

# EMPLOYMENT AND WELFARE

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**Abstract:** *In consideration of the Lisbon Agenda, the Romanian Government drew up the National Programme for Reform for 2007-2010, which established national priorities, and ways and tools to achieve economic reform and growth. Transition in Romania implied a complex and extensive system of regulations and institutions for stimulating employment and creating a flexible system of social protection. The new regulations were focused on harmonisation with the Community labour law. Increasing investment in human capital is essential for a competitive and dynamic economy. Besides, labour market policies were formulated for correcting labour market imbalances.*

**Key words:** *Demographic Economics; Labour Standards; Labour-Management Relations; Welfare and Poverty; Quality of Life*

**JEL classification:** *J8; J5; J1; I3; I31*

In consideration of the Guidelines of the Lisbon Agenda revised, the Government of Romania drew up the National Programme for Reform (NPR) for 2007-2010. It sets national priorities, identifies ways and proposes tools for continuous and deep reforms in order to reach the economic growth and employment levels set for 2010 and to fill the economic and social gaps with EU member states<sup>1</sup>. The two-year account concerning the implementation of the Government Programme 2005-2008 (of March 2007) shows that the fiscal reform had effect on the economic and social environment. The single tax rate of 16% caused significant changes in the tax-payers' behaviour as regards the fulfilment of budgetary obligations, and the achieved tax rate (17.4%) was, for the first time, above the single rate, while the tax on goods and services became the main source of income to the state budget. At the same time, it is pointed out<sup>2</sup> that the transition to gradual taxation by instalments at a maximum level of 40% taxation on gross income levied at the single rate caused an increase in employment and in additional incomes and hindered black labour to some extent. In general, the real growth of incomes to the general consolidates budget was 14.6% in 2006 as against 2005.

The reforms in the labour market materialized as follows:

- rise in the gross average wage by 40.6%;
- pension re-adjustment for 3.5 million people and rise in the average score for 45.4% of them; the average pension of this category of people increased by 21.3% by the end of 2005, as against the level existing before re-adjustment;
- increasing purchasing power of pensions owing to periodical updating of the pension point value; the average pension increased from 211 lei in December 2004 to 325 lei in December 2006, which is equal to an increase in real terms by 35.2%;
- adjustment of the unemployment benefit system, considering that the allowance granted to the unemployed is set in relation to the contribution period and to the average of gross wages received in the last 12 months of work;
- unemployment diminution from 6.3% in December 2004 to 5.2% in December 2006;

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<sup>1</sup> The National Programme for Reform 2007-2010 was based on the Government Programme 2004-2008, which represents a national framework for implementing sectoral policies of the central and local administration. Additionally, it took into account sectoral development strategies included in the National Development Plan 2007-2013, the National Strategical Reference Plan 2007-2013 and the National Plan for Rural Development 2007-2013, as well as the EC Spring Communication COM (2005) 24 of 2<sup>nd</sup> February 2005, "Working together for growth and jobs. A new start for the Lisbon Strategy" and Integrated Recommendations for Growth and Jobs (2005-2008), COM (2005) 141 final of 12<sup>th</sup> April 2005.

<sup>2</sup> Government of Romania, *The National Programme for Reforms, 2007*, p. 6.

- employment of over one million people in the period 2005-2006 in accordance with the employment programme measures, carried out by the Public Employment Service.

The far-reaching reforms aimed at attaining the Lisbon objectives generally include the effective management of labour by the following:

- a. labour market reform, increasing functional efficiency of this market, a better multidimensional correlation of job supply and demand;
- b. pension system reform, by speeding up the implementation of the mandatory private pension system;
- c. reform of social assistance and health services, associated with a gradual diminution in wage-based social contributions;
- d. reform of education in all areas and of continuous learning and improvement of the public employment service and the vocational training structures.

The pace of reforms is closely dependent, among others, on: making up the infrastructure deficit in the labour market and the education market; diminishing the taxes on labour and creating flexible labour relations to ensure a better labour remuneration; correlating the flexibility measures with actions for improving the job security; promoting the disadvantaged social groups, especially the young and the elderly, on the labour market.

The National Programme for Reforms sets five groups of priorities, along with a wide range of policies and initiatives, for achieving a sustainable development of the society and “the internal economic and employment performance, correlated with an equitable social system”. The fifth group of priorities aims at increasing employment and the activity rate in two ways: the first deals with the change of undeclared labour into activities based on employment contracts, especially by making increasing efforts to cut wage costs. The second aims at developing skills and education and improving labour market along with specific measures to integrate the disadvantaged groups and to improve their access to the labour market (especially of women working in the subsistence agriculture and of the Roma).

## **1. The legislative framework for the implementation of labour market policies**

Transition in Romania implied a complex and quite extensive system of regulations and institutions for stimulating employment, protecting the workforce and ensuring a certain living standard to individuals and households. These regulations aimed at developing functional industrial relations and a flexible system of social protection and workforce protection. In the last years there was much concern about working out strategies and promoting policies and measures for improving the labour market and developing human resources. The new regulations are focused, on one hand, on the harmonisation with the Community labour law and, on the other hand, on the harmonisation with the legislation concerning the operation of other markets and/or other social problems directly or indirectly dependent on the labour market size and functioning (the system of pensions, social assistance and employment of the disabled, etc.). But there are problems in enforcing these regulations of low effectiveness to the functioning of the labour market institutions.

The present orientation in the field regards the increasing investment in human capital as a support for sustainable growth in labour productivity and employment. A high-skilled and high-educated workforce, able to adapt to new technologies and changing markets, is essential for a competitive and dynamic economy. Romania pursues, for the present and for the future, active policies in the labour market for improving workforce adaptability and flexicurity in order to ensure a higher level of participation in the labour market. In many respects, labour legislation is an important basis for economic development based on decentralized decisions. But it is worth mentioning that the “inflation” of regulations for adjusting/modernizing/adapting the labour law and of many institutional changes often caused incoherence and distortion in functioning at expected parameters in the labour market. To be efficient, the system needs to grow and slow down the legislative and institutional changes.

