Employment strategy for poverty reduction. A Romanian perspective

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Abstract

In this paper we aim to make a short analysis of the indicators specific to the labour market in order to highlight the main gaps between Romania and European Union. Overcoming the existent dysfunctions on the Romanian market depends on a new vision and management of the labour market, able to re-launch and support the human resource employment. Thus, it is necessary to implement some strategic policies that shall lead to the increase in employment from a quantitative, structural and qualitative point of view, and to the reduction of the poverty existing on the labour market implicitly, but also in general. Our purpose is to highlight the main active measures for the employment growth in Romania, focusing on continuing vocational training, as an active measure that we consider of major importance for the increase in employment and the reduction of in-work at-risk-of-poverty rate.

Keywords: Employment, In-work poverty, Employment strategy, Active measures, Continuing vocational training

1. Introduction

Taking into account the premise that human resource is and will continue to be the most important resource for sustainable economic development, the society needs to give maximum importance to employment strategies as a viable solution for the multiple economic and social problems that Romania is confronted with in the national and international context. Employment has a fundamental role in any society. The need to analyse employment as solution against poverty is not new. The current international economic crisis is only one of the reasons that imposes taking into account some extra measures for employment stimulation, for diminishing the negative effects of the crisis, among which the increase in poverty of the human resource.

The belief that employment is essential in the fight against poverty and social exclusion can be found in the documents of some international institutions, as well as in the studies of numerous specialists in this field. Thus, in (E.C., 2009) the European Commission highlights that employment remains the best guarantee against poverty and social exclusion, and promoting quality jobs will be of essential importance for reducing the effects of the current crisis. The role of increasing employment for poverty reduction is highlighted also by Heintz (2006) who shows that the current global employment situation poses enormous challenges to achieving sustainable poverty reduction, growth with equity and decent work for all people. Slower growth and a declining labour intensity of productive

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activity contributes to a situation in which generating employment opportunities, particularly quality (or “decent”) employment opportunities, lags behind the growth of the world’s labour force. The manifestations of these trends are various: increased open unemployment, growing informality, widespread causality, crowding in subsistence activities and marginalization in low-productivity employment.

Employment is one of the most important channels through which economic growth can be translated into poverty reduction and less income inequality (Perry et al.). A high rate of economic growth, associated with a high degree of employment intensity, is a necessary condition for the reduction in poverty, but may not be sufficient (OECD, 2009). For poverty to be reduced, productivity and earnings (real wages, as well as returns from self-employment) must increase sufficiently to boost the incomes of poor people. The relationship between economic growth, employment and poverty reduction is thus a process in which output growth induces an increase in productive and remunerative employment, which, in turn, leads to an increase in the incomes of poor people and a reduction in poverty. The process of economic growth in the last decade led to poverty reduction, but in the context of the current turbulences on the international market, poverty reduction would lose ground (Vinod, 2009). It is recognized that jobs are the most sustainable way to reduce poverty. Complementary measures are also needed to ensure that financial reforms take place, labour markets function well, there is free movement of people and goods and services and natural resources are used in a sustainable way.

In order to assure sustainable poverty reduction, we strongly believe that it is extremely important to assure not any type of jobs but quality and increased productivity jobs. In this respect, in the document entitled Implementing the Global Employment Agenda: Employment strategies in support of decent work 2006 (ILO, 2006), the necessity of increasing employment quality is emphasized, showing that the objective of the employment strategy does not have to be only the one of generating more jobs but also the one of assuring adequate working conditions for the current jobs as well as for the newly created ones, respecting entirely the fundamental rights and principles at the work place. Moreover, in The Global Employment Agenda not any kind of employment is promoted, only the decent one, in which the international labour standards and the fundamental rights of the workers go hand in hand with job creation.

