

# The Crisis on the Labor Market in Romania



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***Abstract.** In the last 17 years the labor market in Romania has suffered deep changes. We can find two distinct stages regarding the evolutions on the labor market in Romania after 1989. The first stage, which includes the period 1990 – 2003, is defined as a period of deep restructurations of the Romanian economy. It is characterized as a period of relatively high unemployment and the undertaken actions were directed mainly at limiting the unemployment and its harmful effects on the society. We consider that after 2005 the employment evolution heads towards a new crisis on the labor market, but its cause is not a high unemployment, but rather an offer dropping on the labor market. The causes and the possible solutions are delivered in this script.*

**Key words:** the employment of the labor force; the crisis on the labor market; the objectives of the employment policy; the strategy of employment the labor force; the demographic strategy.



## The economic and social context

In the first years of transition, Romania has faced an unemployment boom, on the basis of the structural changes in the national economy. By the process of restructuration, privatization, closeout of the companies having mainly a state capital, the structure of the employment force has changed, i.e. employment in the state sector was reduced as a result of the processes of restructuration, privatization and closeout, while employment in the private sector has increased.

As a result of the imbalances caused by passing to market economy, the massive personal dismissals induced by the process of restructuration or closeout of the economical unit led to the decreasing of the number of employees and to increase of number of unemployed. It is necessary that the social policy should start from the need for a radical change in approaching this subject. To create minimum conditions for citizens to be able to actually

take part in the social life it is necessary that the legislative guarantees should be ensured urgently in parallel with continuous increase of the individual responsibility level.

The social model for achieving this must rely on the equilibrium between competition, cooperation and solidarity, by differential pay according to efficiency criteria and by balanced and transparent distributions of incomes earned in the society. In order to come out from the economic crisis in which lies, Romania needs more work places on the basis of the social solidarity.

The main objective is to ensure the protection and social welfare measures for certain categories or groups of persons able to work, by actions which will contribute to securing the work place, to attain permanent and rising incomes, as an essential premise for improving the living conditions of the active persons in the labor market.

## The labor force employment

After 1990, the market labor formation and functioning has become one of the priorities of transition and economic reform program. As a derivate market, the labor market has received and gathered all shortcomings of the labor market functioning of other Romanian markets.

The macroeconomic context for ensuring conditions to realize the criteria for joining the European Union imposed that the labor market functioning to show itself as a complex maturity process of its legislative and institutional components. These ensure in a relative short period of time the increase of the employment rate of labor force at 70%.

In conditions of speeding up of the restructuration and increase of the insecurity at the work place, a substantial number of social problems raised in the labor market. Labor force employment has become one of the tensest areas of the transition. Romania faced a crisis of labor force employment under conditions of economic decline established in the decade 1990-2000.

Privatization and restructuration the Romanian economy has significantly influenced the labor market, by determing massive dismissals and appearance of the unemployment phenomena. The involutions in the economy limited the employment possibilities of the labor force; the number of the active and employed population, respectively the activity and employment rate, were reduced, while the unemployment became chronic.

### The crisis on the labor market in Romania

In the last period of time, the specialists, citizens and mass-media are more often asking themselves whether there is or not a crisis on the labor market in Romania or whether on middle-term we're heading towards a crisis in this field.

If there is a real crisis on the labor market in our country, we logically have to answer also what we have to do on short and middle term to solve this delicate and serious matter.

According to statistics, comparative with 1989, the indicators show us that the number of employees in Romania has constantly dropped from 9 millions to 4.7 millions, which are now.

The persons employed in agriculture are about 2.2 millions and the persons employed as authorized natural person, members of the family businesses, employers, managers, administrators comes up to 1,1 million persons. In these conditions the number of employed persons in Romania is about 8 millions.

As a conclusion, in 16 years the number of persons employed in Romania dropped to 1 million compared to 1989.

The diminishing number of persons employed in Romania was caused especially on the basis of reduced number of employees in Romania.

In the time of strong economic restructuration, the number of employees was significantly reduced in Romania from 9 millions to 4.7 millions. In exchange, the employment has grown in areas typical to market economy, which have developed and continuously consolidated in the last 16 years.

The unemployment in Romania hasn't increased accordingly as a result of the legal and illegal immigration. Following this, at present over 2 millions Romanian citizens are working abroad, in accordance with some unofficial statistics.

