

**MPRA**

Munich Personal RePEc Archive

# **The Impact of Active Labour Market Policies in Romania**

Bocean, Claudiu George

11 November 2007

Online at <https://mpra.ub.uni-muenchen.de/10397/>

MPRA Paper No. 10397, posted 10 Sep 2008 10:58 UTC

# The Impact of Active Labour Market Policies in Romania

**Claudiu George Bocean, Lecturer, Ph. D**

Faculty of Economics and Business Administration, University  
of Craiova

E-mail: boceanclaudiu@hotmail.com

*Abstract.* Following the predominance of macroeconomic stabilisation policies and passive policies for alleviate the reform shock in the first phase of transition, active labour market policies (ALMPs) have now come to play a more important role in transition economies. In this paper I present a theoretical and empirical analysis of different types of active labour market policies (ALMPs). In my empirical analysis I use data on Romania covering the time period 2000-2005. I find that subsidized jobs are the most effective program to bring down unemployment. Labour market training and temporary employment in public works in community service have a positive impact. Despite their overall positive impact on unemployment rate, their budgetary cost is high and they are likely to be subject to diminishing returns as employment rates rise.

JEL code: E24, J64, J68

## 1. Introduction

There is an increasing consensus among policy makers that actively assisting the unemployment on job search is preferable to simply providing them with passive income support. The danger is that reliance on passive income support may reduce

work incentive and job search and therefore increase the risk of long-term unemployment. Active labour market policies aim at bringing unemployed back to work by improving the functioning of the labour market in various ways. ALMPs include programs such as public employment services, labour market training and subsidized employment. The 1994 OECD Jobs study recommends governments to “strengthen the emphasis on active labour market policies and reinforce their effectiveness” (OECD, 1994). The use of active labour market programmes is often motivated by the need to upgrade the skills of long-term unemployed in order to improve their employability.

Calmfors (1995) distinguishes four basic functions of ALMPs:

- raise output and welfare by putting unemployed to work or have them invest in human capital,
- maintain the size of the effective labour force by keeping up competition for available jobs,
- help to reallocate labour between different sub-markets,
- and alleviate the moral-hazard problem of unemployment insurance.

ALMPs may eliminate mismatch in the labour market, promote more active search behaviour on the part of the job seekers and have a screening function because they substitute for regular work experience in reducing employer uncertainty about the employability of job applicants.

Placements in labour market programs may provide an alternative work test to the eligibility of unemployment benefits, since some of those who are not genuinely interested in work will prefer to lose registration rather than to participate in a program. An adverse side effect of ALMPs is that workers are locked-in training and job-creation programs: because of their participation they reduce their search intensity (Boone and van Ours, 2004).

Not only direct effects are important when assessing the effectiveness of ALMP. Calmfors (1994) distinguishes a number of indirect effects. First there are displacements effects since jobs created by one program are at the expense of other jobs.

Then there are deadweight effects because labour market programmes subsidize hiring that would have occurred anyway in the absence of the program. There are also substitution effects because jobs created for a certain category of workers replace jobs for other categories because relative wage costs have changed.

Finally, there are the effects of taxation required to finance the programs on the behaviour of everyone in society.

Recent studies however are not very optimistic about the benefits of many of these programs. (Jan Boone, Jan C. van Ours, 2004).

Calmfors, Forslund and Hemström (2002) conclude that the evidence on the effectiveness of Swedish ALMPs is rather disappointing. Labour market retraining for example has no or negative employment effects.

In 1999, Stanley et al. summarize the quantitative effects of several U.S. ALMPs. Although the effects are quite low, they do find that temporary employment subsidy programmes increase the probability of finding jobs in the subsidy period, but they also find that there are no long-term effects. Likewise, Heckman et al. (1999) affirm that ALMPs may improve the economic situation for those with a weak position in the labour market, but for other socio-economic groups the effects are smaller if at all positive. They conclude that different types of programmes have different impacts.

There have been some studies on the impact of ALMPs in transition economies, but there is not an abundant number. From an overview of studies on labour-market reforms in transition economics Boeri (1997) show up that active policies, such as subsidized employment schemes and public work programs have not been very successful.

Kluve and Schmidt (2002) also present an overview of evaluation studies concluding that job search assistance can be useful, private sector subsidies are better than public sector programs and training programs can help to improve the labour market prospects of unemployed workers.

