MINIMUM WAGE AND TAX COMPETITION BETWEEN THE E.U. MEMBER COUNTRIES AS AN ENGINE OF ECONOMIC BALANCE

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Abstract: *Today we are living in a flat world, a place where all the economies are competing with each other from different perspectives. This paper will not be only about the fiscal competition, but also about the minimum wage which can provide some competitive advantages to the companies enlisted in the European Union countries. The issue is not about the developed countries, economically speaking, but about those which are in no such conditions. In the first part of the paper there will be some fiscal competition details presented: direct and indirect taxes, income tax rates, social security contributions and many other aspects which concern the fiscal policy of the member countries of the European Union. After that the nature, the strength and the intensity of the correlation between those fiscal aspects and the minimum wages that are applied in these countries will be tested. The paper will try to prove if these elements of those two categories are, together, able to provide some competitive advantages to the economies which are less economically developed. In this respect, the paper will use data from European statistics – EUROSTAT, and, also, data from the financial analysis companies. Based on these facts, the paper will conclude whether a link could be established between minimum wage and fiscal elements, on one hand, and some economic advantages for some of the member countries, on the other hand. All these will result in an increase in the economic balance, in order to align the less developed countries with the advanced ones in this perspective.*

Keywords: minimum wage, fiscal competition, social security contributions, competitive advantages, European Union.

JEL classification: D31, E62, J31, J38

1. Generally introduction

The whole world is full of treaties, agreements and many other forms of cooperation, especially in the economic field. There are Unions, Associations, Organizations and Institutions which are keen to provide equal treatment to all their members. But nonetheless, the world is facing a rampant inequality between countries even they are members of the same group. In this respect, some of those countries try to acquire competitive advantages through various methods and using many instruments. This paper will try to observe some of these instruments and methods and will try to find out if there are correlations between them and the economic development.
The research will be conducted based on the member countries of the European Union and the indicators which will be considered will be as follows:

- Corporate tax, as an important element of the fiscal policy, which is also an effective lever for investments guidance;
- Payroll taxes, which consists in social contributions, health insurance, retirement payments and others. These are important when the investment decisions are

made, because companies are interested in the cash-flows that are determined by these taxes, cash-flows which can be incentives or, conversely, impediments to investment decisions;
- Minimum wage, which is the amount that each company, as employer, must pay to each employee that company uses as labour force.

The data that will be used in the paper are from EUROSTAT webpage and other data provided by the government authorities from the countries that are European Union members and some financial analysis companies. The paper will observe all the 28 states, including the United Kingdom, in spite of the Brexit following procedures, because this country is still European Union member and until all the above mentioned procedures will be in place, United Kingdom is an important actor on European economic stage.
As research instruments, the paper will use tables and charts which will provide suggestive images about all the indicators being under study. Tables will summarize the data from the above mentioned sources and the charts will be a completion of the information provided by the data from the tables.
The European Union member states will be considered in alphabetic order and all the fiscal related data will be as percent. The minimum wage will be expressed as an absolute amount where applicable.
For each indicator existing data available at the time of preparation of this paper will be presented. In addition, the charts will carry an average value for each of the studied indicators. This value will be another useful research instrument, providing more information about the behaviour of these indicators.

2. Comparative analysis of the corporate tax in the member states of the European Union

First the paper will study the corporate tax which is levied in the European Union countries. Tax rates for this fiscal aspect will be presented as it is practiced in the Member States.

Table 1: Corporate tax rates as they are levied in the European Union member states

No.	Country	Corporate tax rates (%)
1.	AUSTRIA	25
2.	BELGIUM	33.99
3.	BULGARIA	10
4.	CROATIA	20
5.	CYPRUS	12.5
6.	CZECH REPUBLIC	19
7.	DENMARK	22
8.	ESTONIA	20
9.	FINLAND	20
10.	FRANCE	33.3
11.	GERMANY	29.72
12.	GREECE	29
13.	HUNGARY	19
14.	IRELAND	12.5
15.	ITALY	31.4
16.	LATVIA	15
17.	LITHUANIA	15
18.	LUXEMBURG	29.22

