

PRINCIPLES OF ROMANIAN WAGE PRACTICES– A CHALLENGE TO THE ANNUAL PUBLIC BUDGET

Terci Nicolae

“Constantin Brâncoveanu” University of Pitești Faculty of Finance – Banks Contact address: Pitești, str. Craiovei, Bl. 18bis, Sc.A, Ap.6, Jud. Argeș (Pitești, Craiovei Street, Block 18A, Entrance A, Flat number 6, Argeș County) E-mail: Nicolae.Terci.AG@mail.mfinante.gov.ro Telephone: 0722.450.448; 0740.224.631; 0248/217.954

Romania’s integration to the European Union has been creating new challenges to the financial and economic market against the background of the crisis that has extended to all globalised economies. Economy contraction, GDP drop, unemployment increase and the absence of financing from the market are challenges to which rulers must find appropriate solutions. The high percentage of expenses on wages that added to the public expenditure had an unnatural evolution during the period comprised between 2005 and 2008. Expenses on staff increased by 73%, while the GDP increased by 40%. Between December 2004 and December 2008, the Government authorised basic wage adjustments that amounted to 86% on cumulated bases, accounting for almost three times the inflation rate. The present paper aims at making an analysis of the Romanian wage practices versus the European wage practices. The analysis makes arguments in order to support a reform of the Romanian wage system in the public sector that clearly represents a challenge to today’s rulers with respect to the decrease of the pressure laid on public budget.

Keywords: wage principles, European wage practices, wage structures.

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1.Introduction

The analyses made by the World Bank during the periods comprised between 2000 and 2005 and 2005 and 2006 emphasised a series of principles and characteristics of a wage system specific to a transition economy, insufficiently consolidated and with uncompleted reforms. The analysis pointed out a series of weak spots that have medium and long-term impacts on the efficiency and effectiveness of public services. In order to eliminate them, the Government must take measures with a view to elaborating a wage reform strategy. This reform resides with:

- first of all, it may begin by determining the categories of benefits according to a gradual approach corresponding to each and every one of them. Some benefits will be included immediately in the basic wage, while others will be redimensioned and kept as benefits, some of them will be progressively eliminated, while others will be immediately and integrally eliminated;

- second, the Government may initiate a programme of merger of some positions into a single wage gradation. The decrease of the budget will determine the rhythm of implementation of structural reforms.

The support provided for the reform will be higher if resources allow for a higher number of persons to obtain such wage increase despite the structural changes. The performance of such strategy will be made difficult by the trade union structures. Instead of negotiating with the trade union, each year the wage policy will be guided by a multiannual framework that can reduce the pressure laid on the budget.

2.Principles of Romanian wage practices

The long-term improvement of the public administration quality in Romania depends on many factors. The high level of budget resources may not solve the challenges that the public administration faces. The expenses on wages in the public sector have increased very much after 2004, but the system, the general remuneration principles and career promotion corresponding to

public offices have not changed very much. The annual wage increases are subject to ad hoc negotiations with the trade unions and are reflected by increases of the basic wage.

The facilities necessary with a view to attracting skilled staff and to motivate performance are still reduced.

The transparency and the perception of equity are eroded by the high dependency on benefits and bonuses that determine the total wage.

The wage dispersion for similar positions is higher than may be explained by the differences of work responsibilities.

It is necessary to redimension the benefits, while the fixed part of the wage (basic wage) must account for a higher percentage of the total income.

Time (seniority) requirements between gradations create rigidities within the wage structure, by maintaining the newcomers to decreased gradations and levels and by limiting a lot the wage promotion opportunities. In order to perform the release a greater flexibility is needed for career promotion.

Performance incentives are undermined by the percentage held by the seniority benefit and by the weak connection with the work responsibility. Therefore, the persons having a reduced responsibility may accumulate higher wages only due to the number of years worked in the public sector.

The wage differences must be determined first of all by the responsibility differences.

The seniority benefit must be redimensioned in time and finally eliminated because it has nothing to do with performance. Savings obtained this way may be used to redimension the fixed part of the wage (basic wage).

The public administration quality may be improved by performing a better alignment between work responsibilities and wage on the basis of the following aspects:

- by means of a review of the contents of work corresponding to certain positions that may confirm whether there are reasons justifying higher differences;
- the labour market conditions do not justify the continuation of current wages;
- the negotiation process of the collective labour agreement with the trade unions must be refined so that it may accommodate all adjustments of the system;

The responsibility agents (Government) must elaborate a long-term strategy in order to improve the information management and to report the wage practices in the public sector.

Various staff categories in the Romanian public sector are regulated pursuant to special laws. The description of wage components in connection with all staff categories render evident similar characteristics and special benefits.

The employees in the Romanian public sector do not receive "equal wage for equal work." There are no correlations between staff categories. The basic wages for similar career positions are very different. The Government has failed to carry out a comprehensive analysis of the wage system in the public sector of the last 10 years. Therefore wage discrepancies have increased and discontent has resulted, especially within the categories that receive lower wages.

