

EMPLOYMENT AND WAGES IN THE PUBLIC SECTOR IN ROMANIA IN THE EUROPEAN CONTEXT

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ABSTRACT: *Within the current environment where some EU countries, including Romania, as a member state, aim both to consolidate public finances and to rebalance their economies, we consider that more attention needs to be paid to interactions between public wages and employment. In this context, the aim of this article is to analyse the employment and wages in the public sector, as well as the public-private sector wage gap, in Romania, in the 2008-2017 period. The dynamics of the number of employees and salaries in the public sector was affected by the modification of legislation which in turn was influenced by the macro-economic conjuncture and the current political context. Our results highlight significant wage gaps and still widening, on the one hand, between public and private sector in favour of public employees, and between activities of public sectors in favour of public administration employees, on the other hand. Romania, as a EU member state, in order to assure sustained public finances in the sustainable development framework, should pay more attention to better aligning public wage to productivity and labour market conditions as well as to achieving fiscal targets set.*

KEYWORDS: *public sector; employment; wage; public-private wage gap; Romania, EU*
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1. INTRODUCTION. A SHORT LITERATURE REVIEW

Public employment is considered a key resource of modern statehood (Tepe, 2009), the government being for a long time a major employer in the economy (OECD, 2015). The expansion of the government in the long run in terms of employment as well as expenditure has been mainly the result of the expansion of the welfare state (Tepe, 2009; EU, 2014). Jobs in the public sector are created because governments choose to supply goods and services produced directly by public employees (Caponi, 2017). Also, it is recognized that public sector employment can generate demand in other sectors of the economy (e.g. private sector) and can have an important redistributive effect. The diversity of activities undertaken by governments and the ways in which they provide public services determine large differences between countries relative to the size of employment in the public sector. Moreover, services can be provided mainly by the government employees or through a range of partnerships with the private or not-for-

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profit sectors. Thus, in some countries, health and education services are provided directly by workers employed by the government, but in other countries, these services are delivered by alternative mechanisms which “mean that many of these professionals are employed by organisations that are not state-owned, or as private contractors” (OECD, 2017, p. 90).

As regards the development of the public sector labour markets, the studies (Tepe, 2009; Glassner, 2010; Glassner and Watt, 2010; ECB, 2011) show that, *before the 2008 financial crisis*, public sector employment has grown in many countries fact which had had consequences for both the overall macroeconomic performance and the public finances. As a result of austerity measures implemented as an effect of the financial crisis, a significant downsizing trend in the central government employment of many OECD countries was recorded, in the 2008-2013 period (OECD, 2015). At EU level, the main measures taken by many EU countries to consolidate their budget were frozen employment in the public sector by no longer hiring, as well as frozen or cut public sector wages (Glassner and Andrew, 2010). The EU key policymakers sustain the main following interlinked arguments in favour of cutting on public sector pay and employment in the financial crisis environment. Firstly, public sector employees have much more job security than private sector workers. Secondly, making cuts in public sector is the best way to obtain short-run improvements in the fiscal consolidation. Finally, taking into account that some European countries are confronted with low national competitiveness, public sector wage cuts are the most effective way to quickly reduce overall wages and prices, which leads to improvements in competitiveness (Glassner and Andrew, 2010).

The most recent OECD Report (2017) shows that general government employment as a percentage of total employment across OECD countries has remained relatively stable, increasing slightly from 17.9% to 18.1%, in 2007-2015 period, with some variation of this average in OECD countries. The same trend is confirmed at EU level, the share of public sector employees rose between 2007 and 2017, from 25.1% to 26.1% (Eurostat Database, 2018).

