.9+0.7+0.5)$.

The components of the consumption basket calculated in the model

Food consumption is based on the consumption norms established by nutritionists from the Institute of Hygiene and Public Health in Bucharest. These consumption norms for an adult working under average conditions of physical and intellectual effort fall between

2,700 and 3,200 calories per day. In RIQL, the calorie minimum of 2,700 was chosen.⁸⁻¹⁵

For *clothing/footwear expenses*, the gender of the person for whom the calculation is being made and the season were taken into account.

The house consists of 3 rooms for employees, respectively farmers with children and 1 room (studio) for the family of the third age, from urban and rural areas. The other expenses related to housing, electrical and household items, sanitary and hygiene items, textile items for household use, crockery, cutlery, household items, other household products, then expenses related to cultural services, personal hygiene, services of repair and maintenance of clothing and footwear were properly established for four people, urban, rural.

The transport includes: 2 monthly subscriptions, on a means of public transport, in the case of employees from the urban environment, who commute daily to work, for children not needed, considering that they go to schools near the home, and a trip a date per year by train on vacation.

School supplies and other stationery concern, in particular, the school requirements of children, but also a minimum necessary for adults.

Medicines cover what is strictly necessary for the first aid kit and not a long treatment, starting from the premise of healthy aging.

A safety and economy fund was also taken into account, in order to cover the various expenses necessary in unforeseen events that occur in people's lives.

In the following we present the minimum decent basket for a family of two salaried adults with two dependent children, who live in the urban or rural environment, compared to the average expenses per household in Romania declared by the NIS, at the level of the first quarter of the current year, taken as a reference.

The level and structure of the minimum decent basket for a salaried family with two dependent children, detailed by component; comparison with the level and total monthly consumption expenses for a family of employees in the second quarter of 2022 calculated by the NIS (Table 1).¹⁶

The structure of the consumption basket calculated by the RIQL method, for the family of two employees with two dependent children and the average monthly consumption recorded by the NIS, for the same type of family, at the level of the second quarter of 2022 highlights the fact that the value of the decent minimum from the environment was 3,216 lei, compared to the average monthly consumption of 5,375 lei.

*59.8% represented the value of the standardized basket calculated in the Research Institute for Quality of Life from the value of the basket calculated by the National Institute of Statistics.*¹⁶

The level and structure of the minimum decent basket for a salaried family with two dependent children, who have credit with First House Government Program for the purchase of the home, detailed by component (Table 2).¹⁶

The structure of the consumption basket calculated by the RIQL method, for the family of two employees with two dependent children and the average monthly consumption recorded by the NIS, for the same type of family, at the level of the II quarter of 2022 highlights the fact that the value of the minimum decent rate at the bank it was 4,540 lei, compared to the average monthly consumption of 5,373 lei.

84.5% represented the value of the normalized basket with the bank rate calculated in the Research Institute for Quality of Life from the value of the basket calculated by the National Institute of Statistics.

The level and structure of the minimum decent basket for a salaried family with two dependent children, living with rent in a 3-room apartment, broken down by component (Table 3),^{17,18}

The structure of the consumption basket calculated by the RIQL method, for the family of two employees with two dependent children,

who pay rent on a 3-room apartment and the average monthly consumption recorded by the NIS, for the same type of family, at the level of the second quarter of 2022, highlights the fact that the value of the decent minimum was 6,116 lei, compared to the average monthly consumption of 5,375 lei.

113.8% represented the value of the normed basket with rent payment calculated in the Research Institute for Quality of Life from the value of the basket calculated by the National Institute of Statistics.