No.	Country	Corporate tax rates (%)
19.	MALTA	35
20.	NETHERLANDS	25
21.	POLAND	19
22.	PORTUGAL	21
23.	ROMANIA	16
24.	SLOVAKIA	22
25.	SLOVENIA	17
26.	SPAIN	25
27.	SWEDEN	22
28.	UNITED KINGDOM	20

Source: data provided by https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html

From the Table no. 1 it can be seen that there is a wide range of values, from 10 percent in Bulgaria to 35 percent in Malta. With an average value of 22.09 percent it can be observed that only ten countries are situated above the average while three of them are very close to that value. All the rest are beneath. There will be removed all the countries which are about the average value because those do not help the research. There will be retained those countries which are below 20 percent and above 29 percent and will result a number of seven countries above and nine below.

Based on the data from Table no.1 below will be presented a figure that will show the information in a more comprehensive way.

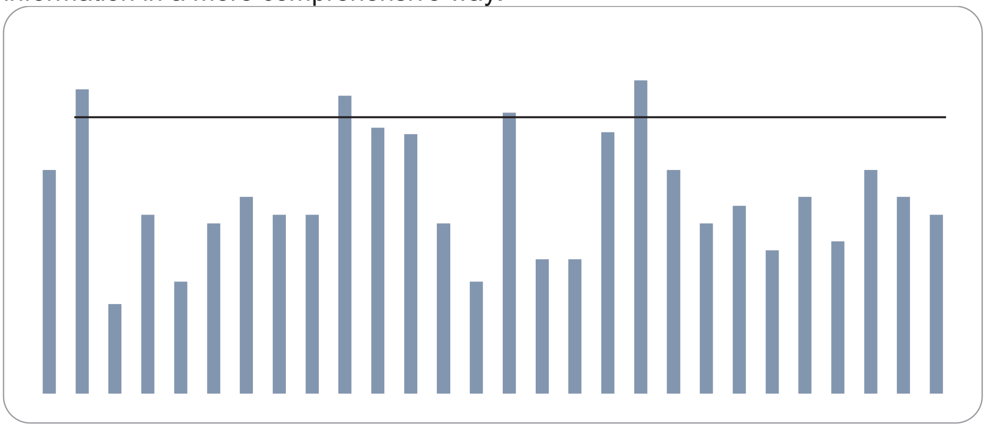

Figure no.1 Corporate tax rates as they are levied in the European Union member states
Source: made by the author, based on the data presented in the Table no.1

In this respect, the investors should take as an option to place their money in these last nine countries, because there they will pay less as corporate tax and as a consequence their companies` capitalization will increase accordingly.

In the same manner, these countries will benefit from the FDIs, will face a lower level of unemployment and an increase in their GDP.

But this is not the only factor that should be considered in an investment analysis. As the profit is a difference between revenue and expenditure, the investors will not quantify the revenues only, but also the expenditure side of the question. They think that they will make money out of their investments, but at what costs?

One of the important costs is linked to the capital, but the paper will ignore it, focusing instead on the work-related costs, which are the salaries and social contributions that have to be paid by the companies.

3. Comparative analysis of the payroll tax in the member states of the European Union

This part will be about the social contributions paid by the companies, commonly known as payroll tax. These are unemployment contribution, pension contribution, health insurance and other labour-related costs.

Table no. 2 Payroll tax rates as they are levied in the European Union member states

No.	Country	Payroll tax rates (%)
1.	AUSTRIA	21.48
2.	BELGIUM	35
3.	BULGARIA	17.9
4.	CROATIA	17.2
5.	CYPRUS	11.5
6.	CZECH REPUBLIC	34
7.	DENMARK	LUMP SUM
8.	ESTONIA	33.8
9.	FINLAND	24.99
10.	FRANCE	43.4
11.	GERMANY	19.33
12.	GREECE	25.06
13.	HUNGARY	28.5
14.	IRELAND	10.75
15.	ITALY	30
16.	LATVIA	23.59
17.	LITHUANIA	30.98
18.	LUXEMBURG	15.2
19.	MALTA	10
20.	NETHERLANDS	18.47
21.	POLAND	20.61
22.	PORTUGAL	23.75
23.	ROMANIA	23.45
24.	SLOVAKIA	35.2
25.	SLOVENIA	16.1
26.	SPAIN	29.9
27.	SWEDEN	31.42
28.	UNITED KINGDOM	13.8