Taking into account that public employment in the EU countries records a significant share in total employment, the level and dynamics of public wages can generate considerable effects on the whole labour market, public finances, and implicitly on the overall economy. There are institutional, political, and economic reasons that can explain the setting of public and private sector wages (ECB, 2011; EU, 2014). The wage formation in the public sector compared with the private sector is more affected by institutional and political factors than the market forces (Glassner, 2010). Thus, wage growth in the public sector depends on the generally stronger organizational power of trade unions, but also on the restraints on public budgets. According to ECB (2011), the public sector is affected by political constraints whereas the private sector is affected by profit constraints. A higher remuneration level in the public sector than in private sector can attract the candidate workers to these relatively high-paying jobs having a ‘crowding out’ effect in the private sector unless wages increase in this sector (EU, 2014; Caponi, 2017). On the contrary, if wages are lower in the public sector than in the private sector, the quality of the public services could be negatively affected as a result of the difficulty to recruit and retain skilled employees (ECB, 2011). Some empirical findings (Malley and Moutosm, 1996; Algan et al., 2002) regarding the relationship between the public sector employment and private sector employment suggest that higher levels of public sector

employment lead to a reduction in private sector employment. Other studies (Lamo et al., 2013) found a positive link between private and public sector employment. The sign of this correlation is mainly determined by “the conditions of the labour market itself and how the private and public sectors compete” states Caponi (2017, p. 4). Moreover, Caponi (2017) highlights that the relative wage rate is the main source of competition between these sectors. At the same time, he underlines the importance of the rules adopted by the public sector to set wages of public employees in determining the overall effects of public employment.

In the public sector, the wages are set on the basis of national practices which differ significantly from one country to another according to the specific mechanisms established for decision making (EU, 2014; Vilerts, 2018). As EU (2014, p. 10) shows two main regimes can be identified. Firstly, “wages are mainly determined on the basis of *collective bargaining*” and secondly, “wages are determined on the basis of *unilateral decision* by the government”, including in Romania.

Past research (EU, 2014; ILO, 2015) has shown that, at the EU level, there are five major clusters in which countries set wages similarly: Nordic countries, New Public Management countries, Central European countries, Government-centered countries and Eastern European countries. Thus, *in the Nordic countries* (Denmark, Finland, and Sweden) the setting of wages is based on strong collective bargaining and on high degree of decentralization and coordination at national level including public and private sector. The main characteristics of the public sector in the Nordic states are high employment in the sector and union density. These countries do not have a statutory minimum wage. Countries enrolled in the *New Public Management countries group* (Cyprus, Italy, Ireland, and Netherlands) are characterized by many similarities with the Nordic group, but all countries (except Italy) have a statutory minimum wage. Also, there is a mixture of legislation and collective bargaining (except UK and Italy), but undertaking-level bargaining prevails at national level. The *Central European countries* (Austria, Belgium, Germany, Slovenia, and Luxembourg) recorded intermediate levels of trade union density and average public employment rates for the EU. Although these countries have common features of sector-level collective bargaining, the governments can set wages unilaterally in some cases. In the *Government-centered countries* (France, Greece, Malta, Portugal, Spain) the public employment is below the EU average and union density differs from one country to another. Centralized mechanisms led by the government, implemented through laws or national or inter-sectoral agreements, prevail. Moreover, a statutory minimum wage is set (except Greece). *Eastern European countries* (Bulgaria, Croatia, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia) are characterized by lower public employment rates than EU average and by low union density in the government sector. Wages are generally determined by Government, but for the local government wages can be set decentralized. Moreover, these countries (except Croatia) have a statutory minimum wage. *In Romania*, as a country included in the Eastern European countries group, according to Social Dialogue Law No.62/2011 (art. 138, paragraph 3), the wages of public employees are set by law within specific limits, which cannot be negotiated and modified through collective labor contracts. When wages are established by special laws within minimum and maximum thresholds, effective wage levels are determined through collective negotiations, but only within these legal thresholds.