The lack of equity within the system is due to the staff category division according to their basic wages: policemen, health and education employees constantly receive higher wages than public and contractual servants. Within these two groups, the fixed part of the wage (basic wage) is approximately the same, but the variable part thereof is significant.

The wages are not attractive to young graduates.

The wages of the public servants and of the contractual staff of the local administration are inferior to the wages received by those in the central administration.

3.Principles of European practices

Within the European Union countries there are large variations regarding the application of wage practices in the European public sector. But they have a set of common objectives that are encountered in the majority of the European Union countries:

- ensurance of consistency, equity and transparency;
- creating wage differences that may offer facilities to the staff with a view to perform well and to seek higher responsibility levels;
- establishment of wages according to the wage levels of the market in order to attract and maintain the skilled staff.

On the basis of a series of reports drafted by certain consultancy companies, a summary of key elements relative to European wage practices may be drawn up:

- The basic wage makes up the main element of the total income, accounting for at least 90% of the total income. There are still many administrations that use benefits in order to reflect special work conditions, but by limiting the number and the size of the benefits the transparency of the compensation system and the perception of position fairness are increased.

- Bonuses are not a habitual element. Generally, the creation of a bonus system within the public sector is faulty. Normally bonuses are financed by using special budget allowances. The money saved from unfilled vacancies may not be used to pay the bonuses of the occupied staff. The budgets of the minister finance the levels of occupied positions and the resources of any kind that are not used return to the treasury.

- In kind benefits (accomodation, motor vehicles, mobile telephones) are infrequent. These benefit schemes are deeemd to be costly.

- The wage levels in the public services are smaller in comparison with the wage levels in the private sector. They vary from one country to another but generally they represent approximately 70%-80% of the wage levels in the private sector. The low level of wages corresponding to public offices is compensated by a higher work security than in the private sector.

- The wage structures are usually based on a series of gradations that reflect the relative contents of the work. The gradation for a position is usually determined on the basis of a work assessment system that assigns the post of gradations according to the assessment of results, responsibilities, knowledge and necessary competence.

- For each gradation there usually is a wage scale that allows the staff corresponding to each level to receive an annual wage increase (without exceeding the maximum of the wage scale) that reflects the higher experience and the performance with respect to the level of the position concerned. The size of the wage scale differs but is usually does not exceed 50%.

- Seniority plays a subordinate role with respect to the job responsibilities. The benefits associated with the experiences are related to a certain post or gradation. After having reached the top of the wage scale, other wage increases require an increase of work responsibilites (namely a promotion).

- There is a significant difference between the levels of successive gradations amounting to approximately 12% (in some countries it usually reaches higher percentages) from the middgle of one gradation to another. This way, the staff is financially motivated to accept higher responsibilities for the work performed. Performance is motivated within the gradation because this way promotion receives a high value.

- There is a single gradation and wage structure within each public sector or occupational family (for example, persons working in the health field, teachers,), which reflects the “human resources” principle – “equal payment for equal work.” This way it is guaranteed that the employees in all public sectors have the same level of training, approximately the same work complexity, the same responsibility and work conditions and are equally paid.

- The wage structure is meant to achieve an equal remuneration competitiveness for the positions in the public sector. In other words, if the objective of the Government is to offer

payments at the average level of the private sector, it should do the same for all the positions within a category of the public sector.

4. Conclusions

The reforms of the wage systems in the public sector have clearly become a great challenge because they are bound to affect many interest agents. This has become pressingly necessary in order to decrease the pressure laid on budget expenses and in order to meet the budget deficit permitted by the European Union. The political problems that affect the initiation of wage policies seem to be more important and difficult to solve than the technical problems.

The present paper offers an analytical basis for understanding the problems of the current system and it also provides modalities of system alignment with the European wage practices.

Within the countries that faced similar challenges (Poland, Czech Republic, Hungary) the reforms were part of a comprehensive strategy and they were structured according to stages that comprised several years.

Long-term improvement of the Romanian public administration quality depends on many factors in the reform of the wage system. Higher levels of resources granted from the budget (for example, the period comprised between 2004 and 2008) will not necessarily solve the challenges that the public administration faces. The main challenges reflected by the wage practices are as follows:

- The transparency and the perception of equity are eroded by the high dependency on benefits and bonuses of the total wage.
- The wage dispersion for similar positions is much higher than may explained by work responsibility differences or gradation.
- The benefits must be redimensioned according to the basic wage and they must account for a smaller percentage of the total income.
- The facilities for attracting well trained staff seem to be extremely reduced seen from the outside.
- The stimulation for achieving performance is undermined by the percentage of the benefits associated with seniority and the weak connection with the work responsibility.

All these wage principles may lead to a reasonable redimensioning of wage expenses that may account for 5% of the GDP and thus may reduce the pressure laid on annual budgets.

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