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# **The Employment and Unemployment in Romania - Decisive Factors**

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27 May 2008

Online at <https://mpra.ub.uni-muenchen.de/13921/>  
MPRA Paper No. 13921, posted 11 Mar 2009 02:01 UTC

# THE EMPLOYMENT AND UNEMPLOYMENT IN ROMANIA- DECISIVE FACTORS

The employment but also the efficient use of the available work resources is directly connected to the work market. It is an element that can not be separated from the other elements of the work market, especially from unemployment, because if one deals with them separately, one can not cover all the aspects, particularities and effects on the work factor.

Analysing the employment and unemployment, it can be noticed the fact that employment has three main channels:

- ❖ The demographic channel: it refers to the young people who have reached the proper age for work, without having a professional training, as well as to the people that are looking for a job for the first time, as it is the case of housewives;
- ❖ The “educational system” channel: it refers to the graduates of various education institutes, having professional training;
- ❖ The channel of releasing the labour force working in the economic field as a result of the changes occurring in the stage of transition to the market economy( the limitation of activity, factory closures, retechnologization, reconverting);

The three above mentioned channels are based on several sources which contribute to increasing unemployment because of:

- The firing of a part of the working labour force because of the disappearance of some jobs, which is mainly caused by industrial reorganization ( we can mention the firings at S.C. Automobile Dacia S.A. after it was taken over by the Renault Group in 1999);
- The slow development of the private sector;
- The fact that the training structure does not comply with the employment structure, makes the educational system unable to offer the new graduates a training that will allow them to rapidly adapt to the new requirements. This lack of correlation, in the present circumstances, leads to deepening the imbalances existing on the work market because, whereas the tertiary industry is uncovered, the demand for professionals in the field exceeds by far the offer;
- The slow increase of the number of jobs generates an increase of the number of unemployed, especially of the vulnerable parts of the population (the young people, the women).
- The consolidation of the quasi-monopoly of some companies which has as consequence the non-flexibility of the work-market;
- The deepening of the tendencies of divisioning and specialisation, of forming some groups and non-competing socio-professional categories as a result of the multiplication of the specialities and of the differences between the employers from the point of view of practice, skills, adapting capacity.

There are many causes that generate unemployment, which are to be found at the macroeconomic and microeconomic levels. In most of the cases, in an analysis that aims at finding the causes that have generated the unemployment, many characteristics of unemployment are taken into account and they are analysed as “types” of unemployment (frictional, voluntary, structural, technological, natural, partly, total, etc.), characteristics that, in fact, cover the rather varied explanations of the incomplete use of the labour force in an economy.

However, we can say that there are also a few causes of unemployment that are not determined by the above mentioned characteristics and which can be found in Romania's economy. These causes are:

- The natural selection;
- Psychology;
- The changes in the economic structure and the employees' difficulties to adapt themselves to these changes;
- The people's will and behaviour;
- The technical progress;
- The budgetary expenses for "social protection" or "transfer payments" (unemployment benefit, poverty benefit, etc.);
- The laziness and the individual's failures;
- The political system.

Taking into account its causes, we can say that unemployment is an imbalance of the work market at the national level, a meeting point between the global work offer and demand. The work market is characterised by the fact that the work offer does not vary according to the changes that occur in the nominal wage and by the fact that the work offer does not evolve according to price and cost. The work market in Romania is characterised by a small number of jobs which are wanted and well paid, and a large number of jobs that are less attractive for the employees and do not offer advantages either to the employers or to employees.

There are many causes that have generated the imbalances existing on the work market. The essential change that occurred in the Romanian economy consisting in opening the former socio-economic system to the world actually generated the process of connecting our country to the new evolutions occurring on the European and global markets. According to the classification published by the "Institute of National Economy", there are three main causes of the differences existing between the offer and the demand of the labour force.

The evolution of the labour force offer and demand in accordance with different laws is one of the causes. The offer is mainly subjected to demographic laws, which do not belong to the economic field, and increases faster than the demand. The demand is a factor that belongs to the economic field being directly linked to the evolution of the national economy, to its performance indicators, to its competitiveness on the inner and external markets.

Another cause is the lack of correlation between the work offer and demand, due to the inertial character of the professional educational system, whose structure answers some needs of the national economy, but whose product will be considered as output of a subsequent stage. In other words, there is a temporal discrepancy between the moment when the structure of the available jobs is foreseen by the educational institutions and the moment when the graduates will become labour forces. This makes the initial structure of the jobs offered by the educational system not to correspond to the reality existing in the Romanian economy.