Source:https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/social-security-employer-tax-rates-table.html

From the Table no.2 it is obvious that there are also in a wide range of values, from 10 percent in Malta to 43.4 percent in France. An interesting situation is in Denmark, where is levied a lump sum for each worker per annum. For a better image a figure will be presented below:

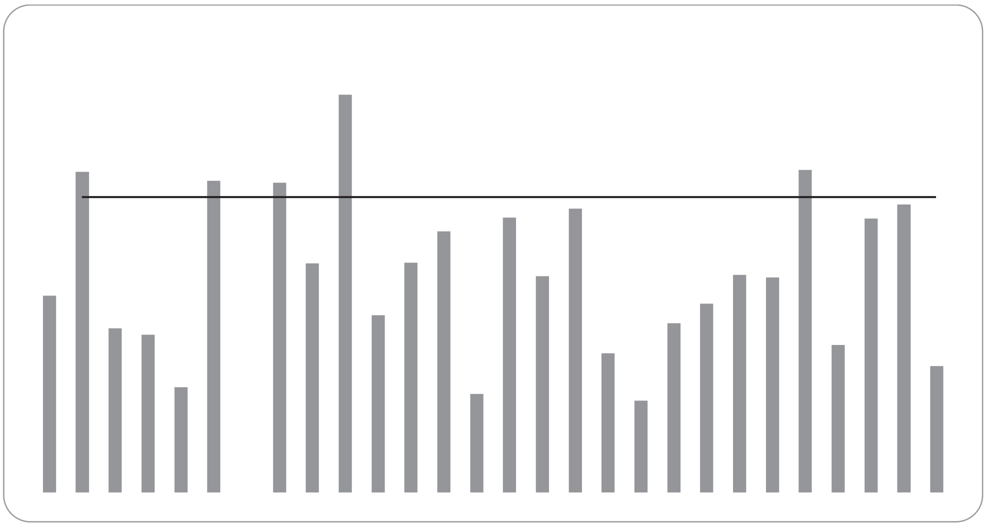

Figure no. 2 Payroll tax rates as they are levied in the European Union member states
Source: made by the author, based on the data presented in the Table no.2

Removing the countries which are situated about the average value of 23.05 percent, there will be retained, for a partial analysis, those which are above 30 percent and those which are below 15. The result is that there are eight countries with values greater than 30 percent and only five lower than 15.

It can be observed from the Figure no. 2 that those five countries are considered well developed from an economic point of view and it can be assumed that their workers are better prepared for economic activities, so the investors should put their money in those countries economies, because they will pay less for the work-related costs.

4. Comparative analysis of the minimum wage in the member states of the European Union

For a more comprehensive image it is need to be considered the minimum wage also.

Table no. 3 Minimum wage in the European Union member countries

No.	Country	Minimum wage (EUR)
1.	AUSTRIA	0
2.	BELGIUM	1531.93
3.	BULGARIA	214.75
4.	CROATIA	414.45
5.	CYPRUS	0
6.	CZECH REPUBLIC	364.9
7.	DENMARK	0
8.	ESTONIA	430
9.	FINLAND	0
10.	FRANCE	1466.62
11.	GERMANY	1440
12.	GREECE	683.76

No.	Country	Minimum wage (EUR)
13.	HUNGARY	350.09
14.	IRELAND	1546.35
15.	ITALY	0
16.	LATVIA	370
17.	LITHUANIA	380
18.	LUXEMBURG	1922.96
19.	MALTA	728.04
20.	NETHERLANDS	1537.2
21.	POLAND	417.02
22.	PORTUGAL	618.33
23.	ROMANIA	276.34
24.	SLOVAKIA	405
25.	SLOVENIA	790.73
26.	SPAIN	764.4
27.	SWEDEN	0
28.	UNITED KINGDOM	1343.01

