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THE LABOR MARKET IN ROMANIA – BETWEEN STRUCTURAL REFORM AND CURRENT ADJUSTMENT*

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Abstract: The economic and political changes generated by the reforms after 1990 have had consequences on the labour resources. In such context, there have been several structural and functional changes on various segments of the labor market. However, the instability at the level of this market can be also seen as a result of the impact of the global crisis on Romania’s economy. The negative demographic tendencies had direct consequences on the labor market, such as the lowering of the percentage of employed population following the small birth rate, high general and infant mortality rate, the deterioration of the population’s biological potential of, the decreased life expectancy rate, ageing population, especially in the rural environment, a high rural-urban migration as a result of the necessity for survival, as well as the intensification of the qualified workforce migration from our country. The purpose of this paper is to highlight some policy measure to counter the disfunctions existing on the labor market in our country.

Introduction

Economic and political changes resulting from reforms after 1990 led to a dynamic labor market in Romania, with restructuring, professional development, technical changes in the provision of labor, in line with the strategic objectives of economic reform. As the recent economic downturn has come as a shock on

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the labor market in the European Union, governments have intervened through economic policies that support the companies for activities, fiscal stimulus to create jobs in the public sector.

Countries must aim at creating a more sustainable economic future. Actions are needed to support a structural adjustment that leads to more and better jobs. To achieve this goal would mean to follow a set of principles that could assist the government in the current context, namely: creating a highly trained workforce that can adapt easily to changes and is able to be transferred within and between economic sectors, the introduction of lifelong learning, a flexible education system, creating and making better use of skills in line with market requirements, to support progress and improved labor skills.

OECD argues that it is advisable to shift the “job first” approach in an active policy on employment of the training first” type for those at the highest risk of long-term unemployment in recession (OCDE 2009a).

The more adaptable a local economy is, the bigger the possibility for it to recover and grow.

Adaptability is derived primarily from the fact that workers must have a good stock of top-level generic skills (analytical ability, problem solving, good communication, creative ability) obtained during the years spent at school and, secondly, must invest in flexible systems, thus providing more and better professional type qualifications and specializations during their working lives.

The European strategy on employment provides a framework for the Member States to exchange information, discuss and coordinate their policies on employment.

The labor market in Romania has a degree of instability, which corresponds to the general characteristics of the current economic situation. Economic and political changes resulting from the reforms carried out after 1990 have had major consequences on labor resources. Romanian citizens have taken on new responsibilities, new social, economic and political roles, have capitalized on the experience and skills in an entirely different context, the result of convergent action of private initiative, competition and social insecurity.

The main problems encountered in the labor market are related to the relatively low participation, particularly from certain social categories, high unemployment among certain population groups, low internal mobility, high tax revenues from the use of work force, the limited relevance of education to the labor market’s needs and the existence of administrative and legal barriers that affect the functioning of companies and thus create jobs. These are the causes that reduce employment opportunities for the working age population and contribute to the encouragement of foreign migration.

Employment in Romania

Table 1 presents the detailed structure of the total employed population in Romania, by gender and area (urban / rural), 1999–2009. We note that employment declined during the period analyzed, the lowest value recorded in 2008 (2029 thousand less in 2008 compared to 1999).

Table 1. Employment structure of Romania during 1999–2009 (thousands of persons)

Employed population	1999	2000	2001	2002	2003	2006	2007	2008	2009
Total	10776	10764	10697	9234	9223	9313	9353	8747	9243
Gender:									
Male	5799	5772	5719	5031	5057	5074	5116	4703	5100
Female	4977	4992	4978	4203	4166	4239	4237	4044	4143
Area:									
Urban	5098	5039	5019	4607	4662	5115	5072	5101	5032
Rural	5678	5725	5678	4627	4561	4198	4281	4268	4211

Source: Household Labour Force Survey (AMIGO), „Statistical Yearbook of Romania”, p. 89 and INSSE.

Absolute changes of the employed population is presented in table 2.