Kluve gives a detailed overview on large variety of different ALMP programs existing among EU member states and other European countries. It is possible to classify these programs into a set of six core categories (Kluve, 2006):

- **training** (classroom training, on-the-job training and work experience);
- **private sector incentive programs** (measures aiming at creating incentives to alter employer and/or worker behaviour regarding private sector employment);
- **direct employment programs in the public sector** (direct creation and provision of public works or other activities that produce public goods or services);
- **services and sanctions** (measures aimed at enhancing job search efficiency and matching);
- **youth programs and for other disadvantaged groups** (programs for disadvantaged and youth unemployed, including training programs, wage subsidies and job search assistance);
- **measures for the disabled** (vocational rehabilitation, sheltered work programs or wage subsidies for individuals with physical, mental or social disabilities).

Concerning to effectiveness of ALMPs in a study of European Commission for Employment and Social Affairs (2002) the following conclusions were drawn. Training measures prove to be effective for particular target groups; the experiences with large-scale programmes are less convincing. Subsidised employment shows mixed results and a high risk of substitution of regular employment – subsidised employment is more effective in the private sector than job creation in the public sector. Self employment grants show positive results, although the scope may be limited. Results with job search assistance are generally positive. Effects of ALMPs vary depending on the target groups concerned: active measures tend to be more suitable for the more disadvantaged groups (less dead-weight loss), but they may also be beneficial for higher educated groups.

Related to the previous observation, effects of ALMPs vary depending on the size of the programme (measured in terms of numbers of participants). Small (targeted) programmes seem to be more effective. Large size tends to have a negative impact on quality. This seems to be particularly true for youth programmes.

Effects of ALMPs are country specific, depending on factors such as the general economic situation, level of unemployment, the quality of PES (Public Employment Service).

In this paper I investigate the effectiveness of active labour market policies on an aggregate level both from an empirical and a theoretical point of view. I study the effects of specific categories of ALMP.

The paper is set up as follows. Section 2 provides stylized facts about the system of passive and active labour market policies in Romania. Section 3 evaluates the aggregate effect of ALMPs on employment, labour force participation and unemployment and finds a positive correlation between spending on ALMPs as a percentage of GDP and the unemployment outflow. Section 4 gives final remarks.

## **2. Romanian Labour Market Policy**

Apart from difficulties and delays during the 16 years of transition, Romania has, to a large extent, undertaken reform in all spheres: economically, politically, and socially. While the first 10 years were characterised by the restructuring of the economy (accelerated in 1997-1999), which suffered several crisis periods, a re-launching process was started in 2000. Macro-economic equilibrium, budget deficit, and the level of inflation have all been improved, along with a better coordination of budgetary and monetary policies. Restructuring has been gradually broadened to affect sensitive sectors and the privatisation process accelerated considerably and is now more advanced.

Since 2000, the Gross Domestic Product (GDP) has registered a steady growth: 2.1% in 2000, 5.7% in 2001, 5.1% in 2002,

5.2% in 2003, 8.3% in 2004, and 4.2% in 2005 and for 2006 the value envisaged is 4.5%.

After being at an excessively high level, average inflation has been on a constant downward trend: from 40.7% in 2000 to 8.5% in 2005 and for 2006 the value envisaged is 6.5%.

Although real wage growth has lately become more aligned with productivity gains, the authorities are still struggling to control the wage bill of public enterprises. Wage developments and formation do not sufficiently reflect productivity differentials by skills, occupations and regions and therefore do not provide appropriate signals for skills acquisition or for regional and occupational mobility.

The existence of a dual labour market with a rural labour market concentrating more than 30 percents of the labour force and characterised by high participation, including in the younger and older age groups and very low unemployment (twice as low as in urban areas). Agriculture concentrates nearly half of private employment and 85% of all self-employed.

The restructuring of the economy has led to a strong decline in industrial employment. Agriculture played a buffer role in absorbing the employment losses while due to the low growth and irregular development of the service sector, job growth has been negative and the reallocation of employment towards this sector has been marginal.

However, in last four years the development of the private sector has concentrated in industry and services. The new private sector has reached a size enabling a sustainable decrease of unemployment and compensating for the job losses in the public sector. There is an average development of small enterprises, which are the main source of job growth - in particular in services - which points to certain confidence in the business environment. The implementation of Law 76/2002 on Unemployment Insurance and Employment Stimulation (which empowered ALMPs) contributed to an improvement of employment and business environment.

The skill level and structure of the labour force is a concern in an immediate and medium-term perspective. While the average educational level remains relatively low it increases since the mid 1990s; the qualifications held by many workers will not meet the requirements of the new jobs; the participation rate of young people in the education system is low at tertiary level, a certain group does not continue beyond compulsory education. All these features represent a major challenge given the important restructuring ahead and the need to support economic transformation by a stronger development of new sectors.

Employment policy here is seen as widely defined – encompassing human resources policies, wages policy, the system of taxes and benefits, and the public employment service and its active labour market programmes.