Source: data provided by
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en

In the Table no. 3 there can be seen countries with no regulations in this case of minimum wage and are countries with significant high values for that. On one hand, Austria, Cyprus, Denmark, Finland, Italy and Sweden have no minimum wages that have to be paid to their citizens in labour relations. On the other hand, Belgium, France, Germany, Ireland, Luxemburg, Netherlands and United Kingdom are countries where the minimum wage has it`s peaks, with the higher in Luxemburg – 1922.96 EUR.
In the figure below the data will be more clearly represented:

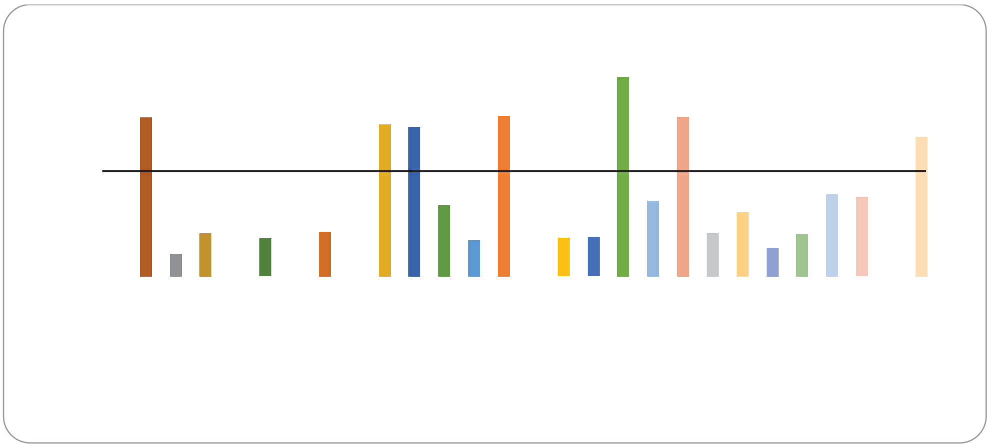

Figure no. 3 Minimum wage in the European Union member countries
Source: made by the author, based on the data presented in the Table no.3

There are seven countries that are practicing a minimum wage at a higher level, but there are, also, ten below the average value of 642 EUR, excluding the countries with no such regulations. Maybe those ten states, especially Bulgaria and Romania, could be interesting for the investors who are willing to pay as less as possible for the labour

production factor. But this is not a good option, on long term, because the workers from these countries may become de-motivated with bad results in quality and productivity.
Remaining on the investors` perspective, there are countries with better investment conditions caused by low levels of minimum wage, other by the reduced corporate tax rates and other by lower payroll tax rates.

5. In conclusion

In order to obtain a good result from this research, it needs to maintain focus only on those countries which have values for all the studied indicators and are in the lower part of the value range for them. So, the study retains only the countries which have cumulative as follows:

- the minimum wage under the value of 1000 EUR;
- a corporate tax rate under 20 percent;
- a payroll tax rate under 30 percent.

As a result there will be only eight states which are cumulative comply the above established conditions: Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Romania and Slovenia.
In order to make a comparison between these countries the study will compose a analysis model which multiplies the minimum wage (MW) amount by the payroll tax rate. The resulted value (Social Security Contribution – SSC) will be added to the amount of the minimum wage and will give a labor cost related to the minimum wage. This cost will be presented in the next table.

