
ROMANIAN LABOUR MARKET – VULNERABLE PERSONS AND VULNERABILITIES*

PhD Univ. Reader Cristina BOBOC
PhD Univ. Professor Emilia ȚIȚAN
PhD Univ. Lecturer Daniela TODOSE
Academy of Economic Studies, Bucharest

Abstract

Romanian economy's transition process began suddenly and was accompanied by disintegration of former political and economic system. In terms of GDP per capita, Romania has been one of the poorest countries in Central and Eastern Europe. Also, the Romanian economy was one of the most agrarian economies in Europe. Completely isolated from the informational point of view, Romania had a fully centralized economic system. Beginning of transition was completely chaotic, especially because of the complexity of integrating the fundamentals of democracy and market economy. Internal problems, instability, political corruption or lack of appropriate reforms have led to a difficult restructuring and privatization process.

In this paper we present and analyze the tendencies and vulnerabilities on Romanian labor market between 1991 and 2009 versus EU member states.

* This paper is based on a report supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD/89/1.5/S/62988

There were identified three shocks with major social impact on Romanian economy: the revolution in December 1989; the EU accession in January 2007 and the world economic crisis began in 2007. These three structural shocks have deeply influenced and still do the evolution of Romanian labor market.

Key words: labour market, macroeconomic indicators, employment rate, migration, vulnerabilities

In order to understand and to identify the vulnerabilities of the Romanian labor market after 1990, the economic situation of the period must be known. We briefly describe the main trends in economy, using some statistical indicators: real GDP per capita, annual GDP growth rate, inflation, foreign trade growth rate, as well as the foreign direct net investments.

Until 2000, Romania had a very irregular transition, especially due to the discontinuity of political reforms. Since 2000 there has been a steady growth both in terms of GDP and GDP per capita. Reform efforts have been made in terms of integration into the European Union (EU). Efforts have been intensified since 2004, when the European Council confirmed the decision of Romania's accession in 2007. Based on national progress made towards accession, the Romanian economy has undergone a liberalization of prices rather long and irregular during the period 1990-1999, annual inflation reaching very high levels. Romania has been involved into a process of gradual disinflation, which has contributed to the decrease of the inflation rate below 10% in 2004. Romania's economic growth can be explained mainly by increasing domestic consumption and foreign investments. Increases in consumption do not lead to economic growth on medium and long term without increases in production and productivity.

Romania's economic growth revealed the first signs of fragility right after its accession to the EU. Fulfillment of European standards degraded economic activity in early 2007. Between 2006 and 2007 GDP growth rate decreased from 8% to 6%. However, economic growth has continued in 2008, fueled by increases in consumption and public deficit from 2.6% of GDP in 2007 to 5.7% of GDP in 2008. Between 2008 and 2009, final consumption expenditure of households (an important factor of economic growth in Romanian economy) went down significantly, leading partially to the declining of the 2009 economy, mainly because the country was unable to invest in work and human capital (a potential growth leverage). Between 2008 and 2009, GDP growth rate passed from plus 7.3% in 2008 to minus 7.1% in 2009. In 2008 and 2009 the budget deficit grew fast, reaching 8.6% in 2009. Public debt increased quickly between 2008 and 2009 (from 13% to 24%), remaining

still low compared with other European countries (for instance in France, the public debt was 78% of GDP in 2009). The crisis has continued in 2010, so that between 2009 and 2010 GDP has decreased by 2.6%.

Main macroeconomic indicators in Romania between 2007 and 2009

	2007	2008	2009
Real GDP growth (%)	6,3	7,3	- 7,1
Investments (% in GDP; in current prices)	30,2	31,9	25,6
Growth rate of final consumption expenditure for households	3,3	10,0	4,8
Growth rate of final consumption expenditure for public administrations	16,1	22,0	1,3
Growth rate of total final consumption expenditure	6,8	12,3	2,8
Public deficit (% in GDP)	- 2,6	-5,7	- 8,6
Public debt (% in GDP)	12,6	13,4	23,9
Inflation rate	4,9	7,9	5,6

Source data: EUROSTAT.