Empirical research (ECB, 2011; Christofides and Michael, 2013; EU, 2014; Caponi, 2017; Roter et al., 2017; Vilerts, 2018) have highlighted public-private gaps in terms of wages in the EU countries. According to Campos et al. (2015), public-private pay gaps can be explained based on the monopolistic power of governments in the providing of public services which has as results non-competitive wage settlements. Also, it is shown that wage gaps tend to be larger in countries with lower shares of public employment. EU (2014) found a negative correlation between the public-private wage gap and the size of public employment in the labour force. Moreover, studies explain higher public wage than average wage, in both the private sector and the whole economy, by taking into account some differences in employment characteristics between the two sectors such as the fact that public sector employees are, generally, more educated, more likely to work full-time, older, and more likely to take managerial positions than private sector ones (ECB, 2011; Herman, 2012).

Within the current environment where some EU countries, including Romania, as a member state, aim both to consolidate public finances and to rebalance their economies, we consider that more attention needs to be paid to interactions between public wages and employment. In this context, *the aim of this article* is to analyse employment and wages in the public sector, as well as the public-private sector wage gap, in Romania, in the period with real challenge for sustainable public finances, 2008-2017 period respectively.

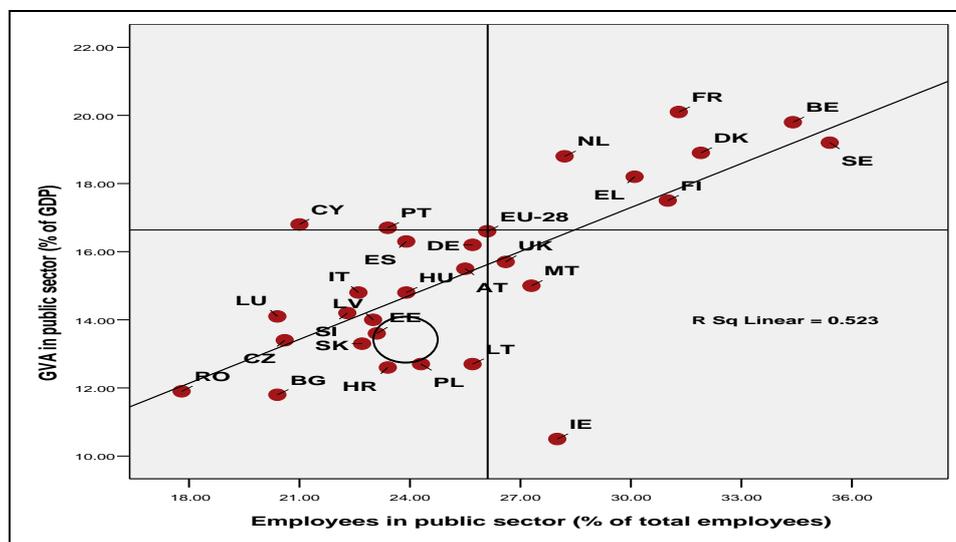
In this paper, as it is the standard in the literature, we analyse public sectors, in terms of employment and wages, according to the sector of economic activity, based on the aggregation of the “Public Administration and Defence, Compulsory Social Security”, “Education” and “Health and social work” sectors of the NACE Rev. 2 classification. We take into account that the presence of the private sector is negligible in “Public Administration and Defence, Compulsory Social Security” (O), whereas it can have a large presence in “Education” (P) and “Health and social work” (Q), depending on the country.

In order to investigate the role of public sector in the EU economies and the place of Romania within the EU, we used three indicators: public sector employment as share of public sector employees relative to total employment (%); wages and salaries and gross value added, both as percentage of gross domestic product (GDP). To analyse the dynamics of public employment and wages, in Romania, in 2008-2017 period, the average number of employees and average gross nominal monthly earnings by activity of national economy and by ownership type, was used. Statistical data on these variables have been collected from the Eurostat Database (2018) and National Institute of Statistics (NIS) Database (2018).