The migration phenomenon was accelerated in the last 3-4 years before Romania officially joined the EU.

The migration phenomenon has had a series of positive effects, such as reduction of unemployment, poverty and social problems, especially in the rural environment and at the level of the domains which were strongly affected by the economic restructuration in the last years of transition.

The fact that in the last period of time the migration phenomenon has increased led to a labor deficit in certain domains such as constructions, agriculture, tourism, construction materials, mechanical processing, clothing and leather goods industry.

Should the migration phenomenon continue or accentuate after January 01<sup>st</sup> 2007 through the increase of the number of those who choose to work in other EU countries, the labor force deficit also accentuates and expands in other fields, in addition to those already mentioned.

This phenomenon shall lead to a real crisis on the Romanian labor market.

The crisis on the labor market shall limit Romania's economical growth by reducing the annual rhythm of economic growth and shall seriously affect the achievement of the objective of Romania's medium and long term lasting development.

Romania's budgetary balances are also endangered, with strong negative effects especially on the budgets of social and health insurance pensions. It is known budgets of social and health insurance pensions function well on a ratio from 3 to 3,5 employees per one beneficiary, and at present this ratio is totally unfavorable, from 0,8 employees per one beneficiary.

The continuation of migration in the previous period over the critical level, estimated by some calculations at still 0.5 millions persons, shall lead to a serious crisis of systems of social and health insurance pensions.

It is jeopardized the capacity to pay the pensions in Romania and to finance the health system at the level of its proper functioning.

In these conditions we consider that the responsible governmental authorities must urgently receive the alarm signal and that they take the necessary measures in order to avoid the crisis on the labor market and the extremely serious negative consequences that may appear in other domains as well.

We will now try to present synthetically from our point of view the main measures to be taken in order to avoid a crisis on the labor market from Romania:

- Urgent measures in order to introduce on the labor market the economic and financial leverages proper to a market economy which would lead to the growth of labor incomes, diminish the phenomenon of labor force migration and contribute to the coming back of some Romanian citizens who are working abroad. The specialists' estimations show us the fact that when the medium wages in Romania surpass the limit of 50% of the medium wages in the EU countries, the migration tendency will decrease, and those working abroad will come back in Romania, after having bought a lodging, long-lasting house equipments and eventually a means of transport with their incomes;
- Measures for stimulating the Romanian capital investments in high efficient branches and domains which insure higher payment standards as well;
- Stimulating the investments in the continuous professional training of employees.

As a conclusion, Romania will urgently have to establish on middle and long term the following, in order to come out from the economic crisis on the labor market:

- Objectives of employment the labor force;
- Strategy of employment the labor force;
- Romania's demographic strategy.

### **The objectives of the labor force employment policy in Romania**

The historic context of Romania's actions with a view to integration in the Community's structures are placed under the sign both of deep changes in Romanian society after 1989, such as: building of a democratic society and instauration of a market economy and of changes on the level of European Union by the need of structural intern reforms, doubled by its unavoidable extending over the European countries, which subscribe to the same democratic values.

The declared purposes of the social policy of the European Community and of the member states are promoting the employment of persons able to work, improving the living and working conditions and harmonization of the frame conditions for more work and development. In order to achieve this objective, the Community together with the member states is applying a

series of measures in all areas of politics, such as adaptation of legal and administrative regulations, the agreement between the social orders and member states, establishing the minimum standard of working conditions, promoting the exchange of information, regulations for the purpose of improving the working environment, promoting the financial or other type of employment and creating new work places and professional training.

The objectives of the employment policy and of the labor market of the European Union and its members are based on the main social rights of the persons capable of working, established by common consent, on the right to be treated with generosity as well as the right to the free commodity and capital movement, on the national regulations which act within the common social regulations, on norms and conventions as well as on the objective of promoting and adapting the education system.

One of the basic principles of the social European policy is the equal treatment of all persons capable of working from the legal and social point of view, the forbidding of any form of discrimination, the guarantee of the access to the training and employing institutions as well as to the specific measures and the guarantee of exercising the trade union rights.