2. Romanian Employment Strategy in the context of the "Europe 2020" Strategy

2.1. Strategic objectives for increasing employment and reducing poverty

Employment and the creation of more and better jobs is one of the main EU strategic development goals for its member and accession countries. Through "Europe 2020" Strategy, the European Union aims to become an intelligent, sustainable and favourable to inclusion economy, characterized by high levels of employment, productivity and social cohesion. Not any kind of economic growth is promoted, only an inclusive growth, which implies the following: raising Europe’s employment rate – more and better jobs, especially for women, young people, older workers and low-skilled people and legal migrants; helping people of all ages anticipate and manage change through investment in skills & training modernising labour markets and welfare systems; ensuring that the benefits of growth reach all parts of the European Union (E.C., 2010a).

The EU target for inclusive growth stipulated in "Europe 2020" Strategy (table 1) includes: 75% employment rate for women and men aged 20-64 by 2020; better educational attainment (reducing school drop-out rates below 10% and at least 40% of 30-34 year-olds completing third level education); at least 20 million fewer people in or at risk of poverty and social exclusion.

Table 1. The objectives of the Europe 2020 Strategy for Romania

<table>
<thead>
<tr>
<th>Indicator</th>
<th>EU 27 objectives (Europe 2020 Strategy)</th>
<th>Romania Objectives</th>
<th>2010 Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate of population aged 20-64 years (%)</td>
<td>75</td>
<td>70</td>
<td>63.3</td>
</tr>
<tr>
<td>Early school leaving (%)</td>
<td>10</td>
<td>11.3</td>
<td>18.4</td>
</tr>
<tr>
<td>The rate of population aged 30-34 years graduate a form of tertiary education (%)</td>
<td>40</td>
<td>26.7</td>
<td>18.1</td>
</tr>
<tr>
<td>Reduction of population at risk of poverty or social exclusion (number of persons)</td>
<td>20,000,000</td>
<td>580,000</td>
<td>8.89 million people at risk of poverty and exclusion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3.9 million people at risk of poverty</td>
</tr>
</tbody>
</table>
Starting from a scenario which included the historical evolution of the annual growth rhythm of employment rate, the economic growth potential and the demographic evolution forecasted for the next decade, Romania, as an EU member state, through the National Reform Program (G.R., 2011a), has set the following national targets for Europe 2020 Strategy, in employment and poverty reduction: reaching an employment rate of population aged 20-64 by 2020 of 70%; reducing school drop-out rates to 11.3%; increasing the rate of population aged 30-34 years that graduates a form of tertiary education to 26.7% and reducing the population at risk of poverty or social exclusion by 580,000 persons.

2.2. Romanian labour market: dysfunctions and gaps

In setting the national targets, the current level of the indicators specific to the labour market was taken into account, level which reflects important gaps compared with the average recorded at EU-27 level. We consider that devising an efficient development strategy in the field of human resource imposes the need for establishing a diagnosis, in order to know also the evolution of the labour market in terms of the quantitative, qualitative and structural aspect.

From the statistical analysis of the main indicators specific to the Romanian labour market, presented in figure 1(a) we notice that in 2010, in Romania, the employment rate of population aged 20-64 years was of 63.3%, lower by 5.5 percentage points (p.p.) than the one recorded at EU level (of 68.8%) and by 6.7 p.p. than the national target set for 2020. Over the last ten years (2000-2010), we notice an opposite direction of evolution of the employment rate in Romania compared to the one in the EU. Thus, whereas in Romania this indicator has fallen from 69.1% to 63.3%, in the EU, it had increased from 66.6% to 68.6%. Taking into consideration that, in the last decade (except for 2009 and 2010) Romania has gone through a process of economic growth we ask ourselves whether more jobs should have been assured, year by year, so that also Romania would have recorded significant increases in employment. The decreasing tendency of this employment rate starting with 2007, in Romania as well as in the EU, reflects the negative effect that the limitation of the economic activity has had on labour market because of the economic crisis.