Table 1 The minimum decent basket for the family of employees with housing in the property, at the level of September 2022

Total consumption expenditure calculated in RIQL, September 2022	Lei	%	The level and structure of total consumption expenditures, in the second quarter of 2022*	Lei	%
1. Food and drinks	1,379.70	42.9	1.1. Agri-food products and non-alcoholic beverages +	1,886.60	35.1
			1.2. Alcoholic beverages, tobacco	419.3	7.8
			1. Total	2,305.90	42.9
2. Clothing, footwear	173.7	5.4	2. Clothing and footwear	392.4	7.3
3. Home maintenance, water, electricity, gas and other fuels	501.7	15.6	3. Housing, water, electricity, gas and other fuels	833	15.5
4. Furniture, housing equipment	164	5.1	4. Furniture, equipment and home maintenance	317	5.9
5. Health	266.9	8.3	5. Health	290.3	5.4
6. Transportation	25.7	0.8	6. Transportation	419.3	7.8
7. Post and telecommunications	67.5	2.1	7. Information and Communications	268.8	5
8. Education, recreation and culture	164	5.1	8.1. Recreation, sport and culture	107.5	2
			8.2. Education	26.9	0.5
			8. Total	134.4	2.5
9. Various products and services	151.2	4.7	9. Personal care, social protection and miscellaneous	290.3	5.4
10. Hotels, cafes, restaurants	0	0	10. Hotels, cafes and restaurants	91.4	1.7
11. Safety fund and savings	321.6	10	11. Insurance and financial services	32.2	0.6
Total expenses September 2022	3,216.00	100	Total consumption expenses quarter II 2022	5,375.00	100

* Press release No. 248 / October 5, 2022, NIS, Romania, link: income and expenses of households communicated | National Institute of Statistics (insse.ro), website consulted on 11.11.2022.¹⁶

Table 2 The minimum decent basket for the family of employees who pay installments on a bank loan obtained with the First Home Government Program, at the level of September 2022

Total consumer expenditure calculated by RIQL in September 2022	Lei	%	The level and structure of total consumption expenditure, in the second quarter of 2022*	Lei	%
1. Food and drinks	1,379.70	42.9	1.1. Agri-food products and non-alcoholic beverages +	1,886.60	35.1
			1.2. Alcoholic beverages, tobacco	419.3	7.8
			1. Total	2,305.90	42.9
2. Clothing, footwear	173.7	5.4	2. Clothing and footwear	392.4	7.3
3. Home maintenance, water, electricity, gas and other fuels	501.7	15.6	3. Housing, water, electricity, gas and other fuels	833	15.5
4. Housing rate (Home Loan)	1,561.80	34.4	-	0	0
5. Furniture, housing equipment	167.9	3.7	4. Furniture, furnishing and home maintenance	317	5.9
6. Health	154.4	3.4	5. Health	290.3	5.4
7. Transportation	190.7	4.2	6. Transportation	419.3	7.8
8. Post and telecommunications	22.7	0.5	7. Information and Communications	268.8	5
9. Education, recreation and culture	63.6	1.4	8.1. Recreation, sport and culture	107.5	2
			8.2. Education	26.9	0.5
			8. Total	134.4	2.5
10. Various products and services	154.4	3.4	9. Personal care, social protection and miscellaneous	290.3	5.4
11. Hotels, cafes, restaurants	0	0	10. Hotels, cafes and restaurants	91.4	1.7
12. Safety fund and savings	454	10	11. Insurance and financial services	32.2	0.6
Total September 2022 with bank credit for the purchase of the house	4,540.00	100	Total consumption expenses in the quarter. II 2022	5,375.00	100

* Press release No. 248 / October 5, 2022, NIS, Romania, link: income and expenses of households communicated | National Institute of Statistics (insse.ro), website consulted on 11.11.2022.¹⁶

Table 3 The minimum decent basket for wage-earning families, living with rent, at the level of September 2022

