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Antonescu, Daniela and Chisăgiu, Livia

Institute of National Economy

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at regional level  
A Case Study: *ROMANIA*

**PhD. Daniela Antonescu**  
**PhD. Livia Chisăgiu**

# Inactivity vs. Youth Employment, at regional level A Case Study: ROMANIA

*PhD. Daniela Antonescu<sup>1</sup>*

*PhD. Livia Chisăgiu<sup>2</sup>*

## ***Abstract:***

In Romania and European Union there are recorded unwanted tendencies among young generation that endanger some of the top priorities of the EU Treaty. The main research questions is, the first, what is the evolution of the phenomenon of early leavers, young unemployment, NEET and employment rate at national and regional level, and secondly, what are the economic and social implications?

The papers will bring into debate the main evolutions on the labor market recorded by the young generation. This could influence the decision factors regarding socio, economic and demographic impact that could be envisioned. The research method is investigation the Eurostat database and NS and processing data with the help of concentration coefficients, graphs and charts of the most relevant results of data processing. In conclusion, the early leavers, young unemployment and NEET phenomena are the main causes for poor employment and, respectively, a threat for the employability, the productivity and economic growth potential.

*Key-word: inactivity, youth employment, Gini Coefficients*

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<sup>1</sup> Institute of National Economy, Romanian Academy, Bucharest, Romania

<sup>2</sup> Institute of National Economy, Romanian Academy, Bucharest, Romania

## 1. Introduction

In the context of successive, financial, economic crises and of the sovereign debts, in certain EU member states, especially in the Euro\_area\_peripheral\_countries, the levels of budgetary deficits and the public debt had attained alarming rates, of about 10% of GDP, and 100% of GDP respectively. On this background, a new orientation emerged within the new European economic governance towards the austerity policy, in order to satisfy the imperative of financial stability. The austerity policy was mainly motivated by the need to regain the markets' trust, to restrict the level of the debts, thus laying the foundation of sustainable growth. Practically, all the EU member states, except for Sweden, implemented a fiscal consolidation policy, whose speed was a very fast one after 2009.

There were a few key-drivers that triggered major adverse social evolution. *Automatic welfare policies* fully worked during the financial crisis, but, later, the budgets of certain European countries were subject to great constraints and to the cut of governmental spending, sometimes even faster than the political stabilization policy impose.

Another key-driver is *structural changes* in the distribution of governmental spending. The first important characteristic is shifting the expenses from the category "family and children" and "education" to "old age".

Another important category is that of unemployment benefits which have had a quasi-automatic evolution and are increased in those countries which was the most affected by the crisis, i.e. three Euro Area programme countries (Greece, Ireland and Portugal), Italy and Spain under the pressure of the markets and the Baltic countries, which recorded a double digit economic contraction, by the side of a severe fiscal consolidation.

In general, in those countries where unemployment benefits increased, education and health spending decreased, two categories with social impact, enhanced in the case of the poor segment. All these development had major consequences in the labor market and society. Unemployment reached in 2013 the highest level in the last two decades, and youth unemployment had explosive rates. Not only unemployment, but also poverty recorded upward trends, from the point of view of the materially deprived person.

Specialized literature mentions as particularly disturbing the poverty of the child who grew in the countries where costs from the „family and children" category were cut.

From the perspective of the poverty phenomenon, it is worth mentioning that the protection capacity of the European social model of the vulnerable people decreased. It was initially devised not only as growth-friendly, but also able to have an appropriate protective

capacity. Specialized literature mentions that the efficiency of the social security systems is very different in the member states (for a given amount of social spending and a given level of average personal income taxes).

Under such circumstances, reputed analysts think that a reform of the European social model is imperative, which might entail the possibility of reducing inequality, even amid governmental spending decrease.

These developments of unemployment and poverty are disturbing not only from the social perspective. Such factors as increased inequality, high unemployment and poverty raise, limited access to education, have a negative impact on the short and long-term growth potential and on public debt sustainability (if, at first, the austerity policy was motivated by the need of limiting public debt and ensuring the foundations of sustainable growth, such adverse social developments result in undermining them).

