

Economic disparities between urban and rural Romanian labor market

Mihaela Roberta STANEF

Bucharest University of Economic Studies, Romania
stanefroberta@yahoo.com

Abstract. *Romania's integration in the European Union (EU) imposes new requirements of human capital, creating new challenges for the sector.*

At this time the Romanian economy requires a competitive workforce with new skills and qualifications. To meet these demands, the Government should (i) increase the efficiency and equity of education in the context of decentralization by introducing student funding formula, school network optimization and training of managers in education, (ii) to raise the quality of education, first through better management of human resources, (iii) create more opportunities for retraining and continuing education, and (iv) to increase effectiveness by developing a coherent strategic program of reform, planning, administration and management of the sector.

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JEL Classification: J00, J1, J2, J3.

REL Classification: 5J, 12E, 16C.

1. Gaps in the labor market by residence

In the context of economic transition, the labor market in Romania has undergone significant changes in the volume and structure of the main indicators of labor market. This process was characterized, by reducing the active population and employment, maintaining relatively constant values of the unemployment rate. Financial crisis, especially in the second half of 2008 had an effect on the structure of the labor force, while reducing employment bringing an increase in the phenomenon of unemployment.

If during the last half of the 90s, active population remains at high values of over 11 million people, the new millennium began with a significant decline in the indicator.

Later in 2002 the active population fluctuated around 10 million. In 2010, the active population counts 9.965 million, of which 95.8% are in the working age group (15-64 years).

Table 1. Active population, employment and unemployment ILO¹⁾

	2007	2008	2009	2010
Active population - total	9994	9994	9924	9965
Feminine	4479	4418	4400	4416
Urban	5494	5471	5475	5538
Employed population - total	9353	9369	9243	9240
Feminine	4237	4212	4143	4128
Urban	5072	5101	5032	5032
unemployed population- total	641	575	681	725
Feminine	242	206	257	288
Urban	422	370	443	506

¹⁾ According to the methodology of the International Labour Office (ILO).

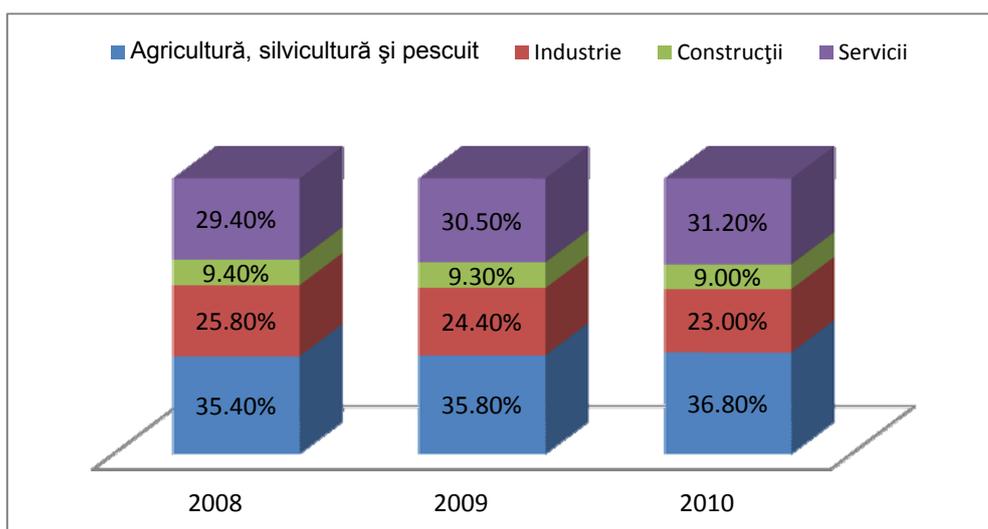
Source: Statistical survey on labor in households (AMIGO).

After a continuous increase recorded in the period 2005-2008, in 2009 the employed population began to decline, and in 2010 reached the lowest value (9.24 million people) in the last five years. Of those employed, 55.3% are men. Until 2002, most of the employed population was represented in rural areas. Since 2003, most of the employed population resides in urban areas 54.5% in 2010. Category prevalent among workers employed population, 65.6% respectively in 2010.