2. CHANGES AND CHALLENGES IN PUBLIC EMPLOYMENT AND PUBLIC WAGES IN ROMANIA WITHIN THE EU CONTEXT

Public sector employment (as share of public sector employees relative to total employment) varies considerably across EU-28 countries (Figure 1), ranging from 17.8%, in Romania, to 35.4%, in Sweden. Also, there are significant differences between the EU countries in terms of contribution of the public sector to Gross Value Added (GVA). Thus, the maximum value of the GVA created in the public sector, of 20.1%, was recorded in France, followed by Belgium (19.8%), Sweden (19.2%), Denmark (18.9%)

and Netherlands (18.8%). In all member states, the contribution of the public sector to employment is higher than the contribution to GVA, fact that suggests that output per worker in this sector is lower than in the private sector and in the whole economy [as confirmed by other studies (EU, 2014; Vilerts, 2018)]. The highest gaps between public sector's shares in employment and GVA (over 12 p.p.) were recorded especially in developed states (Ireland, Sweden Finland, Belgium and Denmark), highlighting a high welfare state regime in these countries (EU, 2014). In Romania, in 2017, public sector accounted for 17.8% of total employees and 11.9% of GVA, compared with the EU average of 26.1%, and 16.6% respectively.

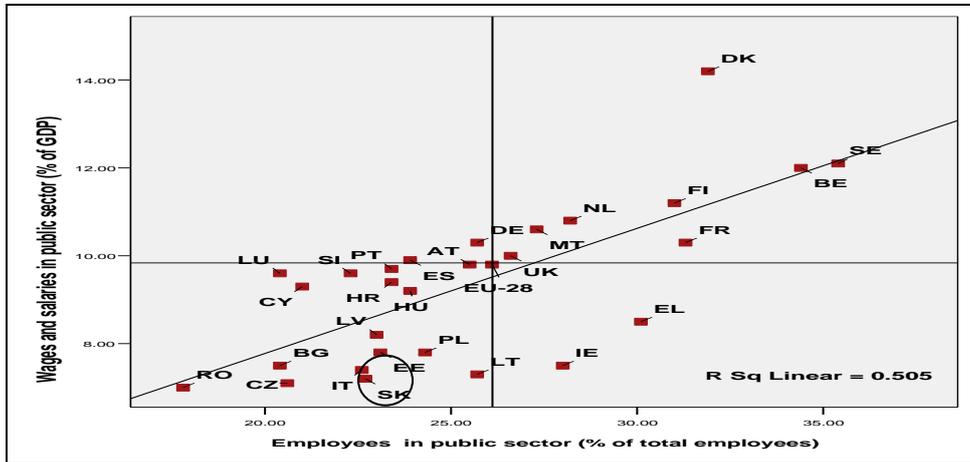


Source: Own calculations based on Eurostat Database (2018)

Figure 1. Positive correlation between employees and GVA in the public sector, in EU-28, 2017

Data from Figure 1 illustrate a strong direct correlation ($r = +0.723$, $p < 0.01$, Figure 1) between employees in the public sector and GVA in the public sector in the EU countries, in 2017. In the developed countries (Sweden Finland, Belgium, Denmark etc.) where the contribution to GVA is high, there is also a high level of employment and vice versa. Moreover, the existence of a strong positive correlation, at the EU-28 level, ($r = +0.711$, $p < 0.01$, Figure 2) was identified between employees in the public sector and wages and salaries in the public sector (as % of GDP).

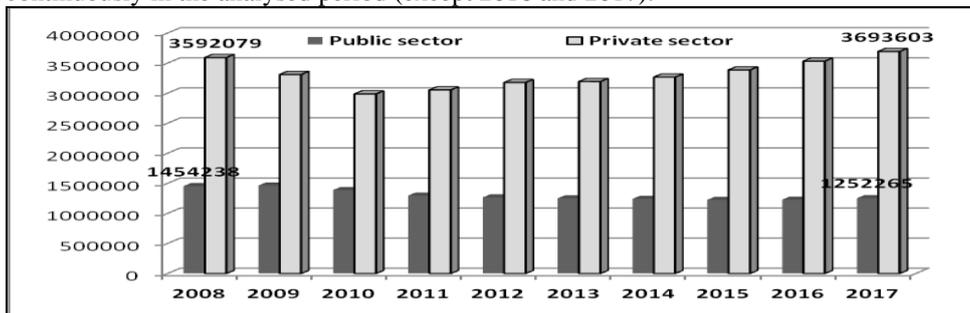
Likewise, remuneration of public sector employees differs widely across the EU countries. Thus, seven countries from the EU-15 got results over the EU-28 average for both indicators. In the majority of the western EU countries, wages in the public sector are settled through collective bargaining between the government and public sector unions (EU, 2014; ILO, 2015). Ireland, Malta and the UK recorded values over the EU-28 average only for employees. The rest of the EU countries (especially Eastern European countries) recorded lower values in relation to the EU-28 average for both indicators, fact confirmed by (EU, 2014, ILO, 2015).