The restructuration of the labor market from Romania, within the coordinates of the European strategy, concerns the development and improvement of new mechanisms which should drive away the reminiscent shortcomings of the past. In the same time, a correct evaluation and adapting of these mechanisms is necessary, in accordance with the specific conditions of Romanian economy. On one hand, they will have to answer to the content of the labor market, in order to ensure the fulfillment of its functions with no syncope, and, on the other hand, they must ensure the flexibility of the labor market, its openness, respectively the passing from one sector to another, within proportions and rhythms which should diminish the economic and social costs of transition.

### **Employment strategy in Romania in order to come out from the labor market crisis**

The evolution of employment in Romania is going to be influenced by several factors. On the one hand, the flow of foreign investments shall generate new working places. Small and medium businesses also expect to have a positive influence on the increase of the employment level, employment which is mainly localized under the aspect of non-remunerated work. On the other hand, continuing the restructuration and privatization process shall induce economic growths on the employment, generating new dismissals. Also, despite the relatively high economic growth, the labor force market is still under pressure, mainly because of the age and profession structure of unemployed people, which is not identical to demands in economy.

For these reasons the only solution by which employment in Romania may be positively influenced is to draw up a coherent employment strategy, with precise objectives and integrated applicability, in which all actions of the state institutions have as convergent point the increase of employment percentage.

The objectives of the employment strategy in Romania must be related to the economic revival based on the economic macrostability and the durable development of basic economy sectors.

We consider that the objectives of the Strategy in the employment field are the following:

1) increasing the employment level:

- adopting UE guidelines regarding employment;
- increasing the level of employment;
- repatriation (return) of the labor force of Romania that is working abroad at present;
- increasing the level of salaries in Romania;
- developing the enterprising spirit of employers and persons looking for a job;
- increasing mobility, flexibility, adaptability of the labor force;
- guaranteeing equal opportunities.

2) measures of supporting the unemployed:

- applying insurance measures for unemployment;
- moving the stress of protection policies of the unemployed from passive to active measures.

3) increasing the budget of insurances for unemployment and efficiently using it by increasing the percentage of expenses for active measures in the total of budgetary expenses.

One may achieve the objectives established in the strategy only by constituting a complete social partnership, in which the social partners are involved in drawing up policies, programs in the field of employment and also involved in implementing them.

Within this context, social partners are systematically integrated in the development and implementation of the actions, according to public/private initiatives.

By social dialogue, partnerships make their presence noticed at European level (transnational cooperation concerning youth, education and training programs), national level (tripartite agreements), local level (at community level), at companies' level (employers/trade union/employees).

Partnerships are developed especially through active involvement of local and regional authorities of civil society organizations, which offer services closer to the citizens and which are better adapted to needs specific to communities.

Because at this stage Romania must adapt as far as all activity sectors are concerned in order to achieve and to maintain competitiveness, the social partnership becomes an efficient method to ensure activity modernization and diversification.

We consider that the main actions needed to achieve the objectives are the following:

- Ensuring continuous economic growth, with a direct impact on the growth of the number of working places, based on the development of the sector of small and medium businesses; a special emphasis shall be put on the development potential of certain activity fields, like services (tourism, information technology, etc.), whose percentage within the economy is still quite small.
- Fighting against working without legal forms and initiating measures that lead to reducing costs of working places, fact which shall stimulate the employers to comply with the legislation within this field.
- Identifying alternatives for employing dismissed persons, fighting against long term unemployment that represents a permanent preoccupation for the following years, in the context of continuation of the privatization process and economic restructuring.
- Drawing up special programs addressed to groups of people confronted with difficulties of integration on the labor market: young people, disabled persons, Roma persons.
- Promoting measures destined to lead to the growth of the participation rate by prolonging the activity period for elder persons, based on the latest demographic evolutions, characterized by an aging process of the population.
- Attenuating discrepancies between supply and demand on the labor force market, especially by adapting the initial and continuous training system to trends on medium and long term of the occupational world, in a society based on knowledge and usage of new computer technologies.

### Romania's demographic strategy

We consider that the strategy and objectives of the employment policy in Romania may be achieved with favorable results only if we shall urgently draft and implement the *demographic strategy* of Romania, strategy that shall have as main objective the stopping of the demographic decline of our country.

Demographic strategy shall establish the way in which actions must be carried out in Romania on medium and long term in order to stimulate the demographic growth, which is considered a priority in sustaining the durable development of our country.

We consider that Romania's demographic evolution represents a *maximum priority* for all of us, and the drafting and implementation of the strategy within the field is determining for the economic and social development in our country.