Except for the above-mentioned effects at the level of national economy, considerable effects are generated for the individual too. The future productivity of young unemployed and the exclusion even for a long time from the job labour market and from the economic growth process may have a negative impact on the career path. Moreover, the insecurity of the income generated by unemployment influences the decision of building a family and bringing up children, with major impact on the already precarious demographic developments.

## **2. Youth unemployment and employment in Romania**

The economic and financial crisis has not spared the economy of Romania either and has placed its mark on the evolution of unemployment, as a major phenomenon of the labour market and poverty, assessed by means of the following indicators: at risk of poverty rate and material deprivation rate.

The total unemployment rate in Romania evolved from 7.2% in 2006, preceding the accession and the crisis hit, to only 5.6% in 2008, it grew and fluctuated, attaining 6.8% in 2015. These values were far from the record levels of the indicator recorded in Greece and Spain.

Unfortunately, the unemployment and poverty phenomena associate. Thus, the evolution of the indicators: at risk of poverty rate and material deprivation rate was an upward one in Romania. The above-mentioned first indicator evolved from a value of 22.4% in 2007, to a value of 31.1% in 2014 for the families with two dependent children, and in the case of

the families with three or more children, in the same period, the evolution of the indicator was from 54.8% to 73.1%.

For the minors aged 0-17 years old, the indicator at risk of poverty rate evolved from a value of 32.8% in 2007, to 39.4% in 2014, and for the age group 18-24, from 23.3% to 33.2%, in the same period.

These evolutions reflect the disturbing phenomenon of child poverty, not only in the case of large families, but also in the case of those who assure only the replacement generation rate. Child poverty may entail adverse consequences later in life under the form of failure of integration in the labour market, but also odd some health problems in middle age, which may result in early retirement and severely affect private life.

Youth employment crises and high youth unemployment rates not only characterize the European economic context, but also the national one. The evolution of the youth unemployment rate, recorded between 2011-2015, per regions of development in Romania, is given in the diagram below (Diagram 1).

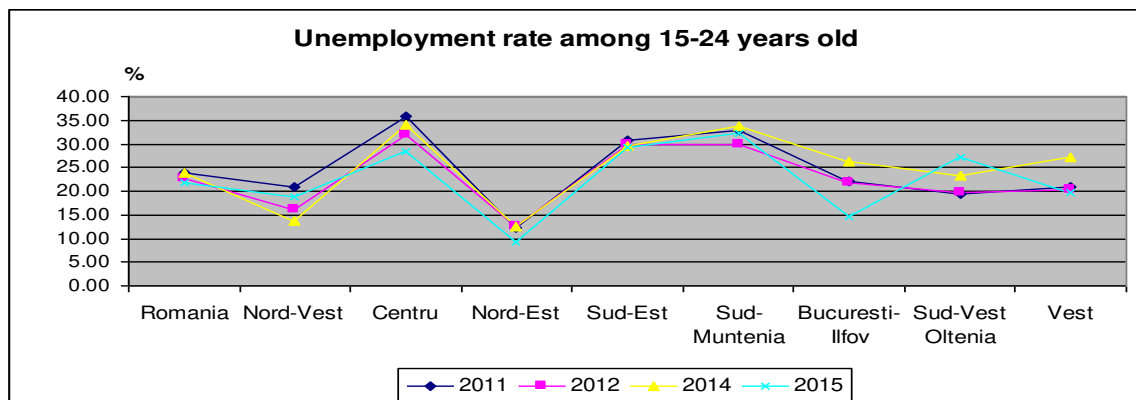


Diagram 1  
Source: Eurostat data. Authors' computation

The general characteristic is that youth unemployment rate is much higher than the total unemployment rate recorded nationwide. The evolution of the indicator's values was as follows: it fluctuated most of the time around 24%, but it dropped to 21.7% in 2015. The record level of over 30% was in 2011, in the following regions: Center (35.8%), South-Muntenia (32.9%) and South East (30.7%). The South Muntenia and South East regions had in 2015 levels of the indicator very close to those in 2011, only the Center region recorded a considerable diminution up to 28.4%.

