

# DIMENSIONS OF THE ROMANIAN LABOUR MARKET IN THE CONTEXT OF EUROPEAN INTEGRATION

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**Abstract:** The purpose of the article is to identify, through a retrospective analysis, the main trends of the labour market and starting from this point to outline directions of action which aim at matching supply and demand on this specific market in Romania. Finally, the paper presents the perspectives of the labour market in Romania as a new European Union member, outlining the importance of institutional capacities development, of sustainable occupation and development, of continuous formation, as well as the importance of maintaining the biologic potential of the labour resources and minimal standards in formation.

## 1. Coordinates of the analysis frame

For the study of the mechanisms and the policy of aligning the labour supply and demand, we need to solve some conceptual problems referring to the labour market, a market with certain characteristics, because on this market you can find the labour which is the most important production factor in the development process.

The analysis of the labour market is usually realised both as a *closed system* which provides the adjustment of the supply and demand through specific mechanisms, and also as an *open system* which is interconnected with all the other economic and social subsystems, which express the total number of actions and processes which interact for the occupation of the labour force. As a consequence, the labour market will always imply the existence of some specific reports between the carriers of the labour supply and demand. And these refer to the existence of a system of social values and norms which relies on the adjustment of the labour supply and demand and the price formation for labour.

The labour market reflects the reciprocal connections between the demographic realities, which determine the labour supply and the economic and social development which generate the labour demand. That is why, the labour market presupposes a permanent negotiation between the carriers of supply and demand so that the demand could be adjusted to the supply under the aspect of quantity but also under the aspect of quality and structure.

The labour market was formed and functioned in relation with the determining role of the labour in the economic and social development, being an imperfect competitive market. In the contemporary era although the labour market has mostly kept the attributes of a free market, we have to mention also the fact that the processes of occupying and using the labour force are adjusted also through some other mechanisms by companies, regional or local organizations and politic power.

Another characteristic of the labour market is the intervention of state in three ways: as an economic operator, as a constitutive element of the functioning mechanism of the economy and as an arbiter in the supply-demand regulation. The intervention of state on the labour market is realised through economic or extra-economic means so that either the labour supply or the demand could be sustained and social protection of the categories which are temporarily out of the labour market, should be assured.

If we consider labour market in this context, it combines market mechanisms (liberty) with intervention and correction mechanisms of the negative effects (restrictions) and customs (traditions).

The contractual character of the labour market is another characteristic of this market. As a consequence, the relationship between economic operators which act on the labour market as carriers of the supply and demand, have evolved from confrontation and conflict to cooperation, participation and social concentration.

In this context, the institution of the collective negotiation was imposed on the labour market as a basis for the organisation, regulation and the progress of the labour relations at any level: company, sector, branch, at a regional or a national level.

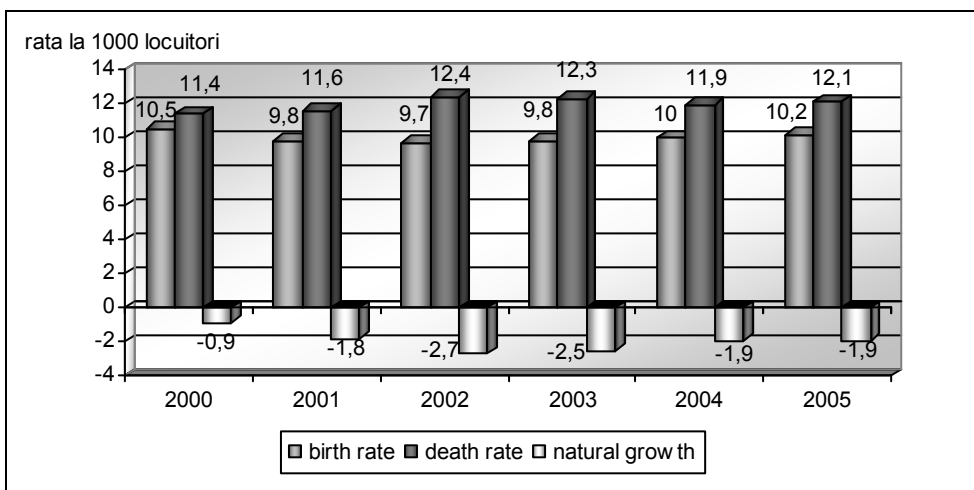
## **2. Supply-demand ratio and labour market equilibrium**

Because on labour market we find people in two different hypostasis, it results that their psycho-social characteristics connected with the particularities of other markets with give the labour market both sensibility but also fragility. Because of these, the labour market will collect and amplify the dysfunctions of the other markets because it is conditioned by their equilibrium.