The technical progress, which has as consequence the increase of work productivity and efficiency, is another cause of unemployment, by firing a large part of the staff. Thus, the unemployment, as a consequence of the imbalances existing in economy with effects on the work market, is caused both by reducing the employment, as a result of the changing processes that occur in the transition to the market economy (the limitation of activity, factory closures, retechnologization, reconverting) and by admitting on the work market of the young graduates and of other persons who were included in the so-called "voluntary employment".

| Year | Unemployment Rate (%) |
|------|-----------------------|
|------|-----------------------|

|      |      |
|------|------|
| 1991 | 1,6  |
| 1992 | 5,4  |
| 1993 | 9,2  |
| 1994 | 11,0 |
| 1995 | 10,0 |
| 1996 | 7,8  |
| 1997 | 7,5  |
| 1998 | 9,3  |
| 1999 | 11,4 |
| 2000 | 11,2 |
| 2001 | 9,0  |
| 2002 | 10,2 |
| 2003 | 7,6  |
| 2004 | 6,3  |
| 2005 | 5,9  |
| 2006 | 5,2  |

*The evolution of the unemployment rate since the apparition of Law no.1/1991 in the period 1991-2006*

The increase of the real wages in certain periods was the reason for which the firms did no longer hire supplementary labour force. We must take into account the fact that these rises of the real wages are calculated by drawing a comparison with the previous year because, if we take into account the year 1990 as a fixed calculation basis, the wages have decreased (in the table “The evolution of the real wages and of the real pension in the period 1990-2004”)

| <b>Year</b> | <b>The indicators of the real earnings</b> | <b>The indicators of the real medium pension of the retired persons who have national insurance</b> |
|-------------|--|---|
| 1990        | 100,0                                      | 100,0   |
| 1991        | 81,5                                       | 74,3  |
| 1992        | 70,8                                       | 63,1  |
| 1993        | 58,9                                       | 56,3  |
| 1994        | 59,1                                       | 55,0  |
| 1995        | 66,5                                       | 61,4  |
| 1996        | 72,7                                       | 63,1  |
| 1997        | 56,2                                       | 50,3  |
| 1998        | 58,4                                       | 49,2  |
| 1999        | 57,0                                       | 47,2  |
| 2000        | 59,4                                       | 44,0  |
| 2001        | 62,4                                       | 46,6  |
| 2002        | 63,9                                       | 48,2  |
| 2003        | 70,8                                       | 51,6  |
| 2004        | 78,3                                       | 57,7  |
| 2005        | 89,5                                       | 62,3  |
| 2006        | 97,4                                       | 68,1  |

*The evolution of the real wages and of the real pension in the period 1990-2006*

According to the classical theory, this means that the economy has self-adjusted because the wages decrease should contribute to increasing the number of employees, thus to reducing the unemployment. This fact is contradicted by the high values of the unemployment rate in the period 1990-2002. After 2002, these high values have decreased and in 2006 they were “only” 5,4%. The decrease of unemployment would have been possible only if there had been a general balance on the following markets: work market, goods market, money market. The absence of this balance as well as the basic theory of the classic liberalism which has in view an economy with full employment in which only the voluntary unemployment is accepted, makes this theory irrelevant for the situation existing in our country in the present, where the voluntary unemployment has a small share. From the point of view of the employee’s work offer, in Romania the voluntary employment was generated by the fact that some employees have decided that their effort at work is underpaid. The very moment they realised this they gave up working. Their number is low and refers only to that category of people that had other sources of revenue, because the employees that have the wage as only source of revenue, do not afford to abandon their work place “voluntarily”, even if the wages are low.

A very important factor which caused the reducing of employment and increase of unemployment is the decrease of the effective demand, as Keynes used to say. Thus, the decrease of the purchasing power of the nominal wages had a negative effect on the population’s demand of goods and services. In this sense, it is to be noted the decrease of the real wages, which in 1997 had decreased with more than 43% and in 2004 reached the value of 78,3% as compared to the value in 1990 (table no. 2). The decrease of the pension in real terms also contributed to the decrease of the demand of goods and services, especially if we take into account the fact that the number of the retired persons has increased. Thus, if the value of the real pension in 1992 had decreased with 36,9%, in 2000 it decreased with 56% and in 2004 the purchasing power was a little higher than half of the value of the purchasing power in 1990 (in the table “The evolution of the real wages and of the real pension in the period 1990-2004”).