Training and retraining measures for the unemployed were the first active measures put into place at the very beginning of the transition period. The need for other measures, enabling to support employment emerged progressively and became particularly urgent after 1996-1997 when the privatisation and the restructuring accelerated and resulted in massive lay-off. Romania then introduced recruitment incentives for hiring young graduates and loans to SMEs to recruit unemployed persons.

The new legal framework (Law 76/2002 on Unemployment Insurance and Employment Stimulation) build on the experience gathered through the World Bank supported projects and provided a broader framework for active labour market programmes, in particular by widening access to all unemployed and not only benefit recipients.

The implementation of ALMP was in the hands of the PES that had a network of district offices where every district office had a number of local centres.

The planned and used budgets for active labour market programmes and passive labour market programmes from the Unemployment Fund related to GDP are presented in Table 1.



**Table 1.** ALMPs and PLMPs expenditures related to GDP

	2000	2001	2002	2003	2004	2005
<b>GDP (Mil. Ron)</b>	80377.3	116768.7	151261.6	190335.3	238791.4	261500.0
<b>PLMP (Mil. Ron)</b>	772	750	895	1.056	1.269	1244.11
<b>PLMP% GDP</b>	0.96	0.64	0.59	0.55	0.53	0.47
<b>ALMP (Mil. Ron)</b>	21.03	111.52	156.29	301.50	286.80	291.49
<b>ALMP% GDP</b>	0.03	0.1	0.1	0.16	0.12	0.11
<b>PLMP/ ALMP</b>	36.72	6.73	5.72	3.50	4.42	4.27

1 Ron  $\approx$  3.5 Euro

Source: European Commission for Employment and Social Affairs and Department of Labour Romania (2005), "Second Joint Assessment of Employment Priorities in Romania" and [www.insse.ro](http://www.insse.ro)

The main active measures are recruitment incentives to employers, training and retraining programmes, benefits allotting to the unemployed who take up employment before the period of entitlement to the unemployment benefit, support to job creation in SMEs and to business start-ups, community work programmes and mobility grants.

Employment subsidies can be granted to employers for a maximum period of 12 months, at the request of local public authorities, for each unemployed person hired with an individual labour contract for community public services and social services. The subsidy is 70% of the minimum national wage for each unemployed person. Other recruitment subsidies for the young graduates, the disabled and those above 45 years differ in duration and level depending on the nature of the contract and its duration.

Support to SMEs creating jobs, to business start-ups or independent activity includes the provision of counselling,

assistance and granting of low-interest loans (25-50% of the interest rate of the National Bank) for maximum 3 years. The counselling and assistance is free for unemployed receiving unemployment benefit. SMEs must recruit at least 50% of the new staff among registered unemployed.

Mobility grants correspond to a lump-sum payment amounting to two minimum wages if the unemployed takes up a job in a place distant from more than 50 km from the place of residence, to seven minimum wages if there is a change of residence.

The outflow from unemployment through different types of ALMPs and the ALMPs expenditures are presented in Table 2 and Table 3.

**Table 2.** Outflow from unemployment through different types of ALMPs

Year	Total	ALMP <sub>1</sub>	ALMP <sub>2</sub>	ALMP <sub>3</sub>	ALMP <sub>4</sub>	ALMP <sub>5</sub>	ALMP <sub>6</sub>	ALMP <sub>7</sub>	ALMP <sub>8</sub>
<b>2001</b>	56813	17147	0	14987	0	18945	0	0	5734
<b>2002</b>	224155	14079	106395	34917	3983	13810	3812	44695	2464
<b>2003</b>	263094	14402	110263	39312	4322	5929	2652	78685	7529
<b>2004</b>	222427	11443	85704	48138	5774	6830	1596	62113	829
<b>2005</b>	163266	16096	30034	41701	3823	3045	922	66112	1533
<b>total</b>	929755	73167	332396	179055	17902	48559	8982	251605	18089

*Source: National Employment Agency: Yearly Employment Report (2001-2005)*

ALMP<sub>1</sub> - vocational training courses

ALMP<sub>2</sub> - benefits allotting to the unemployed who take up employment before the period of entitlement to the unemployment benefit

ALMP<sub>3</sub> - employers' subsidization

ALMP<sub>4</sub> - stimulation of the labour force mobility

ALMP<sub>5</sub> - granting loans to SME's for new jobs creation

ALMP<sub>6</sub> - counselling and assistance services for starting up an independent activity or business