The present legislative framework includes, besides specific regulations concerning some components of labour market and social policies, several programme documents for establishing labour market and social

reform policies. Some of the most relevant ones are the following: The Common Paper for the Assessment of Employment Policies (JAP 2006); The National Action Plan for Employment 2004-2005; The Common Memorandum on Social Inclusion (JIM 2006); The National Employment Strategy 2005-2010; The Economic Pre-accession Programme 2005; Short and Medium-term Strategy for Continuous Vocational Training 2005-2010; The National Strategy for Social Service Development 2005; The National Strategy for Preventing and Combating Domestic Violence 2005; The National Strategy for the social inclusion of young people over 18 years of age who leave the state child protection system 2006-2008; The National Strategy for creating a social assistance system for the elderly 2005-2008; The Government Strategy for improving the Roma's standard of living 2001; The National Strategy for the protection, integration and social inclusion of the disabled 2006-2013 – "Equal opportunities for the disabled – Towards a discrimination-free society"; The National Strategy for equal opportunities for females and males; The Strategy for the development of the primary and secondary education system 2001-2010; The Strategy for the education system decentralisation; Strategic Guidelines of Education and Research 2006-2008. Besides, we drew up **The Sectoral Operational Programme – Human Resource Development (SOP-HRD)**<sup>3</sup> for setting the priority ways of intervention in the human resource field in order to implement the financial aid received from the European Union through the European Social Fund for the Convergence Objective for 2007-2013 period. Drawn up within the National Development Plan 2007-2013 and in accordance with the priorities of the National Strategic Reference Framework, the SOP-HRD is an important tool of economic development and structural changes. The general objective of the SOP-HRD is human capital development and competitiveness improvement by linking education and lifelong learning to labour market and offering more opportunities to 1,650,000 people to enter a modern, flexible and inclusive market.

The specific objectives are: promoting high-quality education and initial and continuous vocational training (including higher education and research) as well as entrepreneurial culture, and improving labour quality and productivity; facilitating the re(insertion) of persons facing occupational risk (young people, non-active people, vulnerable groups) into the market.

Besides sustainable human resource development, another objective is the modernisation of the system by improving the public employment services and developing a flexible and inclusive labour market.

**Table 1**

**Employing workers (2007) – Employers' difficulties  
in employing and dismissing workers**

Index	Romania	Eastern Europe and Central Asia	OECD
Employment difficulties index	78	36.3	25.2
Work time rigidity index	80	51.4	39.2
Dismissal difficulties index	40	32.1	27.9
Occupation rigidity index	66	40.0	30.8
Non-wage costs of labour (% of wage)	31	25.4	20.7
Dismissal costs (paid weeks)	8	26.1	25.7

*Note: Each index ranges between 0 and 100; the higher value refers to rigid regulations. The occupation rigidity index is the mean of the first three indexes in the table. Details at: <http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/Details.aspx?economyid=158>.*

*Source: Doing Business 2008, Eastern Europe, How to reform, comparing regulation in 175 economies, A co-publication of the World Bank and the International Finance Corporation, 2007, The International Bank for Reconstruction and Development/The World Bank, pp. 11-15 and database.*

In the last years, major steps have been taken in this respect. The latest regulations caused the flexibilisation of employment procedures, especially those concerning the labour contracts for a preset period

<sup>3</sup> *The SOP-HRD was coordinated by the Ministry of Labour, Family and Equal Opportunities. The consultations involved the Ministry of Economy and Finance, the National Employment Agency, the Ministry of Education, Research and the Youth, the Ministry of Internal Affairs and Administrative Reform, the Ministry of Development, Public Works and Housing, the Ministry of Agriculture and Rural Development, the Ministry of Public Health, the National Institute of Statistics, the National Institute for Scientific Research on Labour and Social Protection, the Anti-Poverty and Social Inclusion Commission, the National Council for the Vocational Training of Adults, the national Agency for Equal Opportunities, the Ministry of SMEs, Trade, Tourism and Liberal Professions, other related ministries and agencies. Also, extensive discussions with social partners, civil society organisations, public administration and other relevant actors were held. The close cooperation between the MLFEO and the EC Directorate General for Employment, Social Affairs and Equal Opportunities was very important for finalizing the SOP-HRD structure and content.*

(Doing Business, 2007).<sup>4</sup> But the pace of reforms in the employment stimulation field varied every year. While in 2005 Romania held a top position as regards the simplification of employment regulations (the 2005 top reformers in the world were FYR Macedonia and Romania), in 2006 it ranked the 133<sup>rd</sup> and in 2007, the 145<sup>th</sup>. The need to carry on reforms in this field is also reflected by Romania's place among Eastern European and Central Asian countries.

At present, the Romanian labour market is characterized by a relatively high inactivity rate, high unemployment rates of the 15-19 and 20-24-year-old groups, a high proportion of early withdrawals from the formal labour market and a significant employment rate in agriculture, where untaxed labour relations prevail. The labour market reform and the promotion of specific policies were concerns of "secondary importance" to reform makers, while the role of market adjustment was overestimated. Therefore, the human factor quality deteriorated and now we face a worsening deficit in performance, an unequal development of labour resources that recently entered the market, a non-correlation of labour supply characteristics with the demand of the economic and social environment. The errors in labour potential management determined short and medium-term challenges in the labour market such as: the effects of economic restructuring, a low participation of the young people and the vulnerable groups in the labour market, a high rate of employment in agriculture and a low quality of resources. There is an attempt to correlate labour market policies with social policies; the elements of coherence and systemic and correlated approach to the reforms in the two fields are presented in the Programme for Medium-term Reform. In this respect, Romania is supposed to focus on three priorities, correlated with the requirements of the revised Lisbon Strategy, as follows: attracting and maintaining more persons on the labour market, improving the adaptability of enterprises and workers as well as increasing the investments in human capital.<sup>5</sup> The NPR objective for increasing employment objectives (2007-2010) is an increasing participation in the labour market and the promotion of a higher employment quality. The top priorities are the following: ensuring the functioning of a favourable labour market, job creation, decrease in undeclared labour and good management of changes at the enterprise and worker level; improving the access of vulnerable groups to the labour market; promoting competitiveness on the labour market, especially by a better correlation of the education and training system and the labour market requirements.