Table 2. Absolute changes of the employed population by gender and area of origin, starting with 1999 (thousands of persons)

Employed population	2000/1999	2001/1999	2002/1999	2003/1999	2006/1999	2007/1999	2008/1999	2009/1999
Total	-12	-79	-1542	-1553	-1463	-1423	-2029	-1533
Gender:								
Male	-27	-80	-768	-742	-725	-683	-1096	-699
Female	15	1	-774	-811	-738	-740	-933	-834
Area:								
Urban	-59	-79	-491	-436	17	-26	3	-66
Rural	47	0	-1051	-1117	-1480	-1397	-1410	-1467

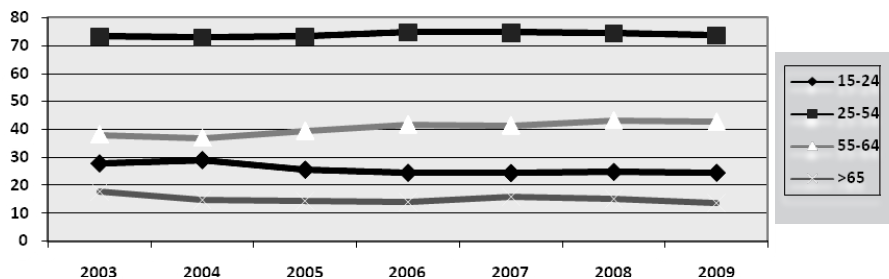
Source: Calculations based on “Statistical Yearbook of Romania” and INSSE.

Employment rate decreased in Romania from 59.6% in 1998 to 51.0% in 2003 increasing to 59% in 2008, and dropping to 58,6%, in 2009, along with

demographic decline in Romania's population combined with continued restructuring of the industrial sector in our country, with the loss of breadth and depth varying from one region to another, from one district to another. Two of the eight regions of Romania, Oltenia region and the Northeast, are most affected by the decline in employment. Rural employment age (25–49 years) is weak, representing less than half of the population, while in the urban areas in this age group it represents more than three quarters of the total. Rural labor force is composed mostly of elderly people, who are active long after the retirement age (65 men, 60 years for women). In urban areas in Romania only 1% of the working population is over 65, while in rural areas the share is approaching 20% of the employed population. The analysis of employment structure by areas reveals a clear tendency to shift employment from rural to urban areas, especially in the first decade of transition, when land restitution boosted employment in agriculture. This trend is more obvious in the case of poorer regions, where subsistence farming is the only source of income.

Figure 1 highlights the evolution of the employment rate of population aged 15 and over, by age group for 2003–2009.

Figure 1. Evolution of the employment rate of population aged 15 and over, by age group, 2003–2009



Source: INSSE, Tempo-Online database.

The employment rate of working age population (15–64 years) in 2009 was 58.6%, less than the previous year (-0.4 percentage points). This index has, as in previous years, higher values for men (65.2% vs. 52.0% for women) and people in rural areas (60.7% versus 57.1% in rural urban). The employment rate of young people (15–24 years) was 24.5%. The employment rate of older people (55–64 years) was 42.6%.

If the cumulative percentage share of group 65+ with the share of group 55–64 years and the 35–49 years group in total employment were to be analyzed, one would conclude that the active population in Romania is characterized by increased ageing. It is a negative phenomenon with major implications on the

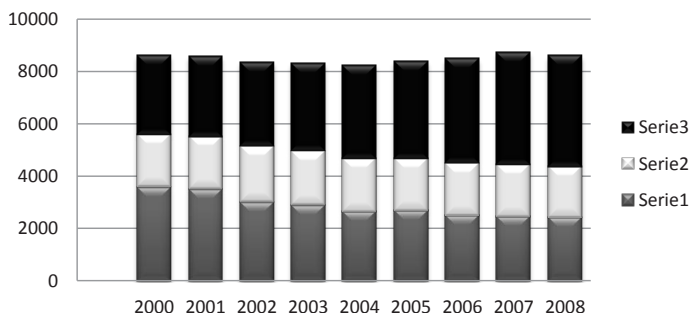
future development and economic growth. Applying the active ageing phenomenon extending to old age, accompanied by the low representation of young people on the labor market leads to lower labor vitality and its ageing. Increased participation of older persons (65 years) in female employment is even stronger than in male employment, which is significant if we consider that the retirement age for women is lower than men’s retirement age.