Source: Own calculations based on Eurostat Database (2018)

Figure 2. Positive correlation between employees and wages and salaries in public sector, in EU-28, 2017

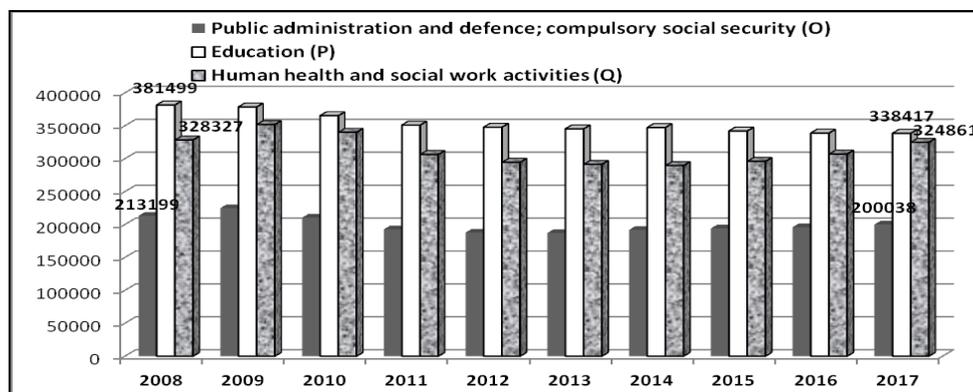
According to Eurostat Database (2018), in the 2008-2017 period, in Romania, the share of public sector employees relative to total employment recorded a low increase from 16.5%, in 2008, to 17.8% in 2018. However, if we analyse the absolute figures of employees, most recent statistical data show a decrease in the number of employees in the period 2008-2017, in the public sector (Figure 3). In the private sector, variation of number of employees is associated with economic results of national economy: in the economic crisis period (2009-2010), characterized by a fall in real GDP (-5.9% in 2009 and -2.8% in 2010), the number of employees decreased by 4.5%. During the economic growth period (2011-2017), the number of private sector employees rose continuously and thus the number of employees in 2017 is higher than in 2008. On the contrary, in the public sector, the number of employees is not associated with real economy, decreasing continuously in the analysed period (except 2016 and 2017).



Source: Based on NIS Database (2018)

Figure 3. Dynamics of number of employees in Romania: public sector vs. private sector, 2008-2017

The results of the deeper analysis based on the main three activities of the sector public, according to NACE classification, show, on the one hand, that most of the employees are employed in Education (P), followed by those who work in Health and social work (Q) and public administration (O) (Figure 4). On the other hand, the results point out that all three activities recorded a decrease in the number of employees, but of different intensity. Thus, in the 2008-2017 period, the most losses of employees are recorded in Education (of 12.7%), followed by Public administration (of 6.57%) and Health and social work (of 1.06%).



Source: Based on NIS Database (2018)

Figure 4. Dynamics of number of employees in the activities of the public sector in Romania, 2008-2017

In the case of Romania, for the 2008-2017 period, the correlation between private and public sector employment is not significant ($r=-0.061$, $p=0.867$), fact confirmed by other studies (Caponi, 2017; Lamo et al., 2013). The relationship between the two sectors as regards the jobs created can be explained by the wage setting rules that the public sector follows, and it depends on how “rigidly” public sector wages are determined by governments.