Romanian labor market has changed dramatically during the economic transition. One of its main features has been the decrease of the number of employed population. The enterprises restructuring has led to job losses uncompensated by new job creation. The demographic ageing has led to a decrease in natural balance. Moreover, Romania has recorded a significant emigration (including temporary emigration), which led to a shortage of manpower. Emigration wave has hidden two phenomena: the departure of quite young and highly skilled workers (brain drain has increased significantly during the crisis, for professions such as doctors or computer programmers) and at the same time, low skilled workers who have preferred to earn more abroad. Migration was and still is one of the major vulnerabilities of the Romanian labor market due to lack of skilled labor force.

A consequence of economic transition in Romania was the translation from formal to informal labour market of the workforce without jobs. Despite the sustained economic growth of recent years, informal work in Romania has continued to exist and even to grow up in some periods. Informal work exists mainly in agriculture (subsistence agriculture) but also in sectors: construction, retail, home services, transportation, health and education. Into an OECD report, Xenogiani and Parlevliet (2008) estimated that informal employment represents between 20 and 50% of the employed population. Romania's EU accession in 2007 had a positive impact on the attractiveness

and competitiveness of local enterprises. In 2007 and 2008, employment rate improved to some extent, emigration and informal work going down. However, political and economic crisis that hit Romania during 2008-2009 stopped healing Romanian labor market.

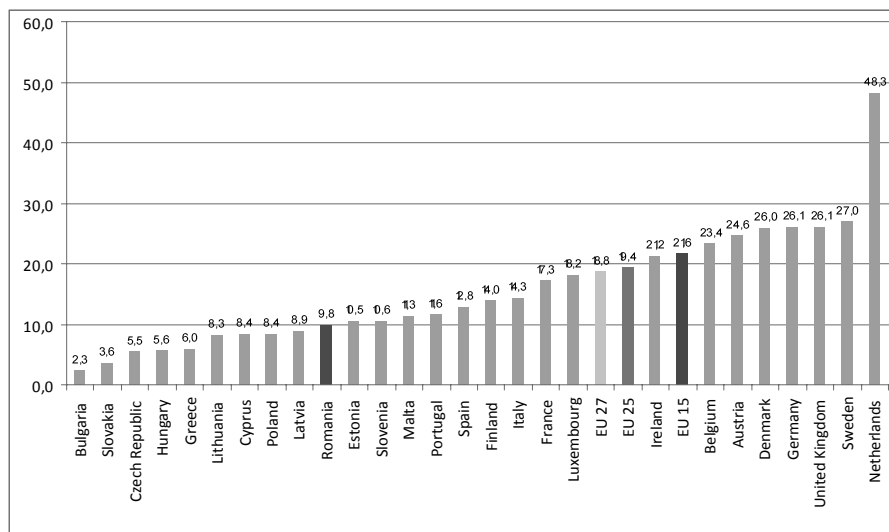
Romania is among European states with the lowest employment rates (56.8% in 2009). Between 2008 and 2009, employment decreased by 1.3% (a drop of 125,000 jobs). This was a small decrease, but the phenomenon has spread in 2009 and 2010. Industry was the most affected sector by the decline in employment, with a decrease of 7%. Changes occurred in real estate. In construction the number of jobs decreased by 3% between 2008 and 2009. In contrast, the employment increased by almost 2% in services. Neither in terms of female employment, Romania had not better (52.5% in 2008). Moreover, the Romanian women are more affected by the crisis: the decline in employment is greater for females than for males (1.6% for women versus 1.1% for men). In the most affected sector by the crisis, industry, the employment decline was 10% for women versus 5% for men.

In terms of employment of elderly people, Romania is slightly below the European average with a rate of employment of 42.6%. Before 2000, Romania was among the countries with high rates of employment of elderly people, over 50%. After entry into force of Law 19/2000 about the pension and social security system, the employment of elderly people decreased more than 10%.