Analyzing the employment rate of Romania’s population for 2009, we notice that the highest employment rate for people of increased working age was among the graduates with higher education (84.1%). As the level of education decreases, employment decreases as well. Thus, 62.2% of the people with medium level of education were employed, comparing to only 42.0% of those with low education.

Gender based structure of Romania’s employed population showed an increase in in the share of total employment in the male population in 2002, 2003, 2008–2009, compared to the year 1999 as a result of the higher retirement age for men, from 60 to 65 years. A higher share of male employment in total employment is due to a smaller number of men compared to women registered in Romania on the one hand, and can be explained by the still existing labor market discrimination of women in our country, together with the female’s traditional household role - deeply rooted in the social attitude, particularly in rural areas, and on the other hand with a higher active lifespan of men compared to women (an extra five years).

The employment structure by sector of activity in Romania highlights the phenomenon of de-industrialization and restructuring of the country’s economy, without finding any real progress in the services sector.

Figure 2. Employment structure by sector of activity, 2000–2008



Source: INSSE, Tempo-Online database.

Note: Agricultural activities include hunting, forestry and fishing Industry includes mining, oil extraction, production of electricity, gas water Services include construction, trade, restaurants hotels, transport, storage and communica-

tions, financial, insurance and stock, real estate and other services, public administration and defense, education, health other activities of the national economy.

There is a decrease in the number of people employed in agriculture, given that households have on average small areas of farmland. Employment rate in agriculture decreased from 41.39% in 2000 to 28.17% in 2008. Since the beginning of transition in Romania, job losses occurred in industries less than in services. Since 2000 employment in industry increased slightly until 2006 when the employment rate was 23.26%, amounting in 2008 to 22.36% in services employment was an upward trend. In services during the survey period one would notice an increase in the share of employment in this sector, the employment rate increased from 35.37% in 2000 to 49.45 in 2008.

From the analysis of employment by sector of Romania's population one would notice highlighted a growing trend in the share of population employed in services, share exceeding 50% of the employed population in industrialized countries, aging and the feminization of of the population employed in agriculture.

After 1990 the evolution of employment in Romania has been influenced by several factors such as decrease in the country's total population, the emergence of foreign investment flows which generated new jobs, extension of the working life from 57 years to 60 years for women and 60 to 65 years for men, small and medium enterprise development and the expectation that it will make a positive contribution to increasing employment, especially in terms of non-wage labor. The restructuring and privatization process started after 1990, but permanent pressure on employment generated by the wave of layoffs has hit the economy of Romania. Despite real economic growth in post-communist Romania, the job market remains relatively tight, mainly due to the structure by age and profession of the unemployed, not correlated with the applications of the Romanian economy. For these reasons currently particular attention is paid to retraining and requalifying of the workforce.

Unemployment in Romania

We can not talk about the labor market and structural reforms without taking into account the unemployment.

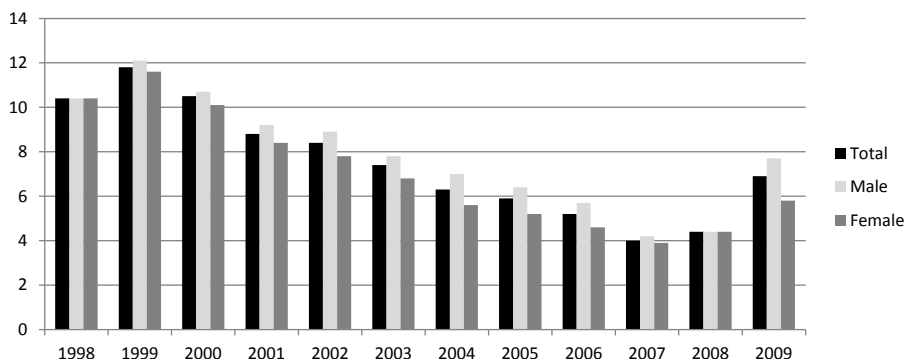
We looked at unemployment in the period 1998-2009, taking into account various factors of influence, namely gender, age groups, education and region.