Table no. 4 Total labor cost related to the minimum wage in some countries member of the European Union – Comparison

No.	Country	MW(EUR)	Payroll tax rates (%)	SSC(EUR)	Total labour cost (EUR)
1.	BULGARIA	214.75	17.9	38.44	253.19
2.	CROATIA	414.45	17.2	71.29	485.74
3.	CZECH REPUBLIC	364.9	34	124.07	488.97
4.	HUNGARY	350.09	28.5	99.78	449.87
5.	LATVIA	370	23.59	87.28	457.28
6.	POLAND	417.02	20.61	85.95	502.97
7.	ROMANIA	276.34	23.45	64.80	341.14
8.	SLOVENIA	790.73	16.1	127.31	918.04

Source: data provided by EUROSTAT. Calculation was made by the author

From the Table no. 4 results that there is a group of states which coagulates around the average value of 487 EUR: Croatia, Czech Republic, Hungary, Latvia and Poland, two countries with significant lower values – Bulgaria and Romania and one country with a greater value – Slovenia.
The figure below will show better how these countries are situated from this point of view.

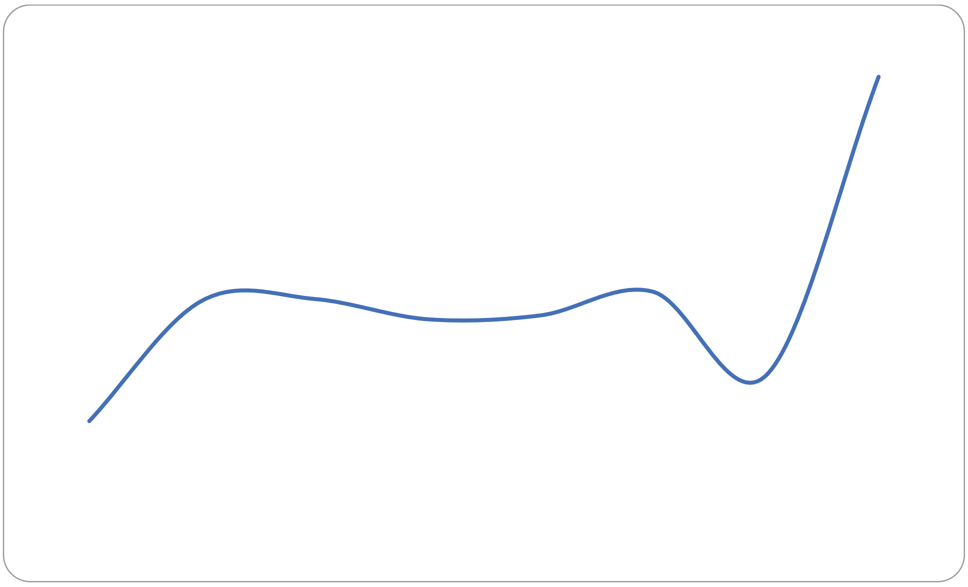

Figure no. 4 Total labor cost related to the minimum wage in some countries member of the European Union – Comparison
Source: made by the author, based on the data presented in the Table no.4

the best countries to invest in, correlated with the corporate tax rates that are levied in these countries – 10 percent for Bulgaria and 16 percent for Romania, rates that are among the lowest in the European Union.
Of course, there are many other factors that underpin investment decisions, but the reality of the figures cannot be ignored.
Nonetheless, the tax competition between the European Union countries is a fact and the results of this competition are the low unemployment (at least in the case of Romania) where the FDI were made subsequent to the lowered tax rates and the amount of the minimum wage, the increase in the GDP are also a reality.
As it was mentioned above, the low amount of the minimum wage could de-motivate the workers with the result in a lack of productivity and a poorer quality of products and services.
Those countries, like Romania and Bulgaria, are trying to reduce the economic differences between them and the European Union average, but they easily may turn in some economic colonies where the capital is going because of the low labour costs and the remuneration of capital will be greater than labour`s. (http://www.analizeeconomice.ro/2016/12/cum-sunt-remunerati-cei-doi-factori-de.html).
For example, in Romania, the balance is almost 60/40 in favor of the capital which is in opposite with the European Union average.
The economic balance between those two production factors – labour and capital should be sought and preserved without neglecting the labour force in comparison with the capital. Even if the capital is crucial for the economy, it is not all. A country may attract investments, but they are nothing without the people that will have to run the investment projects and to work in those projects. And those people will have to be motivated towards work with performance-related salaries. It is not about emigration, but about the payment equity between the member countries of the European Union.

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