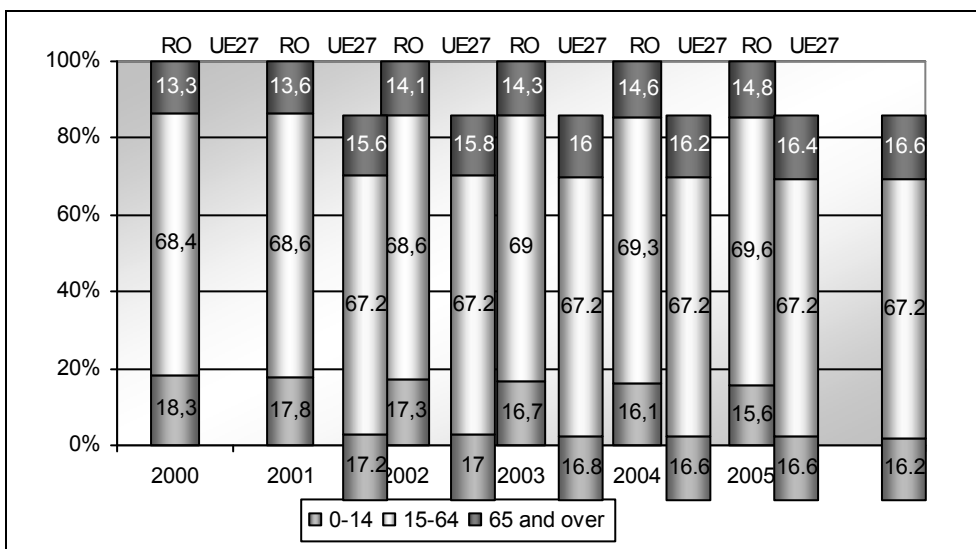
The analysis of the supply-demand ratio on labour market has to have as a starting point the population and its demographic characteristics.

The population of our country is in a continuous and slow process of decrease from the beginning of the 90's. This fact is also due to the natural growth which is also decreasing especially because of the low birth rate, and on the other hand because of the external migration especially in the EU countries. Data point out the following: in the period 2000-2005 the Romanian population has reduced with 3,62% (811356 persons) especially because of the negative natural growth (graphic no.1); in the same period the Eu27 population grew with 1,64% (8.709.883 persons). As a consequence the share of the Romanian population in the EU27 population has reduced from 4,453% in 2000 to 4,412% in 2005. According to the Eurostat predictions, the population of our country will reach 20,3 million people in 2020 and 17,5 million people in 2050; the feminine population is preponderant and its share from the total amount of the population grew from 51,1% in 2000 to 51,2% in 2005; in 2005 54,9% from the population of the country lived in urban environment, as compared to 50,6% at the end of the 80's. The population growth from the urban environment hides the important changes which happen at the level of the internal migration between the rural and the urban environments and which has also experiences opposed tendencies. So, at the end of the 90's we witnessed a strong migration from the rural to the urban environment and then in the middle of the 90's we saw this flux of migration reversed because of the deterioration of the economic situation which determined a high number of people from town to move in the country side and to practice agriculture as a means of subsistence; at the same time we witness a strong, demographic ageing process (graphic no.2), the share of population over 65 grew from 13,3 in 2000 to 14,8% in 2005 while the share of population between 0-14 years old has reduced from 18,3% to 15,65 in the same period.

We meet the same phenomenon also at EU27 level where the share of the population over 65 grew in the analysed period from 15,6% to 16,6% and the population between 0-14 years old was reduced from 17,2% in 2000 to 16,2% from the total of the population in 2005 (Graphic no.2).