In the recent economic crisis period (2009-2010) and recovery period, public sector workers have been negatively affected by new legislation which was influenced by the conditions set in the Stand-By Agreement signed by the government of Romania with the International Monetary Fund, the World Bank and the European Commission, in 2009, and of the Precautionary Agreement made with the IMF in the spring of 2011 (Chivu et al., 2013). Thus, in response to the 20-billion-euro aid provided by the three international institutions, budget deficit reduction measures were adopted. In Romania, according to Law no. 118/2010 regarding the required measures to restore the budget balance, starting with 1 June 2010, public employees’ salaries were reduced by 25%, their 13th month bonus was cancelled, and unemployment and other social protection benefits were cut by 15%. Also, the government planned to cut 100,000 jobs in the public sector. According to Law no. 285/2010, as of 1 January 2011, the gross quantum of the base salaries and of all other financial rights, as granted to state employees paid from public funds for the month of October 2010, increased by 15%.

As a consequence, the average gross nominal monthly earnings in the public sector decreased in the 2008-2011 period (Figure 5). From 2012 to 2017, average gross nominal monthly earnings increased continuously based on other public decisions (GEO no. 57/2015, Law no. 250/2016, Law no. 153/2017 etc). Statistical data (Eurostat Database, 2018) show that compensation of employees from public administration, defence, education, human health and social work activities (% of GDP) continuously rose from 7.1%, in 2012, to 9.2%, in 2017. At the same time, compensation of employees (general government) rose by 79.7% (from 46.3598 bn. RON to 83.3168 bn. RON).

As it can be seen in Figure 5, in Romania, there were significant public-private wage gaps, public employees being better paid than both private sector employees and whole economy employees. Also, it is noticed that the average gross nominal monthly earnings both in public and private sector was higher in 2017 than in 2008. In the private sector, average gross nominal monthly earnings had a continuous growth in the 2008-2017 period. The reduction of public employees' salaries, as the effect of the austerity measures due to fiscal consolidation, decreased the wage gap between public and private sector workers (in 2008-2011 period), making them more equal. After 2011, this public-private wage gap increased continuously as an effect of the favourable legislation to public employees. Therefore, in 2017, the gap between public and private wage was of 945 RON, with 656 RON more than in 2011. Is it worth mentioning that the national minimum gross guaranteed wage, which is set by Government Decisions at national level after the government had consultations and negotiations with the national trade unions and employer confederation, was raised from 500 RON, in 2008, to 1450 RON, in 2017.