The unemployed population, defined according to the ILO, in 2010 was 725 thousand, increasing in 2009 with 6.5% than in 2008 (26.0%). In 2010, the total number of unemployed population, 28.1% was young population (15-24 years).

In 2010, the total employment in the private sector, 63.2% was active in industry, construction and services, compared to 64.2% in 2009.

Figure 1. Structure of employment in the private sector the main activities of the national economy



Note: The private sector includes forms of property “private”, “cooperative” and “public”. Including production and supply of electricity, gas, steam and air conditioning and water supply, sewerage, waste management and remediation activities.

Source: Statistical survey on labor in households (AMIGO).

Direct effect of the economic crisis triggered in the second half of 2008 the growth of the average number of employees in 2009⁽¹⁾, that was 4.774 million people, down by 272 thousand compared to the previous year (if not re-estimation would be done during 2009, lowering average number of employees would be about 320 000 persons compared to 2008). The most pronounced decreases were recorded in the following activities: manufacturing, construction and trade.

Distribution of employees by economic sector in 2009 show that 60.5% are in services (tertiary sector), that increased by 3.5 percentage points in 2008, and 5.1 percentage points respectively compared to 2007.

In the secondary sector (industry + construction) where 37.2% of total employees, 3.7 percentage points less than in 2008, i.e. 4.9 percentage points less than in 2007.

The percentage of employees who worked in agriculture (primary sector) was only 2.3%, up 0.2 percentage points from the previous year and down 0.2 percentage points from a year, 2007.

The number of unemployed registered at the National Agency for Employment (NAE) decreased until July 2007 (343,000 people), then recorded fluctuated until the end of the year.

After an increase of 4.4% in January 2008 compared to December 2007, the number of registered unemployed continued to decline in the next period, reaching a minimum point (337,000 persons) in June 2008, when the unemployment rate stood at 37%.

Table 2. *Unemployment ILO¹⁾, by age group, sex and area (%)*

	2007	2008	2009	2010
Total	6,4	5,8	6,9	7,3
Under 25 years	20,1	18,6	20,8	22,1
Over 25 years	4,9	4,4	5,4	5,8
Masculine	7,2	6,7	7,7	7,9
Under 25 years	21,1	18,8	21,2	22,3
Over 25 years	5,6	5,3	6,1	6,3
Feminine	5,4	4,7	5,8	6,5
Under 25 years	18,7	18,3	20,1	21,8
Over 25 years	4,1	3,4	4,5	5,1
Urban	7,7	6,8	8,1	9,1
Under 25 years	24,7	23,2	27,1	30,5
Over 25 years	6,2	5,3	6,5	7,4
Rural	4,9	4,6	5,4	5
Under 25 years	16,3	14,7	15,5	15,3
Over 25 years	3,4	3,3	4	3,6

¹⁾ According to the methodology of the International Labour Office (ILO).

Source: Statistical survey on labor in households (AMIGO).

Since July of 2008, the number of registered unemployed rose to a peak (765,000 people). In March 2010, and in the months that followed, the indicator has experienced a steady decline, so that by the end of the records employment agencies registered 627 thousand people unemployed, 11.6% less than the end of 2009.

The ILO unemployment rate (the proportion of unemployed persons in the labor force) recorded an increase up to 7.3 % in 2010 from previous years (up 0.9 percentage points from 2007 and 1.5 percentage points 2008, when there were actually lowest unemployment rates in the last four years examined) and 0.4 percentage points from 2009.

For women there was an unemployment rate of 6.5%, lower than that for men (7.9%), both up from previous years.

Urban unemployment rate significantly exceeds the rate recorded in rural areas (in 2010: 9.1% to 5.0%).

Young people aged 15-24 are most affected by unemployment. Thus, in 2010 the unemployment rate was 22.1% among youth (15-24 years), with sharp differences on average (30.5% in urban areas compared to 15.3% in rural areas).