Romania is above the European average in terms of employment among people with a high level of education, with an employment rate higher than 26% of total employment and 42% higher than the employment of people with a low education.

The part time employment was 9.8% of total employment in 2009, lower with about 7% than in 2000. In 2008, the average number of hours worked per week in Romania is 41.1 hours for a full-time jobs and 24.4 hours for the part-time jobs. Note that 76% of full-time jobs respected the legal working time of 40 hours per week. In 18% the working time was higher than the legal one. The crisis has led to changes primarily in the number of jobs with working time over 40 hours (a decrease by 9% between 2008 and 2009).

**The proportion of part time employed population,
in EU countries in 2009**



Source data: EUROSTAT

Regarding the nature of the employment contract, the proportion of employees working with a limited duration contract is only 1.3% in Romania. The crisis had a negative effect on these contracts, with a drop of 21% between 2008 and 2009.

The unemployment reacted with delay on economic changes and with a contra-cyclical evolution. Under the economic recession, the unemployment rate is beginning his growth. When the economy starts to increase, the employees are more skeptical and it could last more months until the unemployment to start decreasing.

In Romania, for the first time during the last ten years, unemployment is increasing: from 5.8% to 6.9% between 2008 and 2009. This growth began in late 2008. Public spending for the unemployed people have doubled between 2008 and 2009, due to strong growth of spending on unemployment benefits (an increase of 160%). Paradoxically, spending on employment incentives for unemployed or disadvantaged groups or in case of restructuring or liquidation of public enterprises decreased between 2008 and 2009.

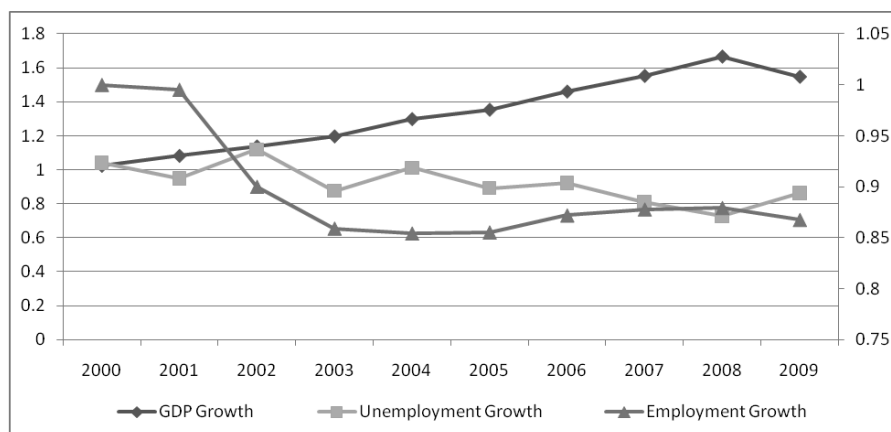
Discriminating factors for those who are looking for a job could be: gender, age or level of education. In Romania, the unemployment rate is about 2% higher for women than for men, increasing by about 1% for both genders from 2008 to 2009.

Unemployment rate by age shows that young people aged between 15-24 years, face greater difficulties than most adults in finding and keeping jobs. Unemployment rate in 2009 reached a level of 20.8%, the crisis does not affecting much more young people than older ones, the youth unemployment rate increasing with only 2% in 2009 compared to 2008.

Interesting is the fact that in Romania the economic crisis has had a greater impact on people with a high level of skills than on those with low qualifications. The unemployment rate among people with a high level of education rose by 1.3% in 2009 compared to 2008, while unemployment rate among those with low education increased by only 0.5% in 2009 compared with 2008.

The transition process of the Romanian economy has led to major changes in the labor market, as it is shown in the graphical representation of indices with fixed base (2000) referring to: GDP growth, unemployment and employment. The chart highlights the counter-cyclical nature of unemployment. The border between unemployment, inactivity and employment was rather imprecise, the relative figures on unemployment being under-valued. Also, the employed population decline may be due to demographic changes that took place in Romania in the last 10 years. A great number of people registered as unemployed were working either on the black market or were part of temporary migrants.