The main ways of action of the medium-term policies consist in the full approach to flexibility and security in the labour market, considering the Romanian companies' need for adaptability to the new competitive environment in the European Single Market; that is why measures should be taken for the flexibilisation of labour relations, the decrease in legislative pressure on the employer,<sup>6</sup> a higher quality of employment and a higher job security, by keeping a low unemployment rate.

## **2. The legislation concerning the employment protection**

In the early part of the transition period, attempts were made to adapt the existing legislation (e.g., the Labour Code – Law 10/1972) and to complete it with new aspects specific to the market economy (unemployment, collective bargaining, etc.). Besides, some provisions of the collective labour contracts ensured the employees' protection in case of unemployment and limited dismissals. Later, with the speeding-up of the privatisation of large economic units, social protection regulations on mass dismissals were enforced (compensation pays were granted from 1999 on). This first stage consisted in the adaptation to market conditions by amendments to the existing labour legislation (mostly by taking on and slightly adapting the legislation from EU countries). The second stage consisted in reviewing and updating the

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<sup>4</sup> Doing Business 2007, How to reform, comparing regulations in 175 economies, *A co-publication of the World Bank and the International Finance Corporation, 2006, The International Bank for Reconstruction and Development/The World Bank, p. 19.*

<sup>5</sup> *In compliance with the European Employment Strategy and the Common Memorandum on Social Inclusion, our country adopted the following: the National Employment Strategy 2004-2010, the National Action Plan for Employment 2006, the Strategical Plan for Social Inclusion and the National Strategical Report on Social Protection and Social Inclusion, the National Development Plan and the National Strategical Reference Framework 2007-2013 – the Sectoral Operational Programme – Human Resource Development (SOP-HRD). The intervention of the European Social Fund in Romania, in the period 2007-2013, is based on the Lisbon objectives and focused on modernizing the systems of education and initial and continuous training, increasing the access to education and training services, increasing the adaptability of workers and enterprises, modernizing the public employment service, as well as promoting active employment measures and social inclusion measures.*

<sup>6</sup> *The amendments to the Labour Code make the labour relation flexible to the advantage of the employees and the employers alike, and the medium-term effects will be the following: more dynamic economic activity and bringing the grey labour relations to daylight.*

existing laws (the new Labour Code – Law 53/2003, the new Trade Union Law), in changing the game rules for a proper adaptation to the national market conditions (the Unemployment Law, providing a shorter period of paid unemployment) or in giving up certain employment forms, such as civil agreements, or additional contributions from wages to some special funds (the economic agents' contribution to education development) and further creating new ones (e.g., the guarantee fund for wage debts, created in 2007). As regards the employment protection, the new Labour Code, enforced in 2004, provided a coherent and clear regulatory framework of labour relations. The employers considered that they were excessively protective of the employees, since the pre-dismissal procedure was long and difficult. Therefore, the present Code was amended.

At present, any employee is entitled to individual bargaining and to being informed of any change in contract clauses – changes in the work conditions provided by the employer because of certain provisions of the collective labour contract, etc. The termination of a contract may take place: by right, following the agreement of the parties, at a time agreed by them, or according to one party's will, in cases and under conditions specifically stipulated by the law. The discriminatory dismissals for reasons such as gender, sexual orientation, genetic features, age, nationality, race, colour, ethnical origin, religion, political option, social origin, handicap, family situation and responsibility, trade union membership or activity or exercising the legal right to go on strike or other labour rights is forbidden. Except for prison confinement, diseases incompatible with the job or reaching the standard age of retirement, the employer may decide to dismiss for reasons concerning the employee himself in the following cases: a) in case of severe or repeated dereliction of the work discipline rules or the rules set by the individual labour contract, the collective labour contract or the internal regulations, as a disciplinary sanction; b) in case that the employee is not professionally fit to the job (the previous assessment of activity is required).<sup>7</sup> The decision to dismiss should be justified in fact and by right and should mention the period when an appeal to the court can be lodged and the competent court.<sup>8</sup>

Collective dismissal<sup>9</sup>, in accordance with Emergency Ordinance of the Government 55/2006, is allowed provided that previous discussions were held with the trade union of the employees' representatives in order to reach an agreement, in accordance with the law, at least on the following: the actions and means to avoid collective dismissals or the diminution in the number of workers to be dismissed; the mitigation of dismissal consequences by social measures for, among others, supporting the dismissed employees to undergo retraining or professional re-conversion. If trade unions make suggestions for avoiding/limiting dismissal, the employer shall answer in writing and justify his action. If the dismissal takes place, it is necessary to notify in writing the territorial labour inspectorate and the territorial employment agency at least 30 calendar days before issuing the dismissal decision. The territorial employment agency shall find solutions to the problems caused by collective dismissals and inform the employer and the trade union or, if necessary, the employees' representative in due time. To avoid subjective unjustified decisions on collective dismissal, the employer shall not be entitled to new employment in the jobs left by the dismissed employees for nine months after the dismissal date.

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<sup>7</sup> In accordance with the assessment procedure set by the relevant collective labour contract, concluded on a national basis, at branch level or group of units level, as well as the internal regulations (Law 371/2005).

<sup>8</sup> Articles 263-268 of the Labour Code set the limit of the disciplinary prerogative of the employer and the conditions for investigating the case. Disciplinary dereliction is a labour deed consisting in an action or a non-action in violation of the rules, taken by the employee, by which he violated the legal provisions, the internal regulations, the individual labour contract or the collective labour contract, the legal orders and directions of hierarchical chiefs. The disciplinary penalties to be imposed by the employer when the employee commits a disciplinary dereliction are the following: a) written warning; b) suspension of the individual labour contract for a period of less than 10 working days; c) demoting to a lower position and a wage corresponding to the new position, for a period of less than 60 days; d) diminution in the basic wage for 1-3 months by 5-10%; e) diminution in the basic wage and/or, as the case might be, in the management benefit for 1-3 months by 5-10%; f) disciplinary termination of the individual labour contract. Except for the first penalty, the other ones cannot be put into effect before completing a disciplinary investigation. The employer establishes the applicable disciplinary sanction in accordance with the seriousness of the disciplinary dereliction committed by the employee, taking the following into account: the circumstances under which the deed took place; the extent of the employee's guilt; the consequences of the disciplinary dereliction; the employee's general conduct at the workplace; possible previous penalties against the employee. During the disciplinary investigation, the employee is entitled to formulate and present all evidence required and to provide the person in charge of the investigation with all evidence and reasons, which seem necessary in his opinion, as well as to be assisted, on request, by a representative of his trade union. The sanctioning decision may be appealed to competent courts within 30 days from the time the notice was received.