ALMP<sub>7</sub> - temporary employment in public works in community service

ALMP<sub>8</sub> - other active measures

**Table 3. ALMPs expenditures by types**

Year	-Mil Ron-								
	Total	ALMP <sub>1</sub>	ALMP <sub>2</sub>	ALMP <sub>3</sub>	ALMP <sub>4</sub>	ALMP <sub>5</sub>	ALMP <sub>6</sub>	ALMP <sub>7</sub>	ALMP <sub>8</sub>
<b>2001</b>	111.52	4,87	0,00	11,71	0,00	93.94	0.00	0.00	1.00
<b>2002</b>	156.29	9.17	5.41	45.12	3.52	46.18	2.34	44.23	0.31
<b>2003</b>	301.50	6.46	27.77	75.98	4.29	109.60	1.34	74.50	1.56
<b>2004</b>	286.80	10.15	34.00	111.30	6.82	53.50	1.01	69.99	0.03
<b>2005</b>	291.49	18.24	14.17	146.22	5.38	26.20	1.00	80.21	0.07
<b>Total</b>	1147.6	48.90	81.34	390.33	20.01	329.43	5.70	268.93	2.97

*Source: National Employment Agency: Yearly Employment Report (2001-2005))*

### 3. Effectiveness of ALMP in Romania

Empirical work on the macroeconomic effects of ALMPs is rare. And, often no distinction is made between types of ALMPs. Instead, the focus is on total ALMPs expenditures. Following equation links variation in unemployment and types of ALMPs expenditures (Boone and van Ours, 2004):

$$u_{it} = \alpha_0 + \alpha_1 x_{it} + \alpha_2 \Delta^2 p_{it} + \varepsilon_{it} \quad (1)$$

where  $u_{it}$  is the outflow from unemployment relate to different types of ALMP expenditures  $i$  in a time period  $t$ . Furthermore,  $x_{it}$  refers to types of ALMP expenditures and  $\Delta^2 p_{it}$  is the change in inflation rate. Finally,  $\varepsilon_{it}$  is the error term, which in most of the studies is assumed to have a random effects specification.

One of the problems related to estimating equation (1) is that if unemployment goes up the ALMP expenditures are also likely to increase (Boone and van Ours, 2004). To account for this, different types of ALMP expenditures are normalized as expenditures per unemployed person as a percentage of GDP per

member of the labour force (ignoring for simplicity the subscripts t) :

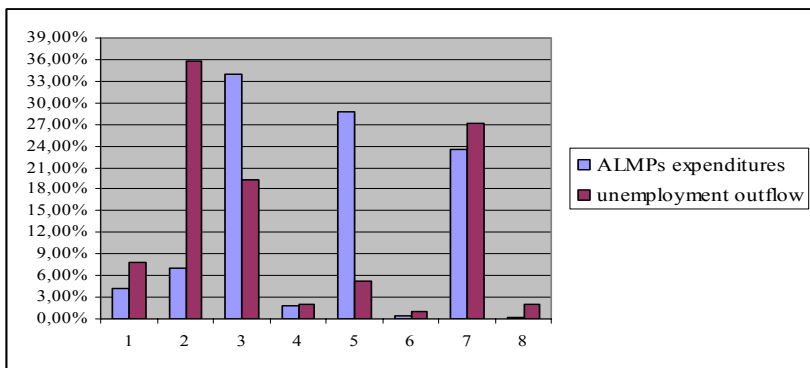
$$x_i = \frac{\frac{ALMP_i}{GDP}}{\frac{U}{N}} = \frac{\frac{ALMP_i}{GDP}}{\frac{U}{L} \frac{L}{N}} = \frac{almp\%_i}{u \times l} \quad (2)$$

where  $ALMP_i$  represents types of expenditures on active labour market policies,  $U$  is total unemployment,  $GDP$  is total gross domestic product,  $N$  is the population and  $L$  is the labour force. Finally,  $almp\%_i$  is each types of ALMPs expenditures as a percentage of GDP, and  $l$  is the labour force participation rate (labour force as a fraction of the population).

In empirical analysis of different types of ALMPs it is important to compare ALMPs expenditures ratio and unemployed worker ratio (employ by ALMPs types).

A comparison between ALMPs expenditures ratio and unemployed worker ratio (employ by ALMPs types) is presented in Figure 1.

**Figure 1.** Comparison between ALMPs expenditures ratio and unemployed worker ratio (employ by ALMPs types)



Source: National Employment Agency: Yearly Employment Report (2001-2005) and own calculation

Marcello Estevão (2003) considers that many of studies tends to overestimate the effect of ALMPs on the unemployment rate and very few studies focus on the most appropriate measure of labour market performance, the employment rate. Because of this I use for my comparative analysis of ALMP effectiveness employment-population rate, labour force participation rate and unemployment rate. There is a simple relationship between employment-population rate  $ep$ , labour force participation rate  $l$  and unemployment rate  $u$ :

$$ep = l(1 - u) \quad (3)$$

This relationship can be considered from two perspectives (Boone and van Ours, 2004). The first perspective is the point of view of a definition. Then, conditional on a constant labour force participation rate a fall in the unemployment rate by definition implies a rise in the employment-population rate. If the unemployment rate goes down and the employment-population rate remains constant then by definition the labour force participation rate must have gone down. The second perspective on this equation is the point of view of measurement. If unemployment refers to „open” unemployment and excludes unemployment in active labour market policies then a fall in unemployment might concern a spurious fall (Scarpetta, 1996). In this case the employment-population rate is a better indicator of labour market performance.