In the period under review, it appears that after 2000, unemployment was falling steadily until 2004, in 2005 to reach the half of that from 1999 (Vorzsak, Gut 2008). In 2007 and 2008, the unemployment rate continued the downward trend, however, the year 2009, global crisis, brought a number of problems in this area.

Regarding the distribution of the unemployment rate by gender, both male unemployment rate and the female unemployment rate increased for the year

1999 and 2000, then decreased to 4.2% and 3.9 % in 2007, increasing with the crisis to 7.7% and 5.8% respectively in 2009 (figure 3).

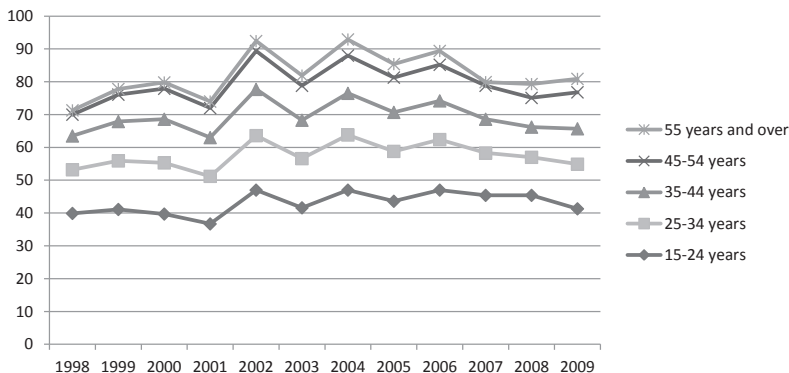
Figure 3. Evolution of unemployment rate between 1998–2009 (%)



Source: INSSE, Tempo-Online database.

In the first months of 2010 the unemployment rate stood at approx. 7.4%. The analysis of the structure of unemployment by gender, age and education reveals that in the early '90s, women were the main group among the unemployed, and since 1997 this was reduced following the collective dismissals in constructions, mining and metallurgy, sectors with predominantly male employees. Another factor contributing to the decrease in unemployment for women was the increase of the clothing, apparel and footwear sectors, where the workforce is predominantly female.

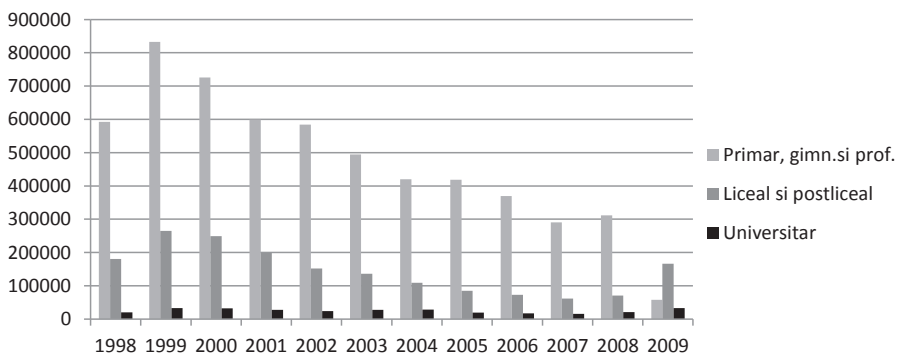
Regarding the structure of unemployment by age group, the most affected category was that of 15–24 years, followed by the 25–34 and the over 50 years. So the greatest difficulties arise for young people and for those close to retirement. Most alarming are the structural unemployment problems of young people, especially long-term unemployment. The unemployment rate in the young population is growing, expressing lack of new and attractive jobs for them, given that the level of education of young generations and their expectations have increased. Almost 60 % of Romania's unemployed are under 35, thus with negative economic (not the most creative use of human resources) and social consequences (attitude toward work is negatively affected). (Vorzsak, Gut 2008).