In addition, *youth employment* overall rate was low, 23.4% (2011), 22.9% (2012) and 24.5% (2015). The minimum levels, about 20% were recorded by the Center and South West

Oltenia regions. The maximum level was recorded in a North East region (36%, in 2015), but under the terms of a poor employment. The rate recorded for the 20-64 years old group was of 66% in 2015.

In our opinion, not only the employment rate level would be worrisome, but also the precarious character of employment in the region. An example may be the North-East region characterized by a low level of economic development. The profile of youth employment in this region is the following: out of 147.9 thousand young people aged between 15-24 employed with all the NACE rev.2 activities, agriculture and forestry (as an employment area), a majority of 94.3 thousand young people was theirs, and industry only 12.2 thousand young people in 2015. This profile of youth employment in North-East region may be completed by indicating the number, also a majority, of those who have the status of non-paid family workers, i.e. 83.9 thousand, with high probability, as the providers of economic activities in their own farms.

Another disturbing phenomenon is the high rate of early leavers who will be unable to satisfy the labour market requirements, which recorded an uptrend in Romania, from 17.9% in 2006 to 19.1% in 2015. This means that approximately 1 of 5 young people drops out early of the education system. Three regions in Romania, North-East, South-East and Center recorded in 2015 a more unwanted value of this ratio: 1 of 4 young people leaves the education system.

We consider that this group of young people will be completely unprepared to face the labour market and the early leaver phenomenon, today, means tomorrow self-exclusion from the labour market.

The dimension of total inactivity of the young people is reflected by the NEET rate (young people neither in employment nor in education and training) which refers to those who cannot find themselves either on the labour market or in the education system. The average level of the indicator recorded in Romania, in general a growing trend, with certain fluctuations, as follows: dropped from 14.8% in 2006 to 11.6% in 2008, prior to the crisis hit, increased suddenly in the following two years to 16.6%, followed by a period of stagnation and a last increase in 2015 when it reaches 18.1%. The evolution of the indicator's values per regions is given in the diagram below.

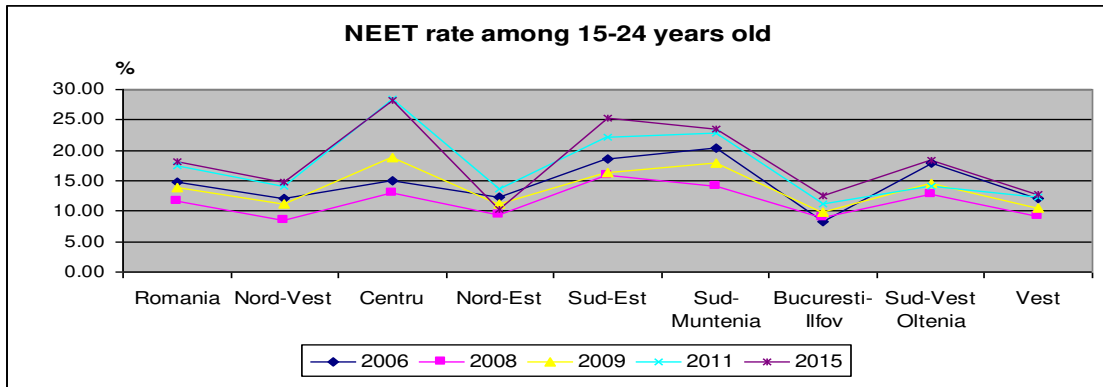


Diagram 2

Source: Eurostat Data, authors' computation

### 3. Gini\_Struck Coefficient application

The methods proposed in this article are based on the analysis of the regional disparities with the help of the Gini\_Struck coefficients (CG; CGC), called coefficients of concentration/diversification. The interpretation of the coefficients' values shows the level of inequalities of any nature between certain domains or areas. The concentration from the point of view of the method of the Gini\_Struck coefficients is defined as a ratio between the surface of analysis and the square of the area, and it is equal to 1 or 100. The coefficient formula is the following:

$$CG = \sqrt{\sum_{i=1}^n p_i^2}$$

For normalization, the corrected formula below is used:

$$CGC = \frac{CG - 1/\sqrt{n}}{1 - 1/\sqrt{n}}$$

The values are in the range of [0; 1].

The Struck coefficient (CS) of concentration is the correct form of the Gini coefficient, with values in the same range.

$$CS = \frac{n \sum g_i^2}{n-1}$$

The evolution of the disparities at the regional level was calculated by means of the concentration index Gini\_Struck presented above.

The indicators on which the method of analysis of concentration was applied are: *the employed population aged between 15-24 and the number of unemployed*, and the results were analysed at the regional level, and per urban – rural environments. The data used were provided by Eurostat, the period of analysis 2006 – 2015.



The basis of application of the above-mentioned method is the NUTS 2 statistic region, which is considered to be the basis of reference and implementation of the cohesion and regional development policy of European Union.

The results are presented for two periods of time, the main reference point is 2009, considered to be the first year when the effects of the economic and financial crisis started to unfold nation and region wide.

### **Analysis per regions**

#### *1. The Employed population aged between 15-24, per regions and environments*

In the eight regions of development it was found that there are no great disparities concerning the employment level of the people of 15-24 years old. Yet, the tendency is of enhancement of disparities between regions, the value of the Gini\_Struck index showing an increase from 0.168 (in 2006) to 0.249 (in 2015). This rising tendency of disparities was interrupted in 2012 and contrary to what we would have expected in the first years of the crisis. Thus, the value of the Gini index attained in 2012 about 0.15, and then, its evolution was upward (Diagram 3).

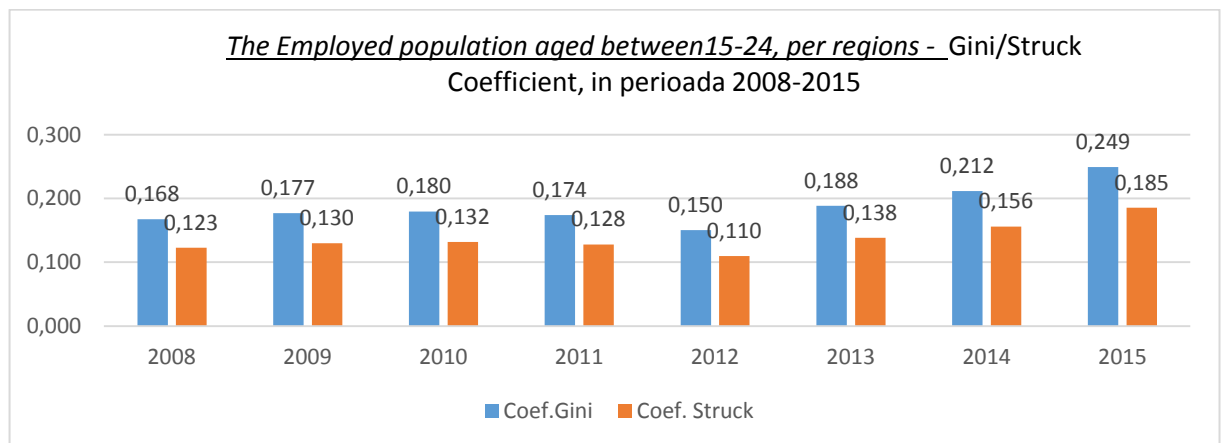


Diagram 3

Source: authors' computation

As compared to the level of disparities recorded by the indicator employed population aged 15-64 years old, the population between 18-24 has smaller disparities at the regional level (Diagram 2), the values range from a minimum of 0.100 (in 2011) to a maximum of 0.119 (in 2015). Considering both age groups, we may conclude that the level of disparities was a relatively low one (Diagram 4).