In Romania, although the economic growth was preserved for five consecutive years, it did not ensure a satisfying level of employment and new jobs creation. In fact, employment rates have been on a constant downward trend among people aged 15-64 years, from 65.4% in 1997 to 57.7% in 2005 (Table 4). The decrease in this period affected the male population to a greater extent, rural and urban populations being affected in approximately equal proportions. In 2005 in Romania the level of the employment rate stands below the EU-15 average of

64.7% or the EU-25 average of 63.3% and above the new member states average of 56%.

**Table 4.** Employment rate, labour force participation rate and unemployment rate (with and without ALMPs effects)

	2000	2001	2002	2003	2004	2005
<b>Employment rate</b>	63	62,4	57,6	57,6	57,9	57,7
<b>Labour force participation rate</b>	70,9	68,6	64,1	62,3	62,1	61,3
<b>Unemployment rate</b>	11,2	9	10,2	7,6	6,8	5,8
<b>Unemployment rate*</b>	-	9,6	12,6	10,5	9,3	7,6

Unemployment rate\* - unemployment rate without ALMPs effects

Source: European Commission for Employment and Social Affairs "Employment in Europe 2005 - Recent Trends and Prospects" and [www.anofm.ro](http://www.anofm.ro)

According to the National Accounts data, employment in agriculture, forestry and fisheries still represents the bulk of total employment, with 31.2% in 2005, albeit falling from its all-transition period peak of 41.4% in 2000. The population employed in the tertiary sector (services, trade, banks, insurance, tourism, telecommunications, etc.) has been increasing and now accounts for 36.7% of total employment.

Industrial employment has witnessed its sharpest fall since 2000. In 2005, employment in industry and construction represented 32.1% of the total.

Large areas of subsistence economy still remain and to a certain extent prevail throughout the country. High shares of both subsistence agricultural employment and dwindling industrial employment point to the fact that further efforts are necessary to improve the investment climate, to put in place growth enhancing framework conditions, as well as upgrading of skills to match the needs of the labour demand and revision of the Labour Code. Thus generating more attractive jobs and driving the working age population out of subsistence employment and inactivity (estimates are of 1 million people

employed by the informal economy, plus 4 million in subsistence farming).

The high rates of idleness in the economically active age category, the great number of people working in subsistence farming and migration of labour (estimated at 2 million people) are occurrences that could account for the decrease in the number of people earning wages, without any corresponding growth in unemployment rates. A factor partly mitigating the effect of lay-offs from state-owned businesses was the development of private sector employment.

In accordance to the National Employment Agency data, unemployment rate decreased to 5.8% in 2005, compared with 6.8% the previous year. As a result, while the official unemployment rate will continue to remain low for a while, attention has to be paid to increasing the labour force participation rate for the working age population.

Unemployment has affected first and foremost workers, due to the industrial decline, where a large number of people were made redundant following the restructuring process, accounting for 73.8% in 2005 of the total number of registered unemployed persons.

Long-term unemployment (one year and over) saw an increase from 3.2% in 2001 to 4.2% in 2005. While overall unemployment is falling, long-term unemployment is constantly rising, thus forming a hard core mass of long-term unemployed towards which the ALMPs have to be focused during the coming years.

The labour force participation rate decreased from 64.8% in 1996 to 57.7% in 2005. The constant decrease in the relative size of the economically active population reflected structural pressure of the economy suffering radical transformations. Strategy errors sometimes have been added and played the role of easing this enormous pressure, as in the case of the early retirement wave. Despite some indications that early retirement may slow down (in 2005 the phenomenon was at 51.4% from its 2001 level) at least in certain sectors, the prospects are not clear,

and a close monitoring is needed, in order to better assess the impact of early retirement on the activity rate and the sustainability of the pensions system placed under control only in the last years.

The ageing of population and increasing inactivity rate generate an increase in the economic old age dependency rate. While in 1990 there were 3.4 employees for 1 pensioner, in 2005 the ratio was 0.7 employees for 1 pensioner.