Source: Eurostat

Fig. 1. (a) Employment rate for age group 20-64 (%), in Romania and EU-27; (b) Employment gaps between Romania and EU-27, in 2010
Compared to the average recorded at EU level, Romania records a series of gaps that determine a high level of poverty working. The results of the statistical-economic analysis, carried out based on the statistical data in figure 1(b), highlight the fact that, in 2010, Romania recorded low employment in services compared with the average level recorded by EU (40.1% compared with 71.6%), a higher level of employment in agriculture (30.1% compared with 5.1%), a higher share of self-employed in total employment (30.2% compared with 15.4%), a lower labour productivity (49% of the UE-27 100%), a lower level of salary-earning work, expressed by the share of employees in total employment (69.8% compared with 84.6%), lower wages etc.
Compared to the average recorded at EU level, Romania records a series of gaps that determine a high level of poverty working. The results of the statistical-economic analysis, carried out based on the statistical data in figure 1(b), highlight the fact that, in 2010, Romania recorded low employment in services compared with the average level recorded by EU (40.1% compared with 71.6%), a higher level of employment in agriculture (30.1% compared with 5.1%), a higher share of self-employed in total employment (30.2% compared with 15.4%), a lower labour productivity (49% of the UE-27 100%), a lower level of salary-earning work, expressed by the share of employees in total employment (69.8% compared with 84.6%), lower wages etc.

As for the unemployment rate, in 2010, Romania was placed below the average recorded at EU level (7.3% compared with 9.7%). We consider that in Romania, a low unemployment even under the circumstances when employed population decreases, both as relative and absolute size, reflects a deeper worsening of the disequilibrium in the labour market and not only, having an invisible, latent and sometimes not taken into consideration character. When the economic situation worsens, the ones who do not manage to keep up with the new conditions are forced to draw back. It is the case of the early retirements from activity, giving up the idea of looking for a job after a long unemployment period, informal employment, temporary activities or living from day to day. Moreover, the lower rate of unemployment, as compared to other countries in the area, can also be explained by the massive emigration of one part of the labour force and the high employment of labour force in the underground economy or informal activities (Herman & Dâlalău, 2011).

Under these circumstances, Romania is the country, which recorded in 2010, the highest in-work at-risk-of-poverty rate, in the European Union, for the employed population of 17.3%, compared with the average level recorded in EU-27 of 8.5% (figure 2). This indicator represents the share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).

In-work poverty may result from various labour market failures, such as recurrent unemployment or unstable jobs, involuntary part-time work, low wages, or from a particular household structure (E.C., 2010b). Among the main causes that determined a high level of in-work poverty, we find, the inefficient structure of employment, low wages determined by low labour productivity, undeclared work etc. In Romania as well as in EU-27, in-work at-risk-of-poverty rate is influenced by the status in employment, by full-/part-time work, by type of contract, by education level etc. Data presented in figure 2 reflect the fact that status in employment - the situation of an employed person, depending on the way of achieving income from his activity, represents an important criterion depending on which we can appreciate the level of in-work poverty. Thus, in Romania, in-work at-risk-of-poverty rate is more reduced than among employees (by 5.3%) compared to the other categories of employed persons (self employed person). As 30% of the employed population works in agriculture, and most of them are self-employed and having a low level of education, the highest in-work at-risk-of-poverty rate, of 50.1% is recorded within this category of employed population.

![Fig. 2. In-work at-risk-of-poverty rate by status, full-/part-time work, type of contract and education level, in 2010, in Romania and EU-27 (%)](source: Eurostat)
Although the use of flexible work practices (working part-time and temporary work) determines the increase in efficiency of using labour force by reducing the wage costs and balancing the demand with the labour supply, we consider that we need to take into account that using flexible work can affect the income security of those employed, with direct consequences on the increase in poverty and social polarity. Statistical data in figure 2, confirm the fact that, in Romania, as well as in the EU-27, the in-work at-risk-of-poverty is higher than in the case of part-time working compared with full-time working. As for, the temporary work contract, Romania records an atypical situation, meaning that it has a more reduced in-work at-risk-of-poverty rate compared with EU-27. This fact is explained by the existence of a more reduced percentage of employees with temporary contracts, of only 1.1% compared to the one recorded in the EU-27 of 14%.