Indices of GDP growth, unemployment and employment, compared to 2000, in Romania



Source data: EUROSTAT

Difficult economic conditions and increased poverty in the transition period led to the expansion of informal employment and external migration, both in Romania and in other East European countries. These two phenomena of migration and informal employment are presented below.

The population decrease from 22.45 million inhabitants in 2000 to 21.46 million inhabitants in 2010, in Romania is due to demographic aging and declining birth rates and also to massive emigration. In Romania, the impact of migration on the labor market in particular and on the economy in general, was more important since this phenomenon occurred particularly among young people and among those with very high education. Human resource, the most important for long-term and sustainable development is not sufficiently valued and preserved.

Regarding permanent emigration (with change of residence) national statistics reveal that from 1990 until 2008, 404396 Romanians established their residence abroad. As a large part of Romanian emigration did not occur in a formal framework, the dimension of this phenomenon is undervalued. Approximately 40% of Romanian immigrants have chosen Italy as destination country, 11% - the United States of America and 10% - Hungary. As for permanent immigrant profile, 75% of them were under 40 years and 55% females.

In recent years, migration for work, temporary or circular, has become the most important component of Romanian emigration. According to the 2007 National Human Development Report, approximately 2 million Romanians (10% of the population) were employed abroad in non-seasonal work. In recent years, according to a study of Open Society Foundation (OSF), the main destination countries of emigrants for work were Italy (40% of labor migrants), Spain (18%), Germany (5%), Hungary (5%) and Israel (6%). In the case of temporary migration, official data reported by the Department for Work Abroad are undervalued; they are only referring to the number of employment contracts signed by Office for Labour Migration.

The current profile of labor emigrant was: worker with a medium or low skilled, aged between 25 and 35 years, coming from the Center, West, South and South-East of the country. While 52.65% of the migrants were women, a large number of children were left home, which had negative consequences for their further development, especially on their state of physical and mental health.

Permanent and for work migration influenced the evolution of labor markets and in some regions have created a labor shortage. Migration of

young people put at risk in our opinion the mechanisms of traditional inter-generational solidarity at the community level, exacerbating many social issues. We appreciate that the investments orientation in the local economy or business initiation on own account could contribute to business development, local and community development in a sustainable manner.

A consequence of the transition period in Romania was the transfer of a large part of formal work (as consequence of massive restructuring process that took place in industry) to informal forms of work, permanent or temporary emigration or even to inactivity (discouraged individuals who became inactive).

The phenomenon of undeclared work in Romania is a significant component of the labor market, closely connected with corruption. Corruption has led businesses in the informal economy, which led to lower state tax collections, reflected ultimately in increased tax burden for a growing number of small contributors. A study of IMF (1998) showed that on a scale of 0-6, one point increase in the level of corruption has led to a decline in GDP by 0.84%. Also, a recent World Bank study on a sample of 41 countries concludes that a reduction in corruption index by one percent leads to a reduction in informal economy by 8% -10%.

In the year 1999, according to estimates made by F. Schneider, the active labor force in the underground economy in Romania was 25.3% of the working age population (aged between 15 and 65). For the period 2002-2003, the number of those who worked illegally in Romania was estimated at 1.8 - 2 million people*. According to the National Institute of Statistics, in early 2005, the number of Romanians working in the informal economy reached almost 1 million people.