**Graphic no. 1** Evolution of the birth rate, death rate and of natural growth in Romania between 2000-2005



**Graphic no. 2** The evolution of the structure of population on age groups in Romania and EU27 between 2000-2005

From an economic point of view the total population has a major contribution in order to determine the size and structure of the labour force; when talking about the total population in the analysis of the labour market, the following categories are of great interest: active population, employed population and number of ILO unemployed.

So, in Romania the active population has diminished in the period 2000-2005 with 1432 thousand persons(12,7%).

The employed population has reduced with 1361 thousand persons and the number of the unemployed with 71 thousand persons.

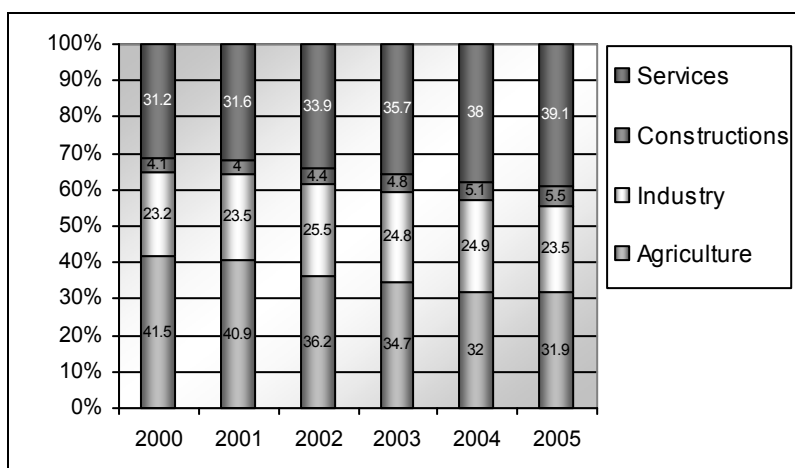
It is important the fact that the reduction of the active population was mainly produced in the rural environment (1445 thousand persons) while the active population from the urban environment grew with 13 thousand persons. The reduction of the active population was produced mainly among the feminine population. (774 thousand persons)-54,1% from the total.

As a consequence the activity rate (the percentage report between the active population and the total population) was reduced with 68,8% in 2000 and 62,4% in 2005.

The employment rate was reduced with 5,9% especially in the rural environment, where the employment rate went down from 73,8% in 2000 to 61,6% in 2005.

The unemployment rate had an oscillating tendency and in the period 2002-2005 it was reduced from 8,45 to 7,2% this fact being also because of the economic growth from this period.

Graphic no.3 presents the evolution of the employed population on branches of activity.



**Graphic no. 3** Evolution of the population on branches of activity in Romania between 2000-2005

Looking at graphic no.3, we can notice the continuous reduction of the employed population share from agriculture from 41,55 in 2000 to 31,9 in 2005 although agriculture has played an amortization role by absorbing the jobs losses from the rest of the branches.

A good thing is the growth of the employed population share in services from 31,2% to 39,15 and in constructions from 4,1% to 5,5% in 2005 towards 2000.

The analysis of the employment rate raises two important problems: the first is related to the high employment share in agriculture with a higher percentage 7 times higher than EU average (4,5%) and the second is related to the low level of the employed population in services towards the registered EU level – 39,1% in Romania and 66% in EU.

The employment rate of the population between 15-64 was in 2000 62,2% in EU27 and grew in 2006 to 64,4%, while in Romania it went down from 63,8% to 58,8%. The

employment rate of the masculine population grew at EU27 level, in the analysed period from 70,85 to 71,6% while in our country it has reduced from 68,6% to 64,6%. In what the occupation rate of the feminine population is concerned, it went down in Romania from 57,5% in 2000 to 53% in 2006 while at the EU27 level it grew from 53,7% to 57,2%.