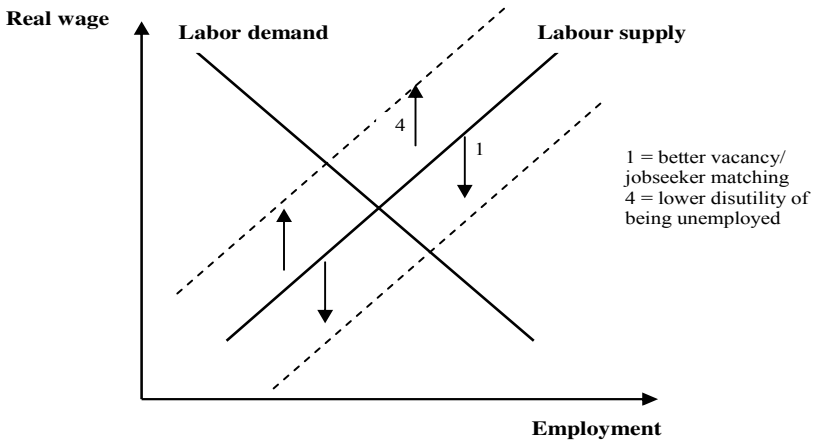
It is well-known that ALMPs have macroeconomic effects, i.e. the wage-setting behaviour and firms' vacancy supply or demand for labour may change (Calmfors, 1994; Calmfors and Lang, 1995; Holmlund and Linden, 1993). The literature provides arguments for both increased and decreased wage-pressure.

In short, increased wage-pressure stems from *i*) a more generous payment of programme participants than openly unemployed, implying that the welfare loss of becoming unemployed decreases; *ii*) an improved matching process implies lower expected hiring costs of the firms and hence the supply of vacancies increases which in general improves the employment perspectives for all unemployed workers leading to increased wage-pressure; and finally *iii*) a reduced risk of becoming long-term unemployed improves the employment perspectives for unemployed workers, and as the long-term unemployed are characterized by a lower matching probability than the short-term unemployed, we obtain increased wage-pressure. The reduced risk of becoming long-term unemployed, on the other hand, increases competition for the available jobs and thereby tends to decrease wage pressure. The net effect on wage-pressure is thus ambiguous.

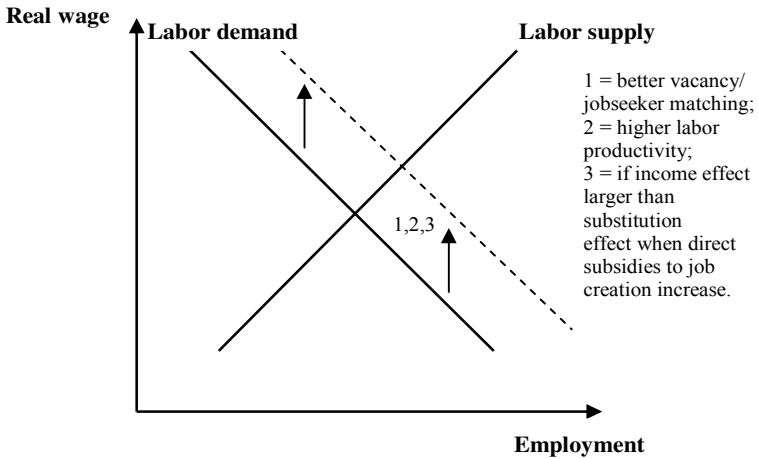
Marcello Estevão (2003) considers that ALMPs may affect employment through four ways. To catalogue these effects consider a simple labour market model with a downward-sloped labour demand and an upward-sloped labour supply resulting from the wage bargaining models discussed in Layard et al (1991). (Figure 2 and Figure 3)



**Figure 2.** The labour supply effects



**Figure 3.** The labour demand effects



*Source: Estevão, Marcello (2003), Do Active Labour Market Policies Increase Employment?, IMF Working Paper, European Department, WP/03/234.*

First, ALMPs may generate more efficient matching between job vacancies and unemployed workers because of adjustments in job-seekers' skills (for instance, through training programs) or

more effective searching. The resulting smaller ratio between vacancies and unemployment reduces wage pressure, which causes a downward shift in the labour supply curve, and, because vacancies are costly to employers, provides an outward shift in labour demand. Both effects will tend to raise employment with an uncertain final effect on real wages.

Second, labour force productivity may increase, owing to either training programs or retraining, in the case of direct subsidies to job creation. This productivity increase would shift labour demand up and lift employment and wages.

Third, job creation programmes (e.g., direct employers' subsidization, loans to SME's for new jobs creation) may generate windfall effects (substitute for nonsubsidized employment) making ALMPs ineffective. However, the associated income effect from an overall reduction in labour costs could be large enough to increase labour demand, implying higher wages and employment in equilibrium.

Fourth, active policies may lower the disutility of being unemployed, as they provide an occupation to otherwise unemployed workers, some income, and a hope of keeping their labour skills. Workers would then demand higher wages during bargaining and, in equilibrium, employment would be lower.