Figure 4. ILO unemployment rate by age group, in the period 1998–2009 (%)

Source: INSSE, Tempo-Online database.

In terms of educational level, approximately 70% of the unemployed have secondary education, 24% have elementary education, and approx. 6% have higher education. Over time, the unemployment rate increased among those with primary and secondary education, and decreased among those with high school and post-secondary studies, while the percentage among those with higher education has remained constant. In addition, the data from 2009 certify that unemployment has affected to a greater extent low and medium school graduates, for whom the unemployment rate was 7.5% and 7.2%, much higher than the rate recorded for the higher education unemployed (4.3%).

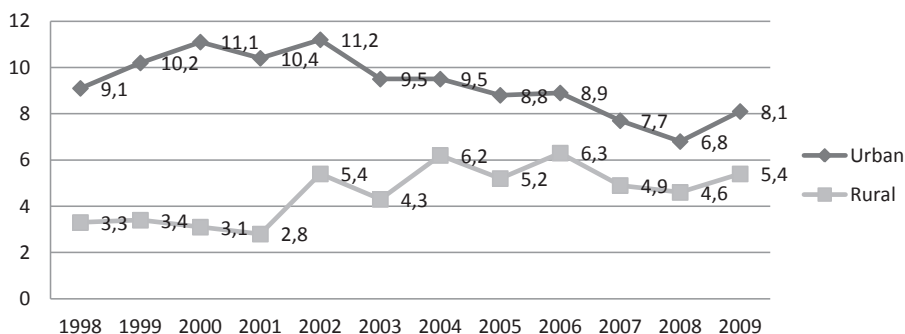
We can say that the most affected sectors of the population are people aged over 45 years, young people and people with lower educational levels.

Figure 5. Unemployed registered in the period 1998–2009, according to the educational level variable

Source: INSSE, Tempo-Online database.

ILO unemployment rate for urban areas increased during the period 1998–2002, as a result of further restructuring in the industry, followed by a decrease, up from 6.8 percent in 2008 amid accelerated direct foreign investment and the improvement of urban employment rate, and following the crisis grew by 8.1% in 2009. Rural unemployment has unfortunately continued to increase until 2006, with the people from the rural areas being the most disadvantaged in terms of the probability of finding a job (figure 6).

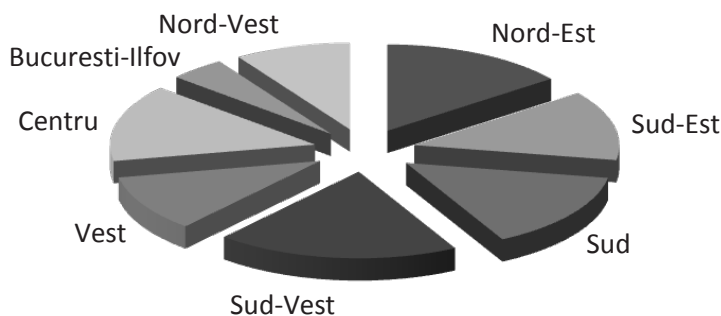
Figure 6. ILO unemployment rate in the period 1998–2009, by areas of origin



Source: INSSE, Tempo-Online database.

ILO regional unemployment rate recorded oscillations in 2008 because of the crisis; values ranging from 6.9% for South-West Oltenia and 1.6% for the Bucharest Ilfov region, depending on their economic development (figure 7).

Figure 7. ILO unemployment rate in the year 2008, per macroeconomic regions



Source: INSSE, Tempo-Online database.