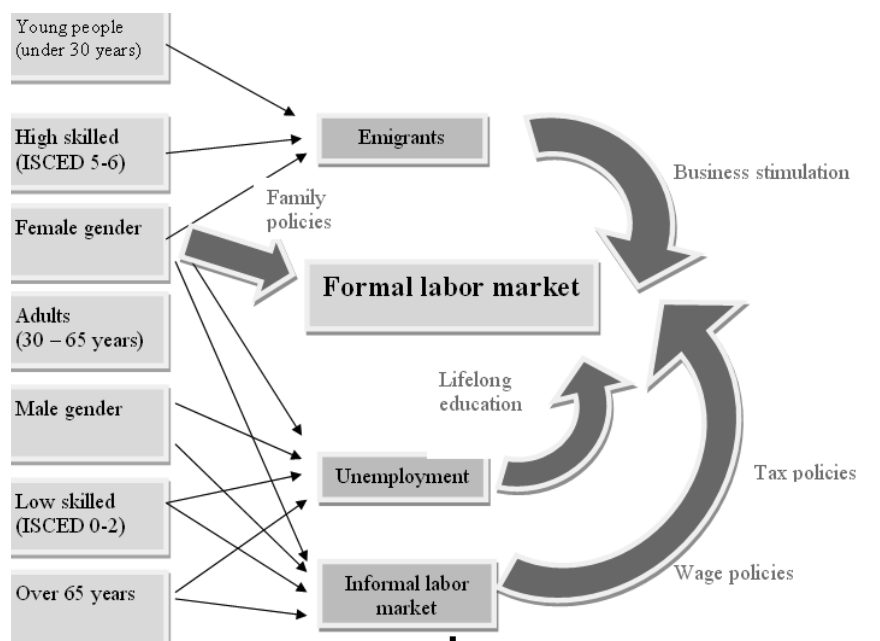
Based on the previous analysis, we have realized a summary of the main vulnerabilities encountered in the labor market in Romania and some policy proposals that could help to reduce them or their negative effects.

* UCECOM, Informal Labour Market in Romania, National Association of Handicraft Cooperatives

Vulnerabilities on the Romanian Labor Market

	Romania	Policies
Demographic ageing	Low percent of young people less than 15 years, with a long-term effect on the demographic structure of the labor market and on the sustainability of the social system	Policies for birth-rate stimulation Sustainable social policies for the elderly Employment stimulation among the elderly
Female gender	<ul style="list-style-type: none"> - lower employment - higher unemployment - more affected by the crisis than male gender - temporary and circular migration - informal work 	Policies for stimulating the female employment Policies for supporting mothers to return to the labor market after an activity break. Stimulation of formal employment by providing tax advantages, social advantages.
Education	<ul style="list-style-type: none"> - lower employment and higher unemployment among low skilled persons. - the crisis has more affected people with low education levels than those with high education level. - temporary and circular migration - informal work 	Lifelong education Professional retraining Stimulation of formal employment by providing tax advantages.
Emigration	<ul style="list-style-type: none"> - decreasing permanent emigration, especially among skilled individuals. - increasing temporary or circular migration for the low skilled persons and for females. - contribution to unemployment decrease. 	Policies to attract specialists in Romanian economy.
Informal work	<ul style="list-style-type: none"> - Biggest level in EU countries. - more common among people with low education. - more common in sectors such as agriculture, constructions, domestic services. 	Stimulating business in the agricultural sector Support for accessing European funds Tax advantages granted to businesses in constructions, to final users for improvement and construction work and to employees of construction firms.

Vulnerable persons and vulnerabilities on labor market



To identify the countries whose labor market behavior is similar to that of Romania, k-means clustering method was used for the determination of homogeneous clusters. The variables used in the analysis were: Total unemployment rate, Female unemployment rate, Young people unemployment less 25 years, Unemployment rate among people with a level of education ISCED 0-2, Employment rate 15-64 years, Elderly employment 55 to 64 years, Female employment rate, The proportion of population 0-15 years, the proportion of population over 60 years, Net migration: the difference between the number of persons entering and leaving a country during the year per 10,000 persons (based on midyear population), Informal work calculated as percentage of unpaid family workers and own-account workers in total employment. The observed units are EU countries, the reference year is 2009 and source data is EUROSTAT.*

By applying the k-means clustering method, we have obtained four groups of homogenous countries. The differences between cluster means for