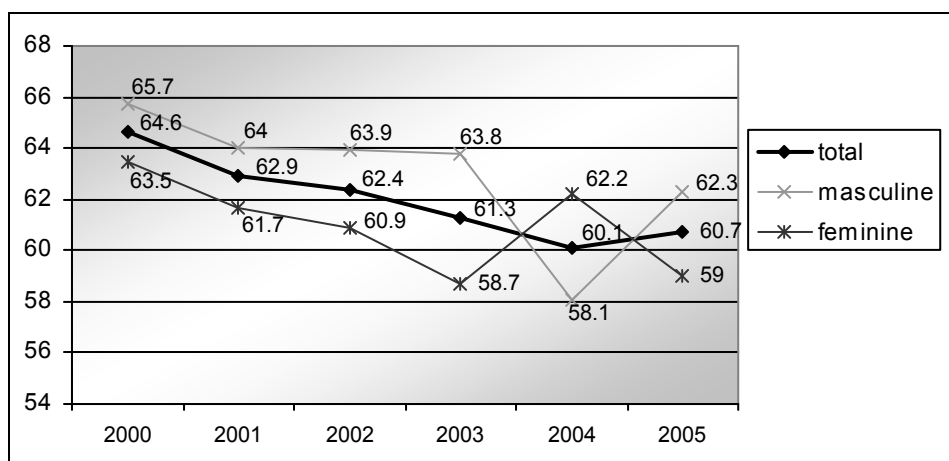
The employment rate of the elder population between 55-64 grew in EU27, in the period 2000-2006 from 36,9% to 43,5% while in our country it has reduced from 49,55 to 41,7%. In our country the reduction of the employment rate of the population between 55-64 was registered especially among the feminine population (de la 43,8% in 2000 to 34,5% in 2006), while among the masculine population the reduction was of 6% (from 56% to 50%). These phenomena were manifested in the context in which the occupation rate of the masculine population between 55-64 years old has increased at EU27 level with 5,5% (from 47,1% to 52,6%) and of the feminine population with 7,4% (from 27,4% to 34,8%) in the period 2000-2006.

The evolution of labour resources in Romania was in the last decade under the impact of some demographic and social phenomena, as it follows: the acceleration of the fertility reduction and keeping the mortality rate at a high level; the growth of the emigration; the reduction of the quality of the medical services and sanitary assistance.

Because of the reduction of the employment rate of the population and also as a consequence of the massive retirements, a growth of the economic tasks for each employed person was registered, expressed by the economic dependence ratio calculated as a report between the number of the unemployment persons (inactive and unemployed) to 100 employed persons. The rate between the masculine employed population and the feminine employed population grew from 116/100 in 2000 to 121/100 in 2005.

Data point out the continuous growth of the labour resources in the period 2000-2005, on the one hand, as well as the growth of their share in the total of the population which demonstrates the existence of a sufficient labour supply for the Romanian economy. Beside this, the occupation rate of the labour resources has continually reduced from 64% in 2000 to 60,7% in 2005.

This tendency was manifested more strikingly in the case of the feminine labour resources (the reduction of the rate from 63,55 to 59%) and this thing is also clearly shown in the graphic no.4.