<sup>9</sup> By collective dismissal we understand a dismissal, within 30 calendar days, for one or several reasons that cannot be imputed to the employee, of a number of: a) at least 10 employees, if the employer who dismisses has over 20 employees and below 100 employees; b) at least 10% of the employees, if the employer has at least 100 employees, but less than 300 employees; c) at least 30 employees, if the employer has at least 300 employees.

The benefits<sup>10</sup> granted in case of collective dismissal, very generous in the beginning (up to 24 compensation wages could be granted), were restricted as regards the amount and the period of time. Additionally, the NEA and DEA provide pre-dismissal services as well as services for stimulating employment. At present, according to OG 116/2006 and EOG 2/2007<sup>11</sup>, the people laid off by collective dismissal have the following rights: a compensation amount to be paid at the time of dismissal (equal to a net average wage in the economy paid in the month of January of the year when the dismissal took place, as determined by the National Institute of Statistics), the unemployment benefit set in accordance with the regulations in force and the additional monthly income (equal to the difference between the net average individual wage in the last three months before dismissal – established in accordance with the individual labour contract, but not more than the net average wage in the economy paid in the month of January of the year when the dismissal took place, as established by the National Institute of Statistics – and the unemployment benefit). The additional income is paid on a monthly basis for differentiated periods in accordance with the length of service (for 20 months to persons with a length of service of 15 years; 22 months for a lengths of service between 15 and 22 years; 24 months for a length of service over 25 years). After the expiration of the period for granting the unemployment benefit, the dismissed people receive, over a period (max. 24 months) established in accordance with the law, a monthly additional income equal to the net average individual wage earned in the last three months before dismissal, established in accordance with the individual labour contract, but not more than the net average wage in the economy paid in the month of January of the year when the dismissal took place, as established by the National Institute of Statistics. This provision benefited 59.4 thousand people in 2004, and 11% more in 2005, that is, 65.8 thousand people. In the future, the additional income will be received only if there are not opportunities for finding a job. Moreover, we expect to give up this system, and an alternative is the flexibilisation of the labour market by direct contacts between employers who dismiss workers and those who face a labour deficit<sup>12</sup>.

### **3. Minimum wage – A basis for a remunerative income for the work done**

The employment security police include also the prevention aspect, that is, establishing the responsibilities of the parties in the employee-employer relation. Among others, it considers a remunerative minimum income by large categories of workforce as well as the possibility to negotiate for and/or establish money compensation for losing the job.

While the minimum guaranteed wage is, above all, a means of passive social protection, the minimum wage is considered by the social partners a means of active policy for preventing pauperisation. The minimum wage is established by GD after consultations with the trade unions; in the last years also a minimum wage, negotiated by trade unions and included in the single collective labour contract on the national level (usually higher than that set by GD) was considered. The minimum wage was established in 1991 (Law 14/February 8<sup>th</sup>, 1991), and it was periodically revised after consultation between the Government and the social partners. In 2003, after the approval of the new Labour Code, the minimum wage payment was guaranteed, and economic agents were obliged to establish individual wages based on this limit. From 1991 to present, the minimum wage was modified 35 times: five times in 1991 and once a year in the last period. While in 1990 it reached 0.2 RON/month, in January 2002 it reached 0.85 RON; it also reached high dynamics during the hyperinflation period in 1993-1994. In 1994, the minimum wage amounted to 6.5 RON, in 1995 to 7.5 and in the next year to 9.7. In 1997, it was modified three times up to 25 RON, and at the end of 2000 it was 100 RON. The minimum wage continued to rise up to 440 lei per month at present. In euros, the minimum wage evolved from 60 euros in 1991 to a little over 21 euros in 1996 and further to 69.1 euros in 2004. The minimum wage policy, initially based on the consumption

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<sup>10</sup> As regard collective dismissals, Directive 98/59/EC was transposed into the Romanian legislation by the Emergency Ordinance of the Government 98/1999 concerning the social protection of people whose individual labour contracts will be terminated by collective dismissal, which provides a single framework for taking social protection measures in favour of the dismissed people. This ordinance was amended by the Emergency Ordinances of the Government 185/1999 and 77/2000, according to which the money compensation shall be borne by the employer.

<sup>11</sup> As regards the social protection of people laid off by collective dismissal, following the restructuring and re-organisation of national companies, autonomous state companies, majority state-owned national companies and enterprises, as well as companies and autonomous state companies subordinated to local public administration.

<sup>12</sup> <http://www.jobiz.ro/2007/08/30/disponibilizatii-vor-primi-venituri-de-completare-doar-daca-nu-gasesc-o-alta-slujba/>.

basket<sup>13</sup>, was given up in 2004<sup>14</sup>, since it was negotiated with the social partners and stipulated in the single collective labour contract on the national level, and set by a GD for the public sector.

The present procedure for establishing the minimum wage in the economy is aimed at a periodical dimensioning of the reference basis for computing the minimum wage, which is used in negotiations of the collective labour contract. While before 2005 there was a single gross minimum wage on the national level, used as a reference bases for establishing the wages in the entire economy, in 2006 the gross minimum wage set by a Government Decision was 370 lei per month, and the wage negotiated with the social partners was 390 lei; this became mandatory for all employers, except for public institutions, in which case the wages are established in accordance with the reference value. In 2007, the minimum wage rose to 440 lei per month for an unskilled worker and minimum ceilings were set through the single collective labour contract on the national level for the main workforce categories (e.g., 528 lei for a skilled worker and 880 lei for a higher education graduate). The collective labour contract on the national level<sup>15</sup>, signed by the social partners for the 2007-2010 period, secured a stable minimum level for concluding individual labour contracts. The negotiations started in 2008 and the government representatives and the employers offered 540 lei only, while the trade unions requested a 700 lei minimum wage.

If compared to the average wage, the minimum wage varied between 60% in 1990 to about 20% in 1996 and 37% in 2003; then it diminished to less than one-third in 2006.

