

Economic interpretation of the effects of social contributions on labor factor

Conf. Ph.D Daniel Tobă
Conf. Ph.D Dalia Simion
University of Craiova
Faculty of Economics and Business
Administration
University of Craiova
Craiova, Romania

Abstract: About social contributions can be said to have a great impact on labor use and efficiency in general. Affecting economic efficiency is in fact a very complex phenomenon resulting from the possibility of translation contributions. As for taxes, social contributions translation can be done by or employed by sales prices. Shift to avoid the consequences of social contributions, which is accepted hypothesis confirm between direct wages and social costs involved an arbitration. The most important, however, is the incidence of social contributions on labor use. This comes either from a bearing higher contributions by employees, either from an increase in labor costs compared to capital, ie an increased contribution from the company to fund social security.

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1. INTRODUCTION

Given the weight and characteristics, levies on wages are subject to numerous theoretical disputes. Social security contributions under the responsibility of all firms employing or businesses that use labor strongly affects labor costs and also influence the competitiveness at the microeconomic level. An analysis conducted on a sample of businesses in Romania shows that compulsory levies on wages exceed tax, in absolute amounts, which means there are greater tax burden on production factors than on results. About social contributions can be said to have a strong impact on the use of labor and economic efficiency in general. Their inefficiency is, in fact, a complex phenomenon resulting from the translation possibilities. As for other costs of production, shifting social contributions can be made at different times or stages of production.

2. THE POSSIBILITY TRANSLATIONS SOCIAL CONTRIBUTIONS

To avoid the consequences of shift social contributions, may be the assumption that between direct wages and social spending comes a kind of arbitration, namely the low level of early results from the last high. In this way there is a translation of social contributions payable by the operator user labor on

employees. Economic theory argues translation, in that, at a inelastic labor supply, transfer social contributions is easier to achieve. This practice reduces the disposable income of employees. An offer of work, totally rigid, in a competitive market, will involve a full transfer of the company's social contributions by employees. In fact, wage negotiations take place to give multiple possibilities of repercussions, and taking into account that generates contributions levies as state services, there is even an increase in indirect wages.

Translation of the sale price depends on various factors such as elasticity of demand (translation possibilities are even higher as demand is less elastic in relation to price), economic situation, economic policies in force. Comparisons made on the impact of different samples, using various econometric models (O. Burkart, Peyrelongue A.) show that the inflationary impact of an increase of social contributions is lower than that with an increase in VAT. This shows that an increase in social contributions is not passed immediately on prices.

The most important and sensitive, however the incidence of social contributions on labor use. If translation is full of employees and the costs related to labor and capital remain unchanged, the contributions have an impact on labor only partial. The social contributions is not neutral in relation to personnel and wage policy structure of the company. This is valid if it operates a salary cap and a differentiation of social contributions according to their level.

In another sense, if the translation is impossible or partial employees, social contributions payable by business growth, increased labor costs compared to that of capital. This effect leads to the question whether such a mode is favored capital labor substitution. Econometric studies (Sterdyniak H.) does not prove any relationship between the substitution and evolution of certain costs related to production factors. Substitution of capital generates employment through productivity gains in the long run, generate new jobs. An increase in social contributions, which would cause this phenomenon can have detrimental effects on microeconomic environment as a whole. If the transfer of such expenses on sales prices is reflected by a decrease in profit margin and investment, labor demand may be at the same time, discouraged. Evolution of costs related to labor and capital is less sensitive to developments in that part of the social contributions of businesses. It depends, moreover, the real wage and prices of equipment.

3. ENVIRONMENTAL IMPACT MICROECONOMIC SOCIAL CONTRIBUTIONS

Research in this area shows that the increase in social contributions, comparable to an equivalent increase in other taxes, while reducing the current account deficit is unfavorable labor use in the medium term. A decrease in contributions, financed by a payroll tax increase would be in favor of labor use, reduce inflation and external deficit.

Cost impact on business and selling prices reduce the competitiveness of businesses. Real consequences on labor contributions should be treated, but in terms of low wages. If the level of social contributions vary depending on the wages that are directly proportional reduction contributions on the lowest wages would be offset by an increase in those affecting higher wages. Such redistribution has the

effect of increasing the wage cost of more qualified labor. One way to avoid this consequence would be to reduce the level of unemployment benefits and pensions, which would have serious effects on social. In the absence of reducing the amounts for social protection and social insurance, social contributions reorganization of the main effect may increase the number of employees. Realization depends on the elasticity of demand for labor but businesses, in relation to salary costs.

Empirical studies show that labor demand elasticity of youth and unskilled workers, compared with the cost of labor is much higher than the demand for skilled workers targeting. In general, the demand for labor to the skilled youth is more sensitive to labor costs, the elasticity being between (-1) and (-2). Studies have not revealed a significant elasticity of demand for labor, real wages relative to the industry, but in the service sector, where the number of skilled workers is important, was valued at (-0.3).

Employment growth, stimulated by the granting of low wages and thus a low level of social contributions will not be compensated only partly by reducing the number of employment based on high wages. The net effect on overall use of labor is thus positive. On the other hand we can say that changes in the distribution of contributions will result in a decrease in the cost labor for low-skilled workers, while skilled workers will record the cost of some increase. This result is based on the fact that between gross salary and social contributions there is a compensation. The high level of social contributions is offset by a level, relatively low gross salaries. Reasoning backwards, lower contributions will not necessarily produce an increase in employment less qualified, and when high unemployment will put pressure in terms of declining wages.

For the implementation of measures resulting from the consequences of macroeconomic models have been proposed several solutions, but two of them were circulated mainly in the literature.

- The first of these - *total exemption of social contributions*, up to a certain level of wages - would rise to the risk to stimulate employers to be “low wage areas”, maintaining an excessive number of employees in these areas. In order to increase profitability and production factors, especially labor, may be adopted and measures for youth employment. Time-limited exemptions can also have an important impact on the cost of wages. As a criterion may be adopted as follows: for an employee paid at a lower level of social security ceiling to apply an exemption in terms of social security contributions. The effects of such measures would also be uncertain, however, because employment can be temporary or may be the result of substitution between young and old, which would meet the criteria for exemption.
- Another solution, as a means of remedying the current system limits based on gross wages, could be *changing trim security contributions*. In countries facing such problems, the idea has been advanced to replace salaries with added value. In this way might ease the burden of social contributions and also labor costs would decrease. But at the same time, there will be negative effects for the economy, so that a value added tax would affect investment could foster inflation and therefore would reduce competitiveness. Thus,

relative price changes in working capital and will have positive effects on labor use.

Transfers of tasks related to social security contributions, between enterprises, it would make the disadvantage of those who obtain superior results, as the result sheet is one of the components of value added. For a total change in the way of settlement of contributions, these transfers would still be unfair in terms of economics. The adoption, as trim, and the added value would be the drawback of being more volatile than wages for that includes financial results (ie profit / loss). Fluctuations in income tax would require frequent changes to ensure the stability of social security contributions.

In conclusion, we believe that the basis for calculating social security contributions must remain salaries, which is the only way to cope with increased financial needs assistance and social security bodies. Solution increased the fiscal memory, practiced especially in Scandinavian countries is justified in terms of distribution, but in this way is affected psycho-economic link contributions - benefits that providing a large extent by the taxpayer accepting samples. As the social security contributions, which are borne by businesses, are taxes on wages paid by them, with more transparency and rationality, they could reach their reduction and increase gross salaries, with an equivalent amount.

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