Current adjustment of the labour market through appropriate policies

In recent decades, the fight against unemployment was the key element in defining the consequences of social policies applied in all European Union countries. Tackling unemployment, as well as increasing employment is a priority which can be solved by government intervention and internal and external partners:

- the state – fulfills the main mission of balancing supply and demand in the labor market by developing strategies for economic recovery, effective employment policies, by creating an appropriate institutional framework and legislative initiatives aimed at employment growth;
- local communities – can become important partners in mobilizing local energies in identifying and maintaining solutions for creating new jobs;
- professional associations – can contribute to collective efforts, according to their specifications, by developing employment policies, legislative initiatives, the professional actions and the allocation of human, material and financial resources;
- companies – special attention should be given to human resource management, particularly issues relating to recruitment, selection, assignment, evaluation and continuous improvement has staff;
- research institutions – through professionals, are mandated to carry out studies and analysis on the labor market, particularly important for decision making on socio-economic level;
- schools – must adapt their training programs to market requirements, both in terms of the required workforce structure and the demand for the level of training;
- international organizations – assist states in an effort to overcome negative phenomena, through unemployment assistance programs under the aegis of the European Union, World Bank and the International Labour Office.

Structural reforms can help in achieving two goals: restoring the main growth factors and preventing or correction of imbalances as a key condition for growth. These reforms can stimulate the use of workforce and productivity. Also, structural reforms can help restore competitiveness and reduce external imbalances in the short term by reducing price and wage rigidity.

Remediation measure of nominal rigidities must be completed by structural measures that sustain a reallocation of the labour force between enterprises and sectors.

Directing the economy towards a more sustainable path will require correction of all the errors of the past and, therefore, not only improving the price competitiveness of exports and reducing the relative price of non-commercial sector. Rebalancing prices will be accompanied by the shift of capital and labor resources to the commercial sector from the commercial directly exposed

to external competition. In terms of workforce, this reallocation will include an adopting legislation on employment protection and more attractive financial incentives to make the transition from unemployment to employment. This reallocation will be supported by an adjustment to relative wages between commercial and noncommercial sector. Active market strength will serve to support: the strengthening of recruitment agencies, providing training and a better orientation to the most vulnerable groups on the labour market. Improving the business environment, which implies a strengthening of competition in services covered and further reduction of administrative burdens, can facilitate the mobility of capital towards the most productive sectors.

Last, but not least are necessary measures which support the reallocation of resources between firms and sectors. These include legislation on employment protection that does not prevent reallocation of resources between sectors with more attractive financial incentives for employment and active policy on labor market better targeted towards those most vulnerable.

Conclusions

Employment is, in any society, including developed countries, a balance which is essential for macroeconomic and socio-political stability. It is a complex dynamic process of major interest to all economic and social partners for the present and future of society, with varying implications: economic, psychosocial, educational, cultural, political. Increasing the employment of the workforce and reducing the phenomenon of unemployment are now key economic policy objectives of all countries, made possible by establishing equilibrium between supply and demand for skilled labor market.

In accordance with the objectives of Europe 2020, the European Strategy on Employment aims at creating more and better jobs throughout the European Union. The European Strategy encourages measures to ensure the achievement by 2020 of three major objectives:

- 75% of people aged between 20 and 64 to be active on the labor market
- reducing school drop-out to less than 10% and increasing to at least 40% the proportion of higher education graduates among the population aged 30–34;
- reduction by at least 20 million the number of people who suffer or may suffer from poverty and social exclusion.

These objectives should be taken into consideration in our country as well.

The problem of unemployment and employment remains a serious issue that has the potential to perpetuate. In this area, the solving of deficiencies has to be resolved by each state, the social partners, whereas the recommendations of European institutions remain to the level of declarations of principle and

specify the general nature of solutions whose application is not able to reduce unemployment.

One of the main directions of growth in employment in the European Union, and implicitly in Romania, refers to the training programs of the labor force. Most of the budgetary resources destined to social policies refer to these programs. A good deal of these programs are retraining programs, for the training and requalification of the unemployed, according to the requests and tendencies registered on the labor market, to create for these chances to find a workplace.

According to the UN report “A world of work in 2010 – from one crisis to another?” the outlook for employment opportunities has worsened in many countries, despite the signs that the economy is growing again at a global level, as recession and labor markets will remain vulnerable until 2015.

Following economic crises, people unite, mobilize, act together for a common future, which proves the necessity for the existence of sustainability of the labour market in the current context.

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