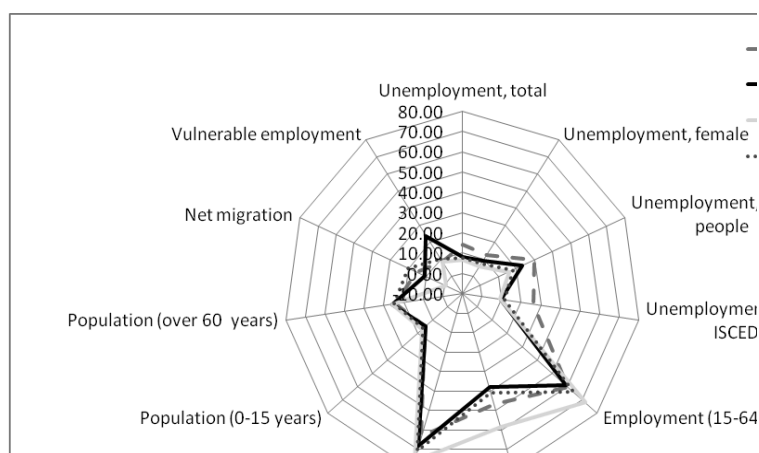
* Exceptions: The source data for Net migration is CIA World Factbooks and for Vulnerable employment is World Bank

Total unemployment, Female unemployment, Young people unemployment, Unemployment - primary education, Employment (15-64), Employment - aged people, Employment – female and Informal Work **are** significant with a level of significance 0,0001. The differences between groups for the variable *Population (0-15 years)* are significant with a level of significance of 0.1 and for the variable *Net migration* with the level of significance of 0.341. For the variable **Population over 60 years** there are no significant differences between means, the significance level being 0.792.

ANOVA

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
Total unemployment	72,991	3	4,861	23	15,017	,000
Female unemployment	50,682	3	5,281	23	9,597	,000
Young people unemployment	284,447	3	24,516	23	11,603	,000
Unemployment, primary education	393,283	3	22,749	23	17,288	,000
Employment (15-64)	212,250	3	11,964	23	17,741	,000
Employment - aged people	512,966	3	53,210	23	9,640	,000
Employment – female	179,845	3	12,979	23	13,857	,000
Population (0-15 years)	,001	3	,000	23	2,209	,114
Population (over 60 years)	,000	3	,001	23	,347	,792
Net migration	6,334	3	5,393	23	1,175	,341
Informal Work	245,581	3	14,235	23	17,252	,000

The means of indicators on the 4 clusters



Final cluster centers

	Cluster			
	1	2	3	4
Total unemployment	14.10	8.10	6.70	7.50
Female unemployment	12.60	9.30	6.20	7.40
Young people unemployment	30.00	23.00	16.00	18.00
Unemployment, primary education	26.00	9.50	9.10	11.40
Employment (15-64)	60.00	59.20	72.00	64.10
Employment - aged people	46.90	38.20	58.30	41.10
Employment – female	63.30	68.40	76.10	70.60
Population (0-15 years)	14.80	14.70	16.80	16.20
Population (over 60 years)	24.40	25.90	25.70	24.70
Net migration	15.70	10.60	-0.80	20.20
Informal Work	8.60	23.90	8.80	10.20

The countries of Northern Europe (Finland, Sweden, Denmark, Germany, United Kingdom), belonging to cluster 3 have in average a high level of total employment and also for the most vulnerable categories of people, the elderly and the females. The unemployment rate is very low both for the whole population and also for the disadvantaged groups. About the demographic ageing, these countries have a high proportion of old population but also the proportion of very young population (up to 15 years) is very high. In these countries the demographic aging is reducing gradually. The net migration is almost zero. The balance between those who leave these countries and those who enters into these countries tends to zero. Moreover the informal work is very low.

Cluster 2, which includes Romania, Greece, Italy and Poland, is opposed to cluster 3. The employment rate among the elderly is small and informal employment is high. In these countries the proportion of young population is reduced, which leads to the necessity of introducing incentives for formal employment among the elderly, due to extremely high pressure that this category of people will put on social security and pensions system.

In cluster 1 are included countries like Spain, Estonia, Latvia, Lithuania, Hungary and Slovakia, characterized in particular by extremely high levels of unemployment. Young people, especially women and people with low qualifications are particularly vulnerable to this phenomenon.