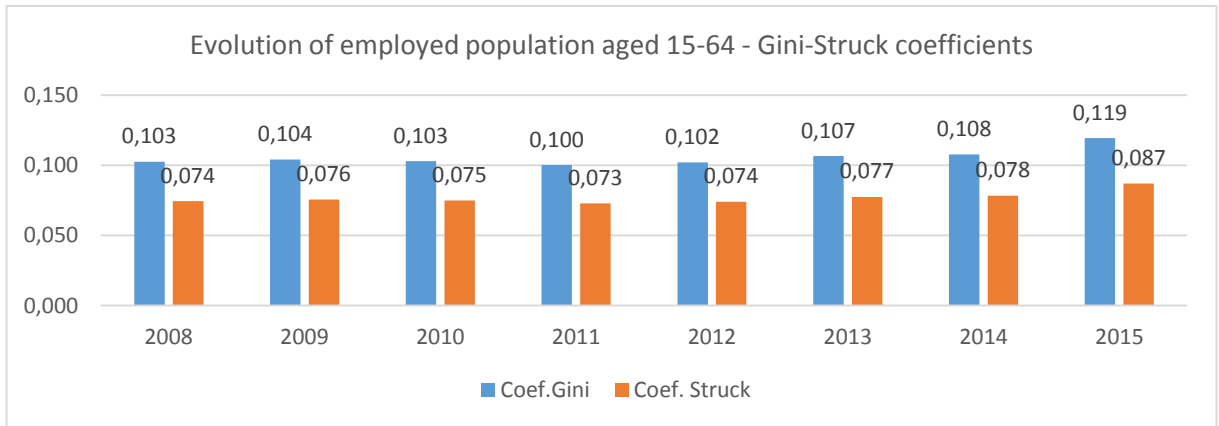


Diagram 4

Source: Eurostat data. authors' computation

The evolution of Gini\_Struck coefficients in urban-rural environments has an important rising tendency, the calculated values doubled between 2007-2015 period. A diminution may be found in 2011, and then the rising tendency re-installs (Diagram 5).

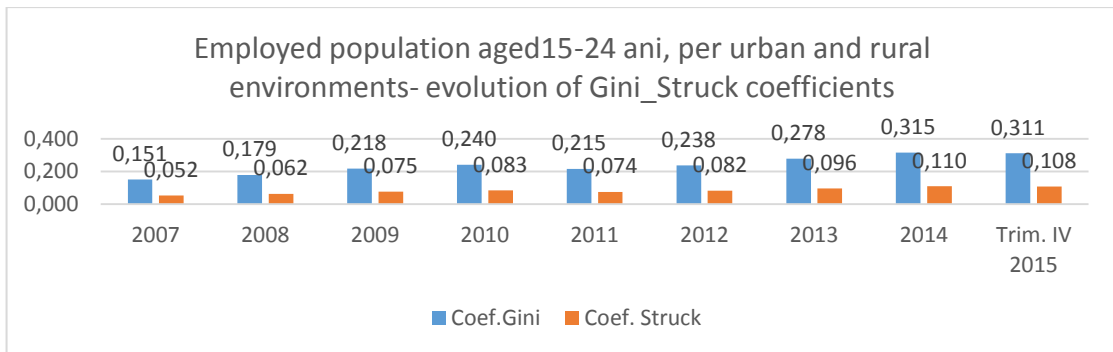


Diagram 5

Source: authors' computation

### Unemployed in regional profile

The value of Gini\_Struck coefficients has a downward tendency of territorial inequalities, until 2008, and then their rising tendency installs, reaching in 2015 a maximum value of 0.246. As compared to the evolution of the unemployed aged 18 and over, in the case of the young unemployed, the disparities are high (Diagram 6, Diagram 7).