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<sup>13</sup> The minimum consumption basket is “the essential element for establishing the minimum wage in the economy, the wage policy and other policies in the social field”, as defined by the Emergency Ordinance 217/24<sup>th</sup> November 2000, signed by Mr. Mugur Isărescu (<http://www.sfin.ro/print.php?id=2567>).

<sup>14</sup> Before 2001, the minimum wage was modified several times a year in accordance with the inflations rate. The indexing coefficient usually implied negotiations with trade unions, which means that the minimum consumption basket was also discussed. The Emergency Ordinance of the Government 217/2000 stipulated that the minimum consumption basket was an essential element for establishing the gross minimum wage in the economy, the payment policy and other social policies, and the National Institute of Statistics was responsible for computing the value of the minimum consumption basket on a quarterly basis. In 2004, an emergency ordinance cancelled the theoretical obligation to compute the gross minimum wage in accordance with the minimum consumption basket. For further details, see: <http://209.85.135.104/search?q=cache:vA0cffUIAU8J:www.eurofound.europa.eu/eiro/2005/07/word/ro0504102s.doc+minimum+wage+average+wage+rati+o+in+Romania&hl=ro&ct=clnk&cd=2&gl=ro>.

<sup>15</sup> It is negotiated and signed by nationally representative social partners and its provisions extend to all employers in Romania.

Table 2

**The historical evolution of the gross minimum monthly wage on the national level and the gross average monthly wage on the national level between 1995-2004 (euros)**

Year	Gross minimum monthly wage (annual average)	Gross average monthly income	Minimum/average ratio
1995	27.6	106.9	25.8
1996	21.8	110.4	19.7
1997	22.6	104.6	21.6
1998	32.5	135.9	23.9
1999	25.6	120.1	21.3
2000	35.3	144.2	24.5
2001	51.2	164.5	31.1
2002	54.1	174.4	31.0
2003	66.6	179.5	37.1
2004	69.1	200.5	34.5
2005	91.1	267.2	34.1
2006	105.0	325.2	32.3

*Source:* Data processed by the National Institute of Statistics for 1995-2004: <http://209.85.135.104/search?q=cache:vA0ffU1AU8J:www.eurofound.europa.eu/eiro/2005/07/word/ro0504102s.doc+minimum+wage+average+wage+ratio+in+Romania&hl=ro&ct=clnk&cd=2&gl=ro>. For 2005 and 2006, computed by the author.

The minimum wage was maintained at a low level because the Government thought that linking it to the minimum wages of the schemes agreed annually with the social partners<sup>16</sup> would cause a wage rise, unsupported by certain factors, such as labour productivity. On the other hand, trade unions argue that the ratio to the average wage should increase to 60%, as a social protection measure. Employers use the minimum wage as a basis for negotiating the wage in hand, for which no social contribution is paid, and pursue to keep them as low as possible. The incidence of the minimum wage among employees shows that the proportion of full-time employees who earn a minimum wage increased from 6.5% in 2000 to 12% in 2003-2004, and then diminished to 9.7% in 2005 (Eurostat). According to the trade unions, one quarter of the employees received the minimum wage in the economy, but these statistics are only partially relevant, if we consider the dual pay to the workforce, especially in the private construction and trade sectors. And if we relate the minimum wage to the consumption basket, it is estimated that it covers only 40% of the consumption needs.

*Adapting the social insurance system to the economic and social environment*

The transition to the market economy needed a system of social insurance to protect the workforce, to diminish the risks and to improve the health and the working capacity. The contribution to the social insurance system increased over four times until 2000 as against 1990, while the taxes associated with the work pay were considered a heavy burden by the economic agents who faced problems of technological as well as price competitiveness. In 2001, the contributions for wages paid for a job under normal conditions amounted to 41.3% from the employer and 19.6% from the employee, if compared to 13% and 2-3%, respectively, in 1990, including also insurance funds and special funds (35% for pensions and other social rights, 6% for unemployment, 14% for health, 3% for the protection of the disabled, 2% for education, 1% for the Territorial Labour Inspectorate (TLI)). In the last years, a policy was promoted to diminish the tax burden on the job by a gradual reduction in contributions to social insurance, and this action is supposed to continue until 2009. In 2007, the contribution diminished to 29.75% for the employer (19.5% for pensions, 6% for health, 2% for unemployment and the rest for special funds: medical leave, risk fund for accidents, wage guarantee fund and for TLI) and 17% for the employee (9.5% for the pension fund, 6.5% for health and 1% for unemployment). In 2005, the single tax quota was adopted in order to diminish the number of

<sup>16</sup> The national collective contract 2005-2006, Article 39, stipulates that the minimum wage negotiated at the company level is used as a basis for setting the real rate of wages for various categories of employees: the pay to unskilled workers is not allowed below the minimum wage, while the wage received by skilled workers was to be 1.2 times higher than the minimum wage, the foremen were to receive 1.3 times more and the engineers and the executive staff were to receive 1.5 times more than the minimum wage.

employees involved in undeclared activities. All these measures were accompanied by strengthening the control capacity of the institutions monitoring the observance of fiscal and labour regulations.

Analysing the impact of these measures on the economic agents and the employees, we notice a diminution in the tax pressure rate<sup>17</sup> by about 5 pp, from 23% in 2000 to 18.1% in 2004, and in the social pressure rate<sup>18</sup> by 3 pp, from 12% to 9.2%. We may consider that these measures had a small impact on workforce and households, as long as the savings rate<sup>19</sup> diminished from 6.8% in 2000 to only 0.4% in 2004.