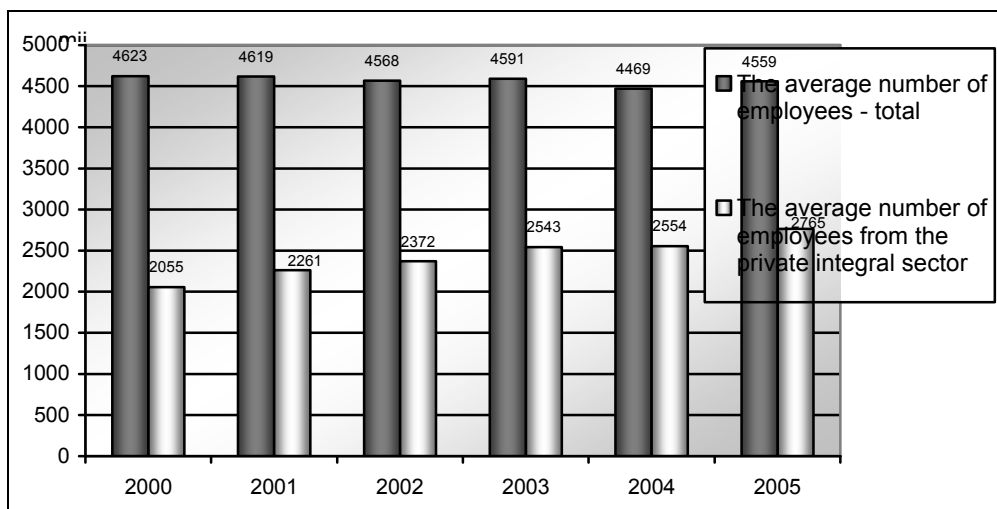


**Graphic no.4** Evolution of occupation rate in Romania in between 2000-2005

In the analysis of the supply-demand report on the Romanian labour market, it is very important to take into consideration the evolution of the number of employees and that is because of the vicious circle in which it was after 1990: reduced productivity → reduced incomes (both for the employers and employees) → reduced saving and accumulation rate → low incomes from the state budget → reduced investments both in the technological field and in the development of the human resources capital → reduction of labour productivity and growth of unregistered work → development of the informal sector of the economy.

There are still many undeclared “employees” who are outside the formal labour market and are not protected by labour agreements and moreover they tend to lose every day the chances to enter the formal labour market which can provide them a “decent job” or a decent income. This category of persons is presently and also in the future inclined to poverty, because it will not be able to benefit from a pension or other rights. The average number of the Romanian employees in the period 2000-2005 went down with 64 thousand persons (1,4%) especially because of the reduction of the number of workers which went down with 239 thousand persons (8,3%).

Parallel to the reduction of the average number of the employees on the whole, we also assisted to the growth of the average number of the employees from the private integral sector +710 thousand persons (+34,5%), as one can see from the graphic no.5.



**Graphic no. 5** Evolution of average number of employees in Romania between 2000-2005

The reduction of the total number of employees was due also to the reduction of the number of employees from industry (-201 thousand of persons -10,7%) and from agriculture (-52 thousand persons -26,1%), which was too little subsidized by the growth registered in constructions (+32 thousand persons -10,1%) and in services (+157 thousand of persons -7,1%).

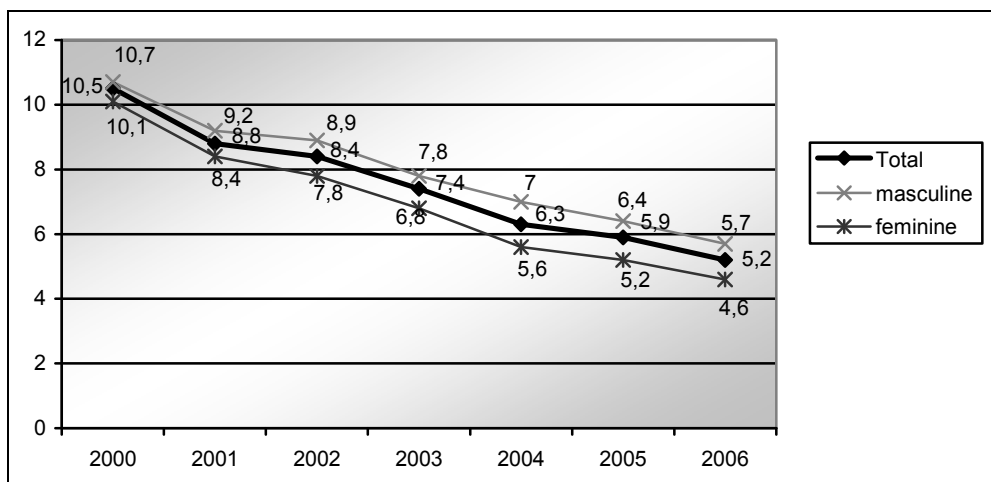
As a consequence of the imbalances of the labour market (where the labour force supply is superior to the demand) and from the goods and services market (where the production is inferior to the demand), the phenomenon of the unemployment appears.

The estimation of unemployment in Romania and in other European countries is

made with the help of two indices that are the unemployment according to ILO and the registered unemployment.

There are some differences between the index related to the ILO unemployment rate and the registered unemployment rate. The differences between this two series of data show that there are persons which are registered at the same time as unemployed worked at the employment agencies and they also work outside the legal framework.