Even if a positive effect on employment might be discerned, the fiscal cost of ALMPs may be very high, raising the question of their overall effectiveness in a general equilibrium or cost-benefit sense (Table 5).

Effectiveness of different ALMPs types in a cost-benefit sense could be formulate in this way:

$$\varepsilon_{it} = \frac{\overline{PLMP}_t}{\overline{ALMP}_{it}} \quad (4)$$

where  $\overline{ALMP}_{it}$  represent costs to employ one unemployed worker (by ALMPs types and years) and  $\overline{PLMP}_t$  represent average compensations per unemployed worker (by years).

**Table 5.** Costs to employ one unemployed worker (by ALMPs types)

	- Ron-							
	ALMP <sub>1</sub>	ALMP <sub>2</sub>	ALMP <sub>3</sub>	ALMP <sub>4</sub>	ALMP <sub>5</sub>	ALMP <sub>6</sub>	ALMP <sub>7</sub>	ALMP <sub>8</sub>
<b>2001</b>	284,2	0,0	781,3	0,0	4958,8	0,0	0,0	175,0
<b>2002</b>	651,6	50,8	1292,2	882,9	3344,2	615,0	989,6	125,8
<b>2003</b>	448,8	251,9	1932,7	992,6	18485,4	505,3	946,8	207,2
<b>2004</b>	887,0	396,7	2312,1	1181,2	7833,1	632,8	1126,8	36,2
<b>2005</b>	1132,9	471,7	3506,4	1408,5	8604,3	1088,2	1213,2	45,7

Source: Yearly Employment Report (2001-2005) at [www.anofm.ro](http://www.anofm.ro)

On this viewpoint the most effective ALMPs are training and retraining programmes, benefits allotting to the unemployed who take up employment before the period of entitlement to the unemployment benefit, support to job creation in SMEs and to business start-ups ( $\epsilon_{it} > 1$ ). (Table 6)

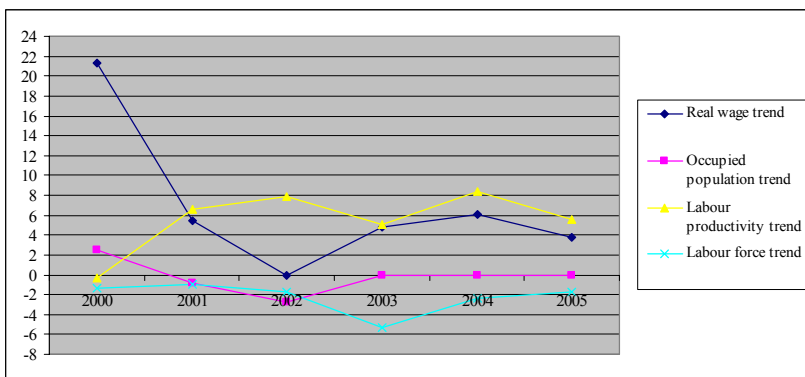
**Table 6.** Effectiveness of ALMPs types

	PLMP	ALMP <sub>1</sub>	ALMP <sub>2</sub>	ALMP <sub>3</sub>	ALMP <sub>4</sub>	ALMP <sub>5</sub>	ALMP <sub>6</sub>	ALMP <sub>7</sub>	ALMP <sub>8</sub>
<b>2001</b>	866,1	6,91	0,00	2,51	0,00	0,40	0,00	0,00	11,21
<b>2002</b>	937,3	1,07	13,72	0,54	0,79	0,21	1,13	0,70	5,54
<b>2003</b>	1531,4	2,55	4,55	0,59	1,15	0,06	2,27	1,21	5,53
<b>2004</b>	2089,9	1,45	3,25	0,56	1,09	0,16	2,04	1,14	35,63
<b>2005</b>	2421,8	1,58	3,79	0,51	1,27	0,21	1,64	1,47	39,10

Source: Yearly Employment Report (2001-2005) at [www.anofm.ro](http://www.anofm.ro)

During five last years Romanian labour market had a contradictory evolution (Figure-4). Occupied population (labour market demand) and labour force (labour market supply) have been decreasing in recent years indicating that economic growth did not yet have positive effects on employment. However the unemployment rate decreased to 5.8% in 2005 thanks to a positive equilibrium between labour market demand and supply. Temporary and permanent migration is another element to take into account. Labour productivity exceeded real wage trend generating a plus of labour demand. ALMPs exerted a positive effect to labour market demand concurring to unemployment fall.