Another major cause that generates and keeps the high rates of unemployment in our country is the volume of the heavy imports of products, which can be official and “unofficial”. The “unofficial” imports of products, the fact that that natural persons brought in the country products led to the production decrease in our country after 1989 because the respective products were sold at lower prices than the similar products in Romania. This situation lasted a long period of time and made our country addicted to the from the point of view of the supply with production factors. The heavy imports deteriorated the commercial balance and, therefore, the payment balance which created places of employment for the national economy and not for the foreign economies, which generated the increase of the unemployment.

Therefore, the loss of the foreign markets as well as the diminishing of the dimension of the inner market had negative effects on the unemployment. The decrease of investments is another major cause. The increase of the inflation rate together with a high rate of the loans generated a high risk in the Romanian business environment with negative effects on the work market. A similar negative effect had the diminishing of the internal saving potential caused by the decrease of the population’s real wages and the high level of the active interests earned.

The low capacity of acquiring new technologies determined by the low investment ratio contributed to the low rate of reorganization. It also adapts itself to the few direct foreign investments.

The lack of a proper legislative framework as well as the instability of the market after 1989 determined a low volume of investments. The investments that were made aimed the commercial sector. That is why their number has not increased. If investments had been made in the

productive sector, new work places in other sectors (commerce, services) would have been created, apart from those in the production sector. Obviously, an important factor that hinders the volume of the investments is the high interest rates in the cases of the loans granted especially for the small and medium companies.

The effects of the expensive money policy were cancelled by the companies by the expansion of the arrears. In spite of the constraints regarding the obligatory character of payments and the penalisation in case of deferring payments, the companies resorted to the “granting reciprocal credits” policy and to the deferring of payments, continuing to produce inefficiently and, sometimes, without having a sure turnover for their goods. All these factors contributed to the decrease of employment.

The going up of prices made the trade unions to get rises in salaries that were not accompanied by an almost equal increase of the work productivity. Because the government controlled the increase of prices, throughout the four stages of liberalisation, by setting a maximum gross profit, the companies could not increase the prices above these maximum limits in order to recover the expenses with the labour force that increased. Thus, these increases in the salaries made the companies resort to one of the following solutions:

- To increase the selling prices;
- To reduce the number of the work places;

The impossibility to resort to the former solution made some companies use the latter, which had as effect unemployment, and others to use both, which had the same effect. The intervention of the trade unions on the work market in Romania reduced the employment because the value of the wages was set by strikes and the cease of work and not by negotiations that were based on the correlation between productivity-wages. The coming into force of the minimum wage Law can also be considered a cause for reducing unemployment. Thus, the minimum wage, having the role of social protection, expresses only the lower limit beneath which no wage can be set, neither in the collective negotiations between the employers’ association and the trade unions, nor in the individual relations.

The effect on the companies was the following: by setting a minimum wage, the companies were forced to resort to two solutions:

- They no longer hired labour force- because the companies could not hire labour force that produced under the wages they had to pay- the minimum wage.
- The inefficient demand- because of the consumers’ low purchasing power- led to reducing the production. As a consequence, some companies could not offer the minimum wages (because of the lack of turnover of goods) for all the employees and resorted to dismissals.

Resorting to the two solutions led to the increase of the involuntary unemployment. The impact on the labour force affected especially those that were looking for a work place and were offered the minimum wage in the circumstances in which they considered that their work was more valuable. They preferred not to hire because they could get the same sum of money without any effort. The result was the voluntary unemployment.

To the above mentioned causes of unemployment mentioned above we can add others, such as:

- The acquisition of new technologies in the case of certain companies eliminates a certain part of the labour force from the productive process;

- The inefficient management by the Public Property Fund (in 2000, by the GR no. 296/30 December 2000, the phrase “Public Property Fund” was replaced by the phrase “The Authority for the Privatisation and Administration of the State’s Participation”, the present ASAR- The Authority for the State Assets Recovery) of the companies which are in the state’s property.

We can conclude that, in Romania, the unemployment is the result of several influences: physical-biological, psychological, political-economical and juridical-legislative, which are interlinked and interdependent, generating the specific types of unemployment that are found in the economy of our country.