The number of registered unemployed was reduced in the period 2000-2006 with 546,6 thousand persons -54,3%, and this fact led to the reduction of the unemployment rate from 10,5% in 2000 to 5,25 in 2006 (graphic no.6).



**Graphic no. 6** Evolution of unemployment rate on genders in Romania between 2000-2006

The data point out that in the analysed period the share of unemployed workers with a low education grew (graduates of the primary, gymnasium and professional education) from 72,15 in 2000 to 80,3% in 2006.

The share of the unemployed workers with an average education (graduates of the secondary and post-secondary education) was reduced from 24,7% in 2000 to 15,9% in 2006 while the share of the unemployed workers with high education (graduates of the high academic education) easily grew from 3,2% in 2000 to 3,8% in 2006, and that was a consequence of the high number of graduates.

According to the macroeconomic predictions made by the National Commission for Prognosis the Romanian GDP will register an average growth of 5,75-6% in the period 2007-2013.

### 3. Conclusions and directions of action

The functioning status of the labour market is reflected through the dynamic of the total population, of the employed population and of the number of employees. The demographic sources of the quantitative growth of the labour force will be limited and the total population of the country will be reduced with almost 0,4% yearly. There will be important modifications in the age structure of the population, which will be characterized by the continuation of the demographic ageing process, the growth of the period of active age by prolonging the retirement age to 60 years old for women and 65

years old for men which shall lead to a major growth of the activity rate.

The evolution of the employment will be influenced especially by the foreign investments flux which will generate new jobs but also by the expansion of the small and middle-sized enterprises which is going to contribute positively to the growth of the employment rate especially under the aspect of the non-wage labour.

Despite of a relatively high economic growth, the labour market will remain problematic especially because of the age and profession structure of the unemployed workers, structure which is not identical with the demands from economy.

As a consequence of some wise employment policies it is expected that the inactive population to be reduced with almost 500 thousand persons in the period 2006-2013.

Although the inactivity degree will be reduced the ratio of those people who do not like to work will remain high.

Because most of the inactive population is composed of persons from different professional environments, it is estimated that in the future (in 2013) around 200 jobs will be occupied by different categories of active population be they from outside the labour age category, be it from the exterior.

The supply of the labour force will be strongly influenced by the external migrating movement and the temporary movement.

The structural changes from the economy affected in a positive or negative way the structure of the employed population on branches of activity.

As a consequence of the structural changes from economy, expected especially in constructions and services, it is estimated that the employed population from his sectors could reach 49% (in services) and 10,8% (in constructions) from the total of the employed population (compared to 39,15 and 5,5% in 2005).

In the future it is estimated the growth of the activity rate of the older labour force from 67,5% in 2013 as compared to 62,45 in 2005. At the same time the occupation rate of the older labour force is estimated to reach 63,2% in 2013 as compared to 57,7% in 2005.

Because of the ascending trend of Gross Added Value (GAV) from services and constructions it is expected a growth in number of employees in these sectors and as a consequence a growth in the total number of employees with 2,85 in 2013 as compared to 2005.

As a consequence of the economic, demographic and politic evolutions which are going to be implemented, we consider necessary the following directions of action for the growth of the occupation degree of the labour force: the continuation of the economic growth sustained through the development of the SMEs and the capitalization of the development potential in some fields as for example the tourism, the technology of the information and so on, where the economic share is comparatively reduced than the potential; fighting against the "illegal work" without any legal forms and the initiation of some measures of tax policy which should reduce the cost of the jobs and should stimulate the employers to respect the legislation from this field; the substantial growth of the incomes from work after a better correlation of active policies of occupation and income growth policies (a bigger growth rate of the minimum gross income on country, the reduction of the poverty); efficient measures in order to fight and prevent the unemployment especially for the young population (15-24 years old) with the purpose of the employment rate growth for this population category; special programmes for the persons which are confronted with integration difficulties on the labour market (people with roma origin, young people from placement centres);



adapting the system of initial and continuous formation and the medium and long-term tendencies of the employment world in a society based on knowledge and the usage of the new IT technologies.

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