The education level of employed people represents an important factor that influences in-work poverty. Data in figure 2 indicate that, in Romania, as well as in the EU-27, as the level of education attained increases, the in-work at-risk-of-poverty falls, and the other way around. Thus, the economic theory (Mincer, 1991) according to which educated workers enjoy at least three basic advantages over less educated workers in the labour market: higher wages, greater upward mobility in income and occupation, and greater employment stability, is confirmed. In Romania, in 2010, the employed population with pre-primary, primary and lower secondary education (levels 0-2) recorded a higher in-work at-risk-of-poverty rate by 42.6 p.p. (43.5% compared with 0.9%) compared to the one with first and second stage of tertiary education (levels 5 and 6). Under the conditions in which, in Romania only 16% of the employed population graduates from higher education, we consider that in order to reduce in-work at-risk-of-poverty, it is necessary to increase the level of education, which should correspond to the needs of the labour market. Improving education levels and ensuring access to lifelong learning for the low skilled will help reducing poverty in the medium and long-term (E.C., 2011).

For diminishing the dysfunctions and gaps existing on the labour market, a set of measures created by the state are necessary in order to intervene, directly or indirectly, on the labour force market, and not only. These aim to stimulate the creation of new jobs, to improve the adaptation of the human resource to the needs of the economy, to assure the fluidity and efficient flexibility of the labour force market.

3. The main active measures to stimulate employment in Romania

In Romania, the main active measures to stimulate employment, stipulated in the national legislation (LAW 76/2002 concerning the unemployed social insurance system and stimulation for employment, with certain modified features and adding) and in the National Employment Programs developed by the National Agency for Employment-(NAE) institution which implements the strategies and policies of the Ministry of Labour, Family and Social Protection in the field of employment and continuing vocational training of those in search for a job, are:

- **Information and professional counselling** - comprises an ensemble of services destined for person looking for a job.
- **Mediation work** - represents the activity through which it is achieved the connection between employers and job applicants.
- **Vocational training** – ensures initiation, qualification, re-qualification, training and specializing for the people looking for a job. The objective is to stimulate the employers to ensure training for their own employees, using the budget of the state for 50% expense professional training for 20% hired staff.
- **Consultancy and assistance for an independent activity or starting a business** – is given, on request, to people looking for a job, in the form of legal, marketing, financial services, efficient management methods and techniques and other consultancy services.
- **Complementing the employees’ incomes from salary** - according to this measure, people who receive unemployment benefits, within the period stipulated by law, and who manage to find work with a normal working schedule, benefit from a monthly amount, which is exempt from taxation. The amount is given from the moment of employment until the end of the period they should get unemployment benefits, and it is from the budget of unemployment insurance, accounting for 30% of the unemployment benefit stipulated.
- **The stimulation of territorial mobility**- the persons who during the period of unemployment benefit find a job in an area which is 50 km further from their home benefit from an employment bonus given from the budget of unemployment insurance.
- **Subsidizing jobs** - through this measure, it is aimed to stimulate employers to hire young graduates, persons with disabilities, unemployed over 45 years, unemployed supporting families, etc., by subsidizing jobs from the budget of unemployment insurance.
• **Advantageous financial credits for creating new jobs.** These credits are granted in advantageous conditions, with an interest rate of 50% of the monetary policy interest rate. In the counties whose annual unemployment rate is higher than the national average of the annual unemployment rate, the interest rate is 25% of the monetary policy one. The beneficiaries of these credits are the small and medium-sized enterprises (SMEs), cooperative units, familial associations, unemployed people who are bound to create SMEs.

• **Fiscal facilities given to employers** - in case they hire unemployed people for at least six months, they benefit from the reduction of the amount which represents the contribution of 2.5% owed to the budget of unemployment insurance.

The reduced and falling share of the expenses for implementing active employment measures, both in the GDP and in total expenses from the budget of unemployment insurance (table 2), reflects the existence of a low level of active measures compared to the passive ones in the field of employment, in Romania, between 2002 and 2010.