### *Reforming the pension system*

Until 2001, the pension system was based on the PAYG public pillar, for the purpose of ensuring the coherence and equity of the system. Law 19/2000 was the first stage of a coherence and effective multi-pillar pension system. The reform of the pension system was aimed at ensuring an equitable pay as well as a long-term financial equilibrium of the state social insurance budget. To attain the two objectives, several supporting measures were taken: raising gradually the standard retirement age from 57 to 60 years for females and from 62 to 65 year for males by 2014; granting additional pension points in order to stimulate the participation in the labour market even after fulfilling the cumulative requirements for retirement; increasing the minimum contribution time for both genders from 10 to 15 years by 2014; introducing a new computation method in order to correlate contributions with benefits, based on a scoring system that takes into account the incomes earned throughout the career and includes strong redistribution means. It was also aimed at reducing the contribution quotas for diminishing the grey economy and at stimulating the labour market and attaining the objectives of the Lisbon Strategy. The second stage of the reform, initiated in 2005, consisted of a set of measures for finalizing the multi-pillar pension system and further consolidating the first public pension pillar. The consolidation of the public pension system sustainability was achieved, on one hand, by taking measures to limit anticipated retirement and imposing more restrictive eligibility criteria and, on the other hand, by outsourcing the non-contributive services. Therefore, several services were outsourced from the state social insurance budget such as: the payment of farmers' pensions was transferred to the state budget in 2005; in 2006 the payment of allowances for bringing up and caring for children under two years and the payment for medical leave were transferred to the state budget and the health insurance budget, respectively.

**Pillar II**, that is private mandatory pension scheme, will be implemented from January 2008 on, in accordance with the Law of private pension funds. According to this law, part of the social insurance contributions to the public system will be transferred to private pension funds (2% of the wage earnings in the first year, gradually increasing to 6% in the next eight years). The contribution to these private funds is mandatory for all under-35-year ensured persons in the public system, and optional for people between 36 and 45 years. The pension funds will be supervised by a new institution: the Supervising Commission for the Private Pension System.

**Pillar III** is a private optional pension scheme, implemented in 2007 in accordance with the Law of optional pensions. 300,000 people are expected to join this system in the first year and other 200,000 in 2008. It is estimated that the total contributions will amount to 100 million euros by the end of the second year.

### *Present problems of the pension system*

Although Romania – with a 30% contribution quota to the pension system from wages – ranks among countries with the highest contribution; the expenditure on pensions is higher than the incomes collected and the deficit (subsidized) reached about 0.7% of GDP in the last years: a diminution to 0.2% of GDP in 2005, between 400 million euros in 2004 and 150 million in 2005, after the farmers were transferred to the state budget. In 2006, the budget surplus was 0.5% of GDP, which reflected the beginning of the system “cleaning” (service outsourcing). The public expenditure on pension was about 7% of GDP in the last ten years, but slightly diminished in the last years along with the GDP growth. The total expenditure on pensions

<sup>17</sup> *Production and import taxes + current taxes on income and welfare/GDP·100.*

<sup>18</sup> *Total real social contribution of the general governance/GDP·100.*

<sup>19</sup> *Net credits (+) or net loans (-) of households/available gross income of households·100. The latest data from the Statistical Yearbook on Romania, 2004.*

is estimated to reach over 5 million euros that is one-fifth of all public expenditure. The ratio of the contributions to the pension level shows a paradoxical situation: small pensions correspond to large contributions. It can be explained by the small number of contributors to the system of social insurance for pensions. At present, less than half of the active population is insured for pensions, which might cause problems on long term. In 25-35 years, those who work in the black market or do not work at all (in a significant number) will reach the retirement age without being insured, and some of them will burden the social assistance system (demanding the minimum guaranteed income and other social aid from public money)<sup>20</sup>. The dependence ratio is about 1.2 pensioners to one employee. If we weight the number of pensioners by the average pension, the dependence rate diminishes to 0.9, but it is far from 0.6 which could provide some comfort and equilibrium within the public system and a better ratio of the average pension to the average wage in the economy. In Romania, the replacement rate does not exceed 70% of the level recommended by the EU: the average pension represents 35% of the average income and the situation could be critical in the next twenty years, when the pensions of the elderly come only from the public system.

Another problem of the pension system is the early effective retirement age of 52-53 years, which results in a large number of pensioners under 50 years. There are two causes: on one hand, the standard retirement age, supposed to gradually reach 65 years for men and 60 years for women by 2014 and, on the other hand, easy granting of anticipated pensions or invalidity pensions; many of these pensions represent a solution to unemployment. One should add to them the standard contribution, which is very small if we considered the retirement age. As for women, the length of service represents 50% of the standard age limit (30 years as against 60), and for men, 53% (36 years as against 65). All these features of the public old age insurance system caused the fragility of the system. But a balanced and functional system based on three pillars will be operational for people supposed to retire from 2027 on (that is those who are now 45 years old and opt for a private insurance system). A sensitive issue concerning the presently legislated pension system is the attractiveness based on potential benefits. The private pension (in the capitalized system) becomes efficient when the contribution amount is large enough and the contribution period is long enough and when the return on private funds is high. Since the mandatory private pension for people under 35 years (or the optional one, under 45 years) is set up by transferring a quota from the present contributions to the pension fund, the contributions will remain small. Moreover, the tax deduction from optional private pensions is equivalent to 200 euros per year. If we confine ourselves to these contributions, the resulted pensions are only symbolic and the population's propensity for a higher contribution is limited by the income level and the fragility of the financial market (which caused mistrust in the system and unwillingness to participate). In Romania, the pension could reach 80% of the last net wage after the implementation of the private pension system, i.e. in 25 years, as estimated by the Romanian Association for Privately Administered Pensions.<sup>21</sup>

### **The adults' education – A form of support for balancing the labour supply and demand in the labour market**

Vocational training and lifelong learning are factors for supporting the economic reform and balancing the supply and the demand on the labour market. The 2010 national target is that 7% of active population attend training courses (E. Blaga, 2007),<sup>22</sup> for this purpose, not only the NAE but also the private training providers are supported. Besides training agencies which organize courses, the companies themselves generally train their employees, but the proportion of people attending re-training or training courses is not known, as there is no adequate system of monitoring. Although the gap between the 2010 national target and the target of the Lisbon

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<sup>20</sup> *The projections of the population profile by age group suggest a diminishing birth rate and a diminution in the young population in the years to come – at least by 2040. In these circumstances, the dependence rate is expected to grow. On medium and long term, the ratio of pensioners to employees will stay high since the population structure in Romania is not-typical: there are large cohorts of 17-39 years (as a result of aggressive pro-birth policies in Ceausescu's time) and small ones of 0-16 years (the transition generations). Therefore, less numerous generations will enter the labour market, and the number of employees will not grow very much even if the economy grows constantly. On the other hand, the number of pensioners will be constant for a while for non-farmer pensioners and will diminish for farmer pensioners, which category is supposed to become non-significant in number in the next 15 years. After 2032 (when the generations born after 1967 will be 65), an additional wave of pensioners will change from contributors into beneficiaries and will affect the dependence rate in the next 22 years.*

<sup>21</sup> [http://www.bloombiz.ro/article/Pensia\\_in\\_Romania\\_ar\\_putea\\_reprezenta\\_80%25\\_din\\_ultimul\\_salariu\\_net\\_pest\\_25\\_de\\_an\\_86838.html](http://www.bloombiz.ro/article/Pensia_in_Romania_ar_putea_reprezenta_80%25_din_ultimul_salariu_net_pest_25_de_an_86838.html).