The value of this indicator was 5.8 % for the unemployed aged 25 and over. The rate of vacancies is one of the indicators expressing demand for labor that occurs on the labor market. Continue to affect the global economic crisis, average annual job vacancies registered in 2010 lowest value since 2005-0.59%, down 0.29 percentage points from the previous year, 1.47 percentage points respectively compared to 2007, when the rate of vacancies recorded the highest value.

In terms of incidence (percentage of long term unemployed in total unemployed), long-term unemployment, which fell on a downward trend in recent years (from 50.0% in 2007 to 30.9% in 2009) recorded an increase, rising 34.9% in value in 2010, only slight disparity both sex and by residence.

2. Increasing labor force participation and reducing structural unemployment in rural and urban areas as a solution for reducing economic gaps

To increase competitiveness and increase labor market participation rates, particularly for those with low skill levels, and in accordance with the guidelines of employment economic policy, European states should review billing and support system and ability of public services to provide the necessary support. European countries can increase turnout by policies that encourage “active aging”, gender equality and equal pay for similar work, youth employment, people with disabilities, immigrants and other vulnerable groups in the labor market. Policies aimed at working conditions, innovation in organizations can be targeted to increase the employment rate, especially among young people, the elderly, women, including attracting and retaining the highly qualified in science and technology. EU Member States should also remove barriers to entering the labor market for those who want to engage for the first time, encourage the self-employed and create jobs in areas that include so-called “green jobs” and promote social innovations, both in rural and in urban areas (Dubey et al., 2004).

The main target of the European Union, on which Member States set national targets, is that in 2020 the employment rate for men and women aged between 20 and 64 years to reach 75%, including through greater participation of vulnerable groups – young, elderly, unskilled workers – and a better integration of immigrants.

Qualification that meet labor market needs, encouraging job quality and lifelong learning European Union Member States can encourage productivity and employability by providing knowledge and skills to meet the requirements of current and future labor market. Vocational education and training must be accompanied by incentives to continue learning throughout life, opportunities for acquiring new skills, ensuring every adult the opportunity to improve training and qualifications obtained. States must ensure recognition of skills acquired systems, to remove barriers to occupational and geographical mobility, to promote the acquisition of transversal competences and creativity, efforts to be directed mainly to support and increase the employability of low-skilled older workers, while improving training, skills and experience of highly skilled workers and researchers.

Improving the performance of education and training at all levels and increasing involvement in tertiary education

To ensure access to quality education and training for its entire population and to increase training outcomes, European countries need to invest in education systems to increase the skills of the workforce, enabling them to meet the needs of contemporary labor market. Measures should cover all sectors, including education in informal and non-formal systems. Reforms should aim at acquiring key skills necessary for each individual to successfully integrate a knowledge-based economy more in terms of employability, further learning and skills in information technology and the mobility of young people throughout the educational system. Member States must increase the openness and relevance of education and training through the implementation of national qualification frameworks enabling flexible training routes and the development of partnerships between the training system and the labor market. Higher education may be open to a wider audience than the traditional and participation in tertiary or equivalent education should be extended (Stiglitz et al., 2009).

The main target of the European Union, on which Member States set national targets, is lowering the dropout rate to less than 10%, while increasing the share of population aged between 30 and 34 years who have completed a tertiary education to at least 40% by 2020.

Promoting social inclusion and combating poverty

Poverty reduction efforts of the European countries should be oriented to promote public contribution to society and the economy, by extending employment

opportunities, using support from the European Social Fund. Also be considered to ensure equal opportunities and access to public services, education and sustainable health and quality. In this context, it is necessary effective measures against discrimination and to combat social exclusion and to encourage participation in active labor market policies should be implemented to foster lifelong learning and inclusion, to create opportunities in all stages of life and to protect people from the risk of elimination from the labor market.

Pension and social security systems must be able to ensure the effective provision of aid in terms of income and access to health services, promoting social cohesion, while remaining financially viable. The support systems have to focus attention on income stability during transitions and reducing poverty in particular for most vulnerable groups to social exclusion – single parent families, minorities, and people with disabilities, children and youth, the elderly, immigrants, homeless persons. Policies of European states should actively support the social economy and social innovation.