**Figure 4.** Real wage, occupied population, labour productivity and labour force trends



Source: European Commission for Employment and Social Affairs "Employment in Europe 2005 - Recent Trends and Prospects", [www.anofm.ro](http://www.anofm.ro) and own estimations

#### 4. Conclusions

Romania is characterized by the existence of a dual labour market with agriculture and migration playing a buffer role for the employment losses in the restructuring process of the industry. Therefore employment and labour participation rates are constantly declining. Diminishing the size of the hidden

dimension of both employment and unemployment is of great concern for the future public action. While hidden unemployment may be high in particular in the agricultural sector and, more general, in the rural areas, actual employment, including those working in the large informal economy, is difficult to assess.

This paper has presented empirical evidence on the impact of ALMPs. The results show that, as expected, ALMPs seem to have been effective, on average, in decreasing unemployment rates. Among such policies, direct employers' subsidization to job creation and temporary employment in public works in community service seemed the most effective.

Decision makers should clearly focus on the type of program in developing their ALMPs portfolio: Training programs should be continued, and private sector incentive schemes should be fostered. Particular attention should be paid to counselling and assistance services for starting up an independent activity or business and granting loans to SME's for new jobs creation. Temporary employment in public works in community service, on the other hand, must decrease because are frequently damaging regarding participants' employment prospects.

However, even though ALMPs do decrease unemployment, they also weigh heavily on the budget. Institutional reforms to lower production costs and enhance labour market flexibility and work incentives are a better way to increase employment rates.

## References

- Barr N. (1994) "Labour Markets and Social Policy in Central and Eastern Europe", New-York.
- Boeri, T. (1997) "Labour-market Reforms in Transition Economies", *Oxford Review of Economic Policy* 13: 126-140.
- Boeri T. (1994) "Transitional Unemployment", *Economic of transition*. 2: 1-25.
- Boone Jan and van Ours Jan (2004) "Effective Active Labour Market Policies", Discussion Paper 1335, IZA, Bonn, Germany.

- Burlea-Schiopoiu, Adriana and Bocean Claudiu (2005) *Labour Economics*, Craiova: EUC Press.
- Calmfors Lars (1994) "Active labour market policy and unemployment - a framework for the analysis of crucial design features", *OECD Economic Studies* 22: 7-47.
- Calmfors L. and Lang H. (1995) "Macroeconomic Effects of Active Labour Market Programs in a Union-Wage setting Model", *The Economic Journal*, Vol. 105, Issue 430: 601-619.
- Calmfors L., Forslund A. and Herström M. (2002) "Does Active Labour Market Policy Work? Lessons from the Swedish Experiences," Seminar Paper No. 700, Institute for International Economic Studies, Stockholm University.
- European Commission for Employment and Social Affairs and Department of Labour Romania (2002), "Joint Assessment of Employment Priorities in Romania", Bucharest.
- European Commission for Employment and Social Affairs (2002), "Impact evaluation of the European Employment Strategy, technical analysis", 416.
- European Commission for Employment and Social Affairs and Department of Labour Romania (2005) "Second Joint Assessment of Employment Priorities in Romania", Bucharest.
- European Commission for Employment and Social Affairs (2006) "Employment in Europe 2005 - Recent Trends and Prospects".
- Estevão Marcello (2003) "Do Active Labour Market Policies Increase Employment?", IMF Working Paper, European Department, WP/03/234.
- Heckman J., Lalonde R. and Smith J. (1999), "The Economics and Econometrics of ALMP", *Handbook of Labour Economics*, Vol. 3, North-Holland, Amsterdam.
- Holmlund B and Linden J. (1993) "Job Matching, Temporary Public Employment and Equilibrium Unemployment", *Journal of Public Economics* 51:329-343.
- Kluge Jochen, and Schmidt Christoph (2002), "Can training and employment subsidies combat European unemployment?" *Economic Policy* 35: 411-448.
- Kluge Jochen (2006) "The Effectiveness of European Active Labour Market Policy", Discussion Paper 2018, IZA, Bonn, Germany.
- Lalive Rafael, van Ours Jan, Zweimüller Josef (2000) "The Impact of Active Labour Market Programs and Benefit Entitlement Rules on the Duration of Unemployment", Discussion Paper 149, IZA, Bonn, Germany.
- Layard R., Nickell S. and Jackman R. (1991) *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford: Oxford University Press.

- Rosholm Michael and Svarer Michael (2004) "Estimating the Threat Effect of Active Labour Market Programmes", Discussion Paper 1300, IZA, Bonn, Germany.
- Scarpetta, Stefano (1996), "Assessing the role of labour market policies and institutional settings on unemployment: a cross-country study", *OECD Economic Studies* 26: 43-98.
- Stanley, M., L. Katz & A. Krueger (1999), *Impacts of Employment and Training Programmes: The American Experience*, Draft, Harvard University.
- Van Ours Jan (2000), "Do Active Labour Market Policies Help Unemployed Workers to Find and Keep Regular Jobs?", Discussion Paper 121, IZA, Bonn, Germany.