<sup>22</sup> Director, Department for Labour Programmes and Strategies of the Ministry of Labour.

Strategy (12.5%) is quite significant, it is worth monitoring that the share of people involved in training programmes was 1.4% in 2001 and 1.5% in 2005. In 2006, when the authorized training providers issued over 500,000 qualification certificates, the number of people receiving vocational training increased to 4-5%.<sup>23</sup>

### **Employment – A priority for 2007-2010**

Considering the European priorities and the national needs, the medium-term labour policies for employment and social inclusion concern the following:

- a. increasing participation in labour by stimulating the employment of vulnerable groups, in order to ensure an effective functioning of the institutional and regulation system for the labour market;
- b. developing regional and local partnership systems for promoting employment and social inclusion and stimulating European funding for the same purpose;
- c. providing substantial support for reforming the labour market and the social protection and promoting lifelong flexisecurity;
- d. promoting policies for reducing the vulnerability of certain categories of workforce (reducing the pauperisation risk by active employment measures, etc.);
- e. providing answers at the policy level to the challenge of population ageing (a sustainable pension system based on three functional pillars, special health programmes for work and family reconciliation);
- f. carrying out integrated reforms and promoting adequate, complementary, coherent and regionally adapted policies, correlating labour market actions with actions concerning the human quality capital (targeted initial and continuous vocational training), social inclusion and workforce mobility;
- g. involvement in open procedures of coordination in the employment and social inclusion field (targeting, the promotion of good practice, etc.).

Considering a GDP growth by 2010 at an average annual rate of about 6%, we estimate an increase in employment by 1.3% and an increase in wage labour by about 2%. It is to be achieved by stimulating migration flows from agricultural activities to other activities and maintaining a balance between occupational flexibility and job safety. Labour productivity is estimated to increase by about 5% every year and real wage by 8.5%.<sup>24</sup>

### **Labour Market Policies. Economic and social efficiency**

The public intervention for correcting labour market disequilibria are aimed at groups of people facing risks or stakeholders in the proper operation of the labour market. The Labour Market Policies in Romania include: services,<sup>25</sup> LMP measures (vocational training, job shifting and labour division, subsidies/loans for stimulating employment, support for employment and rehabilitation, direct job creation, incentives for starting a business) and financial support for LMPs (financial support to the unemployed and early pensioners). The Romanian providers of such services are the NAE, through its territorial units and other public agencies, which conclude individual contracts with the NAE.

In the last years, the expenditures on Labour Market Policies in Romania did not vary much by category of policy. Generally, these expenditures – which, in 2004-2005, represented about 0.63% of GDP – were destined in proportion of two-thirds to passive measures (financial support).<sup>26</sup> The active measures represented 16-20% and the LMP services represented about 6-7% in the period 2003-2006.

Increasing amounts were allotted every year to active measures in the labour market, but their proportion in the GDP was about 0.1% (0.16% in 2003, 0.13% in 2004, 0.11% in 2005 and 0.09% in 2006).

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<sup>23</sup> [http://www.bloombiz.ro/article-x-Resurse\\_umane-...](http://www.bloombiz.ro/article-x-Resurse_umane-...), 12<sup>th</sup> June 2007.

<sup>24</sup> *Estimates of the National Commission for Prognosis.*

<sup>25</sup> *Labour Market Policies for job seekers, without changing their status in the labour market, to only help them find a job.*

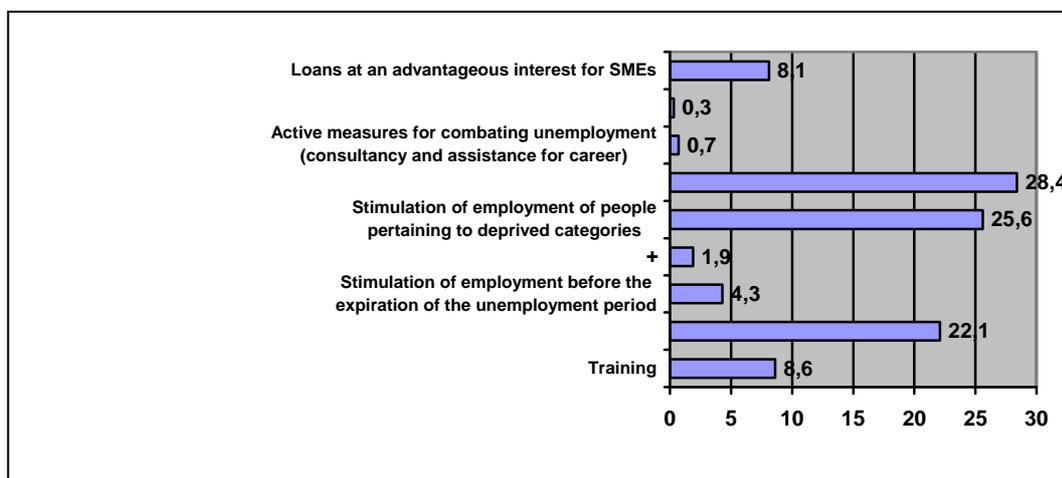
<sup>26</sup> *Statistics on Labour Market Policies, 2004-2005, NAE.*

About 50% of these amounts represented subsidies/loans for stimulating employment. About one-third of all funds was allotted for direct job creation and about 0.5% was allotted as an aid for starting a business. Training received 8.5% in 2004 and 11.8% in 2005, but the amounts (although they increased 1.7 times every year) were still insufficient, in our opinion. The allotment for training did not properly meet market needs, and the rate of re-employment after training or re-conversion was low. The employer was a direct beneficiary in proportion of three-quarters.