Table 2. Expenses for implementing active employment measures, in Romania, 2002-2010

<table>
<thead>
<tr>
<th>Expenses for implementing active employment measures:</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>% from GDP</td>
<td>0.1</td>
<td>0.16</td>
<td>0.13</td>
<td>0.11</td>
<td>0.09</td>
<td>0.08</td>
<td>0.05</td>
<td>0.04</td>
<td>0.03</td>
</tr>
<tr>
<td>% from the budget of unemployment insurance</td>
<td>13.95</td>
<td>20.86</td>
<td>17.29</td>
<td>18.89</td>
<td>19.57</td>
<td>21.1</td>
<td>20.3</td>
<td>7.49</td>
<td>4.77</td>
</tr>
</tbody>
</table>


As for the structure of expenses financed from the budget of unemployment insurance for implementing active measures, in Romania, in 2010, we notice the existence of some higher shares of expenses aiming for the stimulation of hiring unemployed people belonging to unfavoured categories (30.5%), hiring graduates (18.9%) and programs for temporary employment (16.2%). Moreover, we notice the existence of a more reduced share of expenses intended for professional training, as an active measure for increasing employment.

Table 3. Expenses for implementing active measures, by type of active measure, in Romania, in 2010

<table>
<thead>
<tr>
<th>Active measures</th>
<th>% from total expenses for implementing active measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stimulating the hiring of unemployed people belonging to unfavoured categories</td>
<td>30.5</td>
</tr>
<tr>
<td>Stimulating the hiring of graduates</td>
<td>18.9</td>
</tr>
<tr>
<td>Programs for temporary employment of the labour force</td>
<td>16.2</td>
</tr>
<tr>
<td>Stimulating the hiring before the expiry date of the unemployment benefit</td>
<td>14.4</td>
</tr>
<tr>
<td>Vocational training</td>
<td>11.5</td>
</tr>
<tr>
<td>Stimulating mobility of labour force</td>
<td>4.3</td>
</tr>
<tr>
<td>Other active measures</td>
<td>4.3</td>
</tr>
</tbody>
</table>


Under the conditions in which only 34% of the people who benefited from the active measures were employed in 2010 (NAE, 2011), we consider that Romanian is confronted with a low efficiency of enforcing the active measures provided by the National Agency for Employment.

In order to achieve the employment rate of 70%, in 2020, for workers aged 20 - 64, priority is given to the implementation of measures focused on removing the bottlenecks on the employment growth, leading to a better function of the labour market, facilitating the transitions from the unemployment or inactivity to employment, strengthening the skills of the workforce and increasing the quality of employment for persons residing in rural areas, young people and women (G.R., 2011a, b).

4. **Vocational training as part of the strategic actives measures for increasing employment**

The role of education and training in human resource development, as elasticity mechanisms of the labour supply in relation to the demand, is recognized, both at national and international level, as a strategic priority. Achieving a high degree of mobility and adaptability of the human capital as response to the demands resulted from the logic of the technological process is one of the conditions in reaching a higher economic performance (Herman, 2012).

In order to reduce the in-work at-risk-of-poverty existing in Romania, we consider that it is necessary to increase the employability of poor people. Improving and extending vocational training to develop appropriate skills is crucial to facilitating transitions to more productive jobs and therefore improves the employability of the labour force (OECD, 2009).
Romania, through the *Short and Medium Term Strategy for Continuing Vocational Training 2005-2010* aimed, for 2010, at a participation percentage in the educational or training process of 7%, for the population aged 25-64. This national target was not reached, Romania being now far from the level already reached by the EU countries. Thus, in 2010, only 1.3% of the adult population aged 25 to 64 participated in education and training compared with 9.1% in EU. For ten years (figure 3) Romania has managed to increase the population’s percentage of participation in the process of education and training by only 0.3%, compared to EU-27, where it has grown by 2 percentage points. One of the obstacles that prevented the increase of participation in continuing vocational training is the wrong perception of the employer who regards the expenses on continuing vocational training as a cost not an investment, as well as the lack of acknowledging the advantages of the continuing vocational training, by both the employers and the employees.