The main target of the European Union, on which Member States set national targets, is to reduce by 25% of the European population living below the national poverty line, thus affecting over 20 million people.

Inclusive growth – a high employment economy to ensure economic, social and territorial cohesion

Inclusive growth requires the ability to confer self-government of the people by ensuring high employment rates by investing in skills and abilities, reducing poverty and modernizing labor markets, education systems and social protection systems to prepare people to anticipate and manage change, building a cohesive society. It is also necessary that the benefit of growth to flow to all regions of the European Union, including peripherals, thus increases territorial cohesion. The objective is translated in providing access and opportunities for all citizens. Challenges posed by an aging population and rising global competition require full potential workforce of the European space, and policies that encourage gender equality are necessary to stimulate labor force participation rate, thus contributing to economic growth and social cohesion.

European states must guide the following priority areas:

- **Employment:** Due to demographic changes, employment in the European Union is experiencing a decline. Only two-thirds of the working age population holds a job, compared to over 70% in the US and Japan, and the employment

rate among women and elderly is lower. Young people have been severely affected by the economic crisis; the unemployment rate in this age group was over 21%. The risk of poor population connected or outside the scope of the labor market to lose connection or possibility to integrate the labor market.

- **Skills:** About 80 million people are under-qualified, and programs for lifelong learning are useful especially to those who already have a higher level of training. By 2020 it is estimated that another 16 million jobs will require high qualifications, while demand for unskilled labor will drop by 12 million jobs. The ability to acquire and develop new skills throughout life will also be needed to prolong active life.
- **Fighting poverty:** before crisis, about 80 million people were affected by poverty, 19 million of whom are children. 8% of the employees have earnings that place them below the poverty line, and the unemployed are very exposed to this risk category.

Measures under these priority areas include modernization and strengthening education and training policies, social protection systems, increasing the participation rate of the labor force, reducing structural unemployment and increasing corporate social responsibility – in this respect are very important childcare services and other categories of dependents.

Implementing flexicurity principles and facilitating the acquisition of new skills for workers to adapt to new conditions and potential career path changes are essential. A special effort should be made towards combating poverty and social exclusion and reducing inequalities in access to health services, to ensure an equitable distribution of benefits of growth. Equally important is the ability of economies to support the aging population through an active life and have a health system properly to ensure social cohesion and productivity.

3. Conclusions

Inter-regional mobility of factors of production is one of the most recognized ways to stimulate economic growth and efficiency gains. Expanding the European Union, which included Romania and Bulgaria put the two countries in a position to shape regional policies to stimulate economic development, one of the aspects of the development of effective inter-regional migration to help reduce income disparity by moving force work in areas with low productivity in the high productivity, this can be achieved by improving employment opportunities, real wages and economic and social conditions of the regions. Now gains in efficiency

and welfare (measured by economic outcomes) of inter-regional mobility of labor are notable for Romania.

Not visible results on unemployment and the effects of income are primarily the result of the influence of low wage regions – the source of migration. These counterintuitive results can be explained by the grounds of the inter-regional migration partly as a result of the de-collectivization of Romanian agriculture. This has given opportunities for development in the rural economy, while the urban potential was affected by high unemployment rates. As a result, there has been a process of migration from rural to urban areas which involved including inter-regional relocation.

Analysis of annual differences between the directions of migration reveal a “phenomenon of attraction” rather than one of “rejection” of the countryside, a phenomenon justified the rationality of choice based on revenue analysis. This fact emphasizes the importance of the perspective of socio-economic factors such as housing, infrastructure, health services, and human capital factors to analyze inter-regional migration research. Expanding economic models to include the socio-economic impact of relocation decisions is also a future research direction, conditional on recent and relevant data on internal migration in Romania.

Note

- ⁽¹⁾ During 2009, the number of employees was estimated based on reconciliation information from administrative data sources with estimates obtained from exhaustive observation of “budgetary sector” (public administration - including all local councils belonging to local government, education, health and social) for the reference month of October 2009. Consequently, estimates of the annual “budget sector” made for 2009 are not fully comparable with previous years; the coverage is more comprehensive in 2009 (about 50,000 employees in addition).

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