As regards the passive measures (that is, for financial support), two-thirds were allotted for the unemployment benefit and one-quarter was allotted for completion incomes received in case of restructuring of the defence industry and of the state-owned sector. The single pays in case of reorganisation and privatisation of majority state-owned companies and the compensation pays for collective dismissals were on the decrease and, in 2004-2005, they represented about 10% of all funds for passive measures.

As regards the budget funds for active measures, 94.87% were allotted in 2006, as against 82.3% in 2005. These funds were mainly provided for stimulating the employment of people from deprived categories or young graduates. Since the number of people recorded as job seekers was about 1.2 million and the number of the employed was 0.5 million, the level of employment of job seekers was 42.04% on the national level, as against 25% which is the value set for that period.

Chart 1 - The funding structure for active measures, 2006



Source: NAE, 2006 Activity Report.

The employment measures for target groups are still ineffective in meeting the market requirements.

- a. The effectiveness of the employment of young graduates in 2006 was 36.09% of a total of 95000 recorded people. The use of means of mass information on active measures for the youth, the information and advice on career provided for pupils in the terminal years and the job fair for graduates resulted in labour contracts on an undetermined period, owing to job subsidizing for 48% of the employed (of which 20% were graduates from secondary school or vocational schools, 36% were higher secondary school graduates or post-high school graduates and 44% were higher education graduates. The highest level of employment of recorded graduates occurred in the Districts of Arad (96.23%), Timiș (80%), Cluj (79%), Sibiu (61%) and Dolj (57%), which have strong academic centres, and the lowest level in the Districts of Teleorman (22%), Bacău (23%) and Brăila (23%). At the job fair for graduates (September 2006) organized under the aegis of the European Year of Workforce Mobility, out of 33.6 thousand participants 42% were selected but only 13% were employed.
- b. The share of disabled persons employed for an undetermined period in all employed disabled people was 68% in 2006. The integration problems of the disabled are extremely varied and mainly concern the following: the accessibility to be ensured by the community and the employers, the adaptation of the workplace by the employers; the mentality concerning the employment of such persons in lucrative actions, because employers rather pay the penalties stipulated by the law for non-employment of the disabled. Of all disabled persons able to work who were employed 24%

benefited from the measure for granting subsidies to the employers. The activity of the eight centres of mediation and advice to the disabled set up within the Project “Advisory services to the disabled” (financed by the IBRD – RO 4616) was of significant importance.

- c. Of all people employed through temporary employment programmes 30% (about 17000) pertain to the category of persons facing real problems of reintegration into the labour market (two-thirds were long-term unemployed, about one-third were Rroma, 0.1% were disabled, 0.2% were post-institutionalized graduates of over 18 years and 0.02% were people released from prison).
- d. In localities pertaining to deprived areas 17% of all the jobless employed on the national level received temporary jobs. In other localities, temporary employment in services of community interest was both an alternative for the unemployed facing real problems of reinsertion into the labour market and of professional mobility and a contribution – limited in time – to preventing long unemployment and to earning labour incomes for living. At the same time it helped to diminish the seasonality phenomenon determined by certain economic activities.

In order to come closer to the beneficiary of services pertaining to deprived group, the NAE took several specific actions such as the employment caravans, initiated in 2005, and personalized social assistance to the youth risking social marginalisation (Law 116/2002). The results, given as an example, cover the year 2006. Within the action called *The Employment Caravan for the Rroma*, 3,536 visits were made in 2,903 Rroma communities, involving 70,971 Rroma people. 27,207 people (of which, 10,273 women) were included in the database and 4,219 (1,188 women) were employed. Within the action called *The Employment Caravan in Rural Area* consisting of 2,649 visits, 29,788 jobs were identified and 67,082 people were recorded. Many of them pertained to groups facing integration problems such as: unemployed for over 12 months – 25%, disabled – 0.1%, Rroma people – 19%, post-institutionalized youth – 0.9%. Of the total number, 31% were employed and 61% were registered for employment stimulation measures. The social attendance service had a preventive component (about 2000 solidarity contracts were concluded) and a curing component (for direct employment or employment at special job fairs). Of about 1700 employed people, 62% concluded contracts on undetermined period. These young people came from care centres and child attendance centres pertaining to specialized public services or private institutions authorized in the child protection field (16%), single young persons providing for children (5%), young married people providing for children (15%), young married people without children to provide for (15%), young married people released from prison (0.3%), other categories of young people in need (48%).

Synthetically, the performance indicators that define the results of employment policies promoted by the National Agency for Employment and local (district) agencies show that the commitments were exceeded, but at a relatively low level of performance.

**Table 3**

**Achievement of performance indicators in 2006**

Indicators	Scheduled for 2006	Achieved, 31 <sup>st</sup> January 2006
<b>Monthly assessed indicators (cumulated):</b>		
1) Employment level achieved by the NAE's own efforts	65%	72.92%
2) Employment level of job seekers	25%	42.04%
3) Employment level of recorded young graduates	30%	36.11%
4) Participation rate of the unemployed attending training courses	8%	11.50%
5) Share of the rural unemployed attending training courses in the monthly average stock of the rural unemployed	4%	8.91%
6) Share of the rural unemployed attending training courses in all the unemployed attending training courses	30%	44.49%
7a) Rate of participation in active measures for stimulating the employment of the young long unemployed	15%	19.01%
7b) Rate of participation in active measures for stimulating the employment of the adult long unemployed	15%	13.37%
<b>Indicators assessed at the end of the year:</b>		
10a) Degree of long unemployment prevention for the young unemployed	< 50%	80.99%
10b) Degree of long unemployment prevention for the adult unemployed	< 50%	86.63%
11) Share of people employed at organized job fairs in all people employed through mediation services.	4%	6.51%

Source: NAE, Activity Report 2006, p. 6.

Although the active measures intensify and include a greater number of people seeking a job or wanting to change their job, the labour market policies aimed at coping with the business environment's needs are rather wishes than realities. The solutions to problems are preponderantly punctual, effectiveness is low, and the anticipatory action is modest. Also, there is a poor correlation between policies and measures inside and, especially, outside the labour market, and the coordination with components of the economic and social reform is also poor.