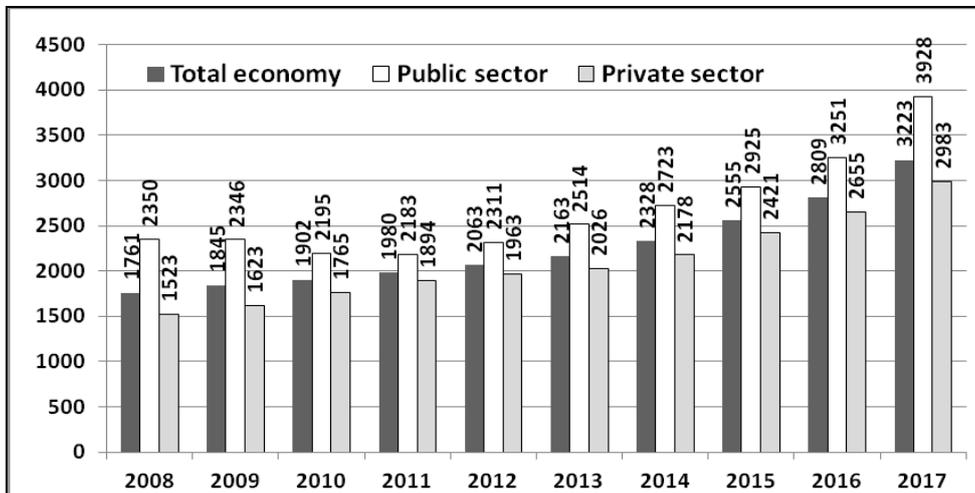


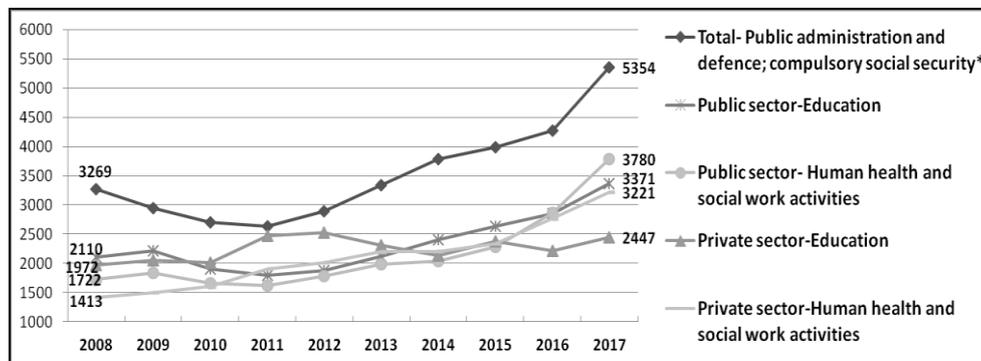
Figure 5. Public-private wage gaps: Average gross nominal monthly earnings by ownership type, in Romania, 2008-2017 period (RON)



Source: Based on NIS Database (2018)

Figure 6: Labour productivity hourworked, 2008-2015(RON per hour): total economy vs public sector activities

Significant differences between the three activities of the public sector in terms of the level of earnings have been identified (Figure 7). Employees in public administration gained the highest average gross nominal monthly earnings, followed by those who work in Health and social work and Education. Also, a huge gap is noticed (over 1500 RON in 2017) between the wages of public administration employees (excluding armed forces and similar staff) and the wages of employees in Education and Health and social work. On the other hand, public-private pay gaps within the Education sector and Health and social work sector were identified.



Note: *Excluding armed forces and similar staff

Source: Based on NIS Database (2018)

Figure 7. Average gross nominal monthly earnings by ownership type and activity of national economy, in Romania, 2008-2017 period (RON)

Corroborating the public-private pay gaps (Figure 5) with statistical data regarding labour productivity per hour worked in total economy and in public sector activities (Figure 6), it is proved that the level and evolution of wages in the public sector are less tied to labour productivity than in the private sector, taking into account that the objective

of the public sector is not to maximize profit, as it is in the private sector where workers employed in jobs that produce more are paid more, and vice versa. Thus, despite a lower level of labour productivity in public sector activities (O, P, and Q) than in the whole economy (see Figure 6), the average gross nominal monthly earnings are higher than in both the whole economy and in the private sector (Figure 5 and 7).

3. CONCLUSIONS

This study has shed light on the development of the employment and wages in the public sector in relation to the private sector in Romania, in a period with real challenges for sustainable public finances, the 2008-2017 period respectively.

Public sector in Romania has the lowest contribution to both relative employment (as % of total employment) and GVA and wages and salaries (as % of GDP) within EU countries. The dynamics of number of employees and salaries in public sector were affected by the modification of legislation which in turn was influenced by the macro-economic conjuncture and the current political context. Our results highlight wage gaps, and still widening, between the public and private sector in favour of public employees, on the one hand, and between activities of public sectors in favour of public administration employees, on the other hand. When the wage gap in favor of public employees is relatively high and wages do not react to productivity quickly enough, the public sector can generate a strong competition on the labour market (Caponi, 2017). Thus, the attractiveness of candidate workers to these relatively high-paying jobs rises, fact which can generate a crowding-out effect that brings workers from the private into the public sector.

A real challenge for the Romanian government leadership is to find an adequate equilibrium between the efficiency gains permitted by better aligning public wage to productivity and labour market conditions and the need to achieve fiscal targets set (EU, 2014). Romania, as a EU member state, should pay more attention to the interactions between public wages and employment in order to assure sustained public finances in the sustainable development framework.

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