Total consumption expenditure	Lei	%	The level and structure of total consumption expenditure, in the second quarter of 2022*	Lei	%
Sep-22					
1. Food and drinks	1,253.70	20.5	1.1. Agri-food products and non-alcoholic beverages + 1.2. Alcoholic beverages, tobacco	1,886.60	35.1
			1. Total	419.3	7.8
				2,305.90	42.9
2. Clothing, footwear	152.8	2.5	2. Clothing and footwear	392.4	7.3
3. Home maintenance, water, electricity, gas and other fuels	354.7	5.8	3. Housing, water, electricity, gas and other fuels	833	15.5
4. Rent a 3-room apartment 600 Euro**	2,930.10	47.9	0	0	0
Exchange rate Euro/lei 1 Euro=4.89***					
5. Furniture, housing equipment	152.8	2.5	4. Furniture, furnishing and home maintenance	317	5.9
6. Health	262.9	4.3	5. Health	290.3	5.4
7. Transportation	48.9	0.8	6. Transportation	419.3	7.8
8. Post and telecommunications	61.1	1	7. Information and Communications	268.8	5
9. Education, recreation and culture	165.1	2.7	8.1. Recreation, sport and culture	107.5	2
			8.2. Education	26.9	0.5
			8. Total	134.4	2.5
10. Various products and services	122.3	2	9. Personal care, social protection and miscellaneous	290.3	5.4
11. Hotels, cafes, restaurants	0	0	10. Hotels, cafes and restaurants	91.4	1.7
12. Safety fund and savings	611.6	10	11. Insurance and financial services	32.2	0.6
Total September 2022 with rent payment for a 3-room apartment	6,116.00	100	Total consumption expenses in the quarter II 2022	5,375.00	100

* Press release No. 248 / October 5, 2022, NIS, Romania, link: income and expenses of households communicated | National Institute of Statistics (insse.ro), website consulted on 11.11.2022.¹⁶

** Analysis Study: Huge differences between the rents requested by the owners and what the tenants want to pay (wall-street.ro), author Adrian Ungureanu, September 30, 2022, website consulted on 11.11.2022.^{17,18}

Conclusions and scenarios starting from the normed consumption basket calculated in ICCV in which we have 3 variants

S1: the family of two adults with two dependent children is considered to own the home.

S2: it is considered that the family of two adults with two dependent children has a bank loan in progress in order to purchase their own home.

S3: it is considered that the family of two adults with two dependent children does not have its own home and pays a monthly rent. Medium-term forecast for the 2022-2026 timeframe, given by the National Strategy and Forecast Commission (Table 4).

Table 4 The value of the net minimum wage in different scenarios, the range 2022-2026

Year	2022 September	2023	2024	2025	2026
General index of price growth (%)	3.5	3.7	4.7	4.5	4
Consumption basket NIS (lei)	5,375 (quarter II)	5,574	5,836	6,099	6,343
From the value of the baskets, the allowances of the 2 children are subtracted $243 \times 2 = 486$ lei and divided by 2 employees =	2,445	2,544	2,675	2,807	2,929
RIQL consumption basket (lei)					
- scenario 1	3,216	3,335	3,492	3,649	3,664
- scenario 2	4,540	4,708	4,929	5,151	5,357
- scenario 3	6,116	6,342	6,640	6,939	7,217
From the value of the baskets, the allowances of the 2 children are subtracted $243 \times 2 = 486$ lei and divided by 2 employees = the value of the RIQL net minimum salary (lei)	1,365	1,425	1,503	1,582	1,589
	2,027	2,111	2,222	2,333	2,436
	2,815	2,928	3,077	3,227	3,366

In September, the monthly consumption basket calculated by the NIS (quarter II) was 5,375 lei, and in 2026 it would be 6,343 lei. Therefore, the value of the minimum wage after the NIS basket would reach 2,929 lei net in 2026.

The RIQL variant leads to a minimum net salary of 3,366 lei, if the rent payment in a 3-room apartment for a family of two employees with two dependent children is taken into account, or to 2,436 lei, if that family pays an installment of bank for the purchase of the home.

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Conflicts of interest

The author has no conflicts of interest to declare.

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