In order to increase the adult population’s degree of participation in education and training, we consider that, first of all, national, regional and local programs should be developed. Such programs will change the attitude of the involved people and institutions for the purpose of increasing the motivation to take part in continuous vocational training and life-long learning with a special emphasis on the advantages of continuous vocational training for one person’s career (by finding a job more easily, by offering a higher wage, by increasing employment and geographic flexibility on the national and European labour market, by developing the entrepreneurial spirit, etc.), as well as with an emphasis on increasing the companies’ competitiveness and productivity on a globalized market and on the evolution of the Romanian society to one based on knowledge.

Under the circumstances in which most of the vocational training courses are developed through the National Agency for Employment, we consider that a stronger involvement of universities, as providers of vocational training, would contribute to the increase in the level of employment, by a better qualification of the people looking for a job. The Romanian educational system, especially the Romanian higher education must correlate the graduates number with the Romanian and EU labour force requirements, and take into account the necessities imposed by the participation at international competition (Popovici, 2011). In order for the supply of vocational training to correspond to the requirements of the labour market, there needs to be a strong collaboration between universities and the business environment. The studies carried out on the relationship between universities and the business environment (Șerbănică, 2011) show that in Romania there is a weak university – business environment collaboration for innovation.

Romania is confronted with a low percentage of people who were employed after graduating a vocational training course. Fact which reflects, on the one hand that the system of vocational training is mainly based on providing certificates and less on learning the necessary skills for a certain job and, on the other hand, the insufficient connection between the vocational training content and the needs of the labour market. For 2010, according to the statistical data from the Annual Activity Report of NAE (2011), of 35,454 people attending vocational training courses only 27% were employed within 6 months and approximately 46% within 12 months, since the date of graduating the course.

Taking into consideration that approximately 50% of the employed population works informally in Romania (Parlevliet & Xenogiani, 2008), and that those who perform undeclared work are, generally, people with a low level of education and without vocational training or with reduced qualification (G.R., 2010), we consider that vocational training can be regarded as a solution for reducing the incidence of undeclared work and poverty reduction implicitly. On the other hand, the productivity and employability of poor people can be significantly increased with well-tailored and recognised (certificated) vocational training, especially for workers in the informal economy. We highlight the fact that no matter how important vocational training courses are, all by themselves, they cannot create new jobs.
However, the beneficiaries of vocational training become more employable after improving their education and vocational qualification, thus opening the path to new opportunities of enhancing their work.

A way of increasing integration on the labour market, of those who are looking for a job, consists in supporting them to become entrepreneurs who create jobs (for example through self-employment, micro-enterprise creators), by entrepreneurship training. Together with mechanisms that provide start-up capital, businesses and employment can be created in a macroeconomic context favourable to sustainable development. In order to achieve the strategic objectives in the field of employment and poverty reduction, Romania needs to promote the entrepreneurial spirit through vocational education and training.

5. Conclusions

Romania is confronted with a high risk of in-work poverty (the highest in EU-27), determined, first of all, by the existence of an inefficient employment structure through high employment in agriculture to the detriment of employment in services, low labour productivity, low share of employees in total employment, a low level of the employed population with tertiary education etc.

Under these circumstances, Romania as a member state of the EU, in order to have an intelligent, sustainable and favourable to inclusion economy, characterized by high levels of employment, productivity and social cohesion, starting from "Europe 2020" Strategy, needs to adopt and implement active measures that should assure quantitative and qualitative growth in employment, accompanied by in-work poverty reduction.

It is our strong belief that increasing participation in continuing vocational training is important for supporting the qualitative transformation of the labour force. This is the main tool by which the labour force can adapt to the new demands, thus facilitating the transition from one field of activity to another, from unemployment to employment, from poverty to wellbeing. In this respect, a change in the mentality regarding vocational training must occur, particularly the increase of the awareness concerning the importance of continuous learning, of the motivation for broadening the knowledge and the personal skills development. In order for vocational training to be successful, first, an activity of informing, counselling and professional orientation must be imposed. This should facilitate the access to relevant information regarding the opportunities of vocational training and the employment perspectives. In this way, every citizen should make the best decision for his/her professional development.

The success of vocational training embodied in employment growth and poverty reduction can be reached only by adopting and applying a combination of employment policies that should assure a set of internal and external economic conditions before, during and after the process of vocational training process.

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