In cluster 4 are included countries such as France, Ireland, Portugal, Austria and Belgium, countries with average levels in employment and unemployment, with a high level of immigration and without major labour market vulnerabilities.

Conclusions

Even if during the EU pre-ascension period and right after the ascension when Romania has known a sustained economic growth, the informal work and emigration persisted. Following the economic crisis during the last two years both phenomena have augmented, putting at risk the sustainability of the state.

The main sector affected by informal work is agriculture. Stimulating business in agricultural sector by providing benefits and assistance in opening farms, by creating associations of many small producers for the production, collection and distribution of agricultural products and by providing tax and social benefits of people employed in the agricultural sector, could substantially reduce employment in the informal sector and its development.

Another sector with a very high level of informal work is the construction. By offering assistance and support for businesses in construction, as well as to the final beneficiaries of development and construction works and to employees of construction firms, the informal employment will be discouraged in this sector. Among the advantages that could be offered I should mention: tax reductions for those who made some construction works in their house or built it a new one; tax benefits (tax reductions possibly) progressively by the number of employees; reductions in social contributions and taxes for employees in construction.

By fostering lifelong learning and providing support on retraining, people with low education levels will be less vulnerable. Moreover boosting formal work by discouraging involvement in informal activities and encouraging formal work through tax benefits will greatly reduce the vulnerability of people with low education levels, who are often tempted to work in the informal labor market.

Women are often found in informal activities. Implementing policies to boost formal employment among vulnerable women, providing tax reductions offered to individuals who employ nannies, housekeepers or people for other household works, reduction to taxes and social insurances for people employed in these activities, etc., will lead to the reductions of labor market differences between the two sexes.

In addition, assistance and support in accessing European funds could lead to the desire of formalization of some activities which nowadays are informal.

The orientation of investments in local industry and the initiation of some business on own account could contribute to business development, producing sustainable local or community development. Moreover it should emphasize national policies to attract specialists in Romania through: business support for new projects; support young people who want to start a new business, innovation support and the research development.

All these measures could lead to a balance of internal labor market in terms of demand and supply of young and highly skilled labor force.

Selective references:

- Albu L.L. (2004), *Estimating the Size of Underground Economy in Romania*, The Economics of Transition, Project: “Tax Evasion, Underground Economy and Fiscal Policies in Candidate Countries (Case of Romania)”, June 2004.
- Cazes S., Verick S., and Heuer C. (2009) *Labour market policies in times of crisis*, Employment Working Paper No.35, Geneva: ILO.
- EUROSTAT, Europe in figures – *Eurostat yearbook 2010*.
- French R., Bălăița M., Ticșa M. (1999), *Estimating the Size and Policy Implications Underground Economy in Romania*, US Department of the Treasury, Office of Technical Assistance, Bucharest, 1999.
- OECD, 2010 *International Migration Outlook: Migration key to long-term economic growth*, SOPEMI 2010.
- OIM, *Global employment trends* : January 2010 / International Labour Office. - Geneva: ILO, 2010.
- OIM, *Global Employment Trends 2011: The challenge of a jobs recovery* / International Labour Office. - Geneva: ILO, 2011.
- Parlevliet J., Xenogiani T. (Ghinărașu C., Stănculescu M.) - *Report on Informal Employment in Romania*, OECD DEVELOPMENT CENTRE, Working Paper No. 271, July 2008
- Pestieau P. (1989), *L’Economie Souterraine*, Hachette, Paris, 1989
- Rosanvallon P. (1996), *L’économie souterraine*, Revue française de finances publiques, 1996, citat de N. Craiu în „Taxonomia activităților subterane”, Revista „Finanțe Publice și Contabilitate”, nr.6/2003.
- Schneider F. (2007), *Shadow Economies and Corruption All Over the World: New Estimates for 145 Countries*, *Economics* - The Open-Access, Open-Assessment E-Journal, Kiel Institute for the World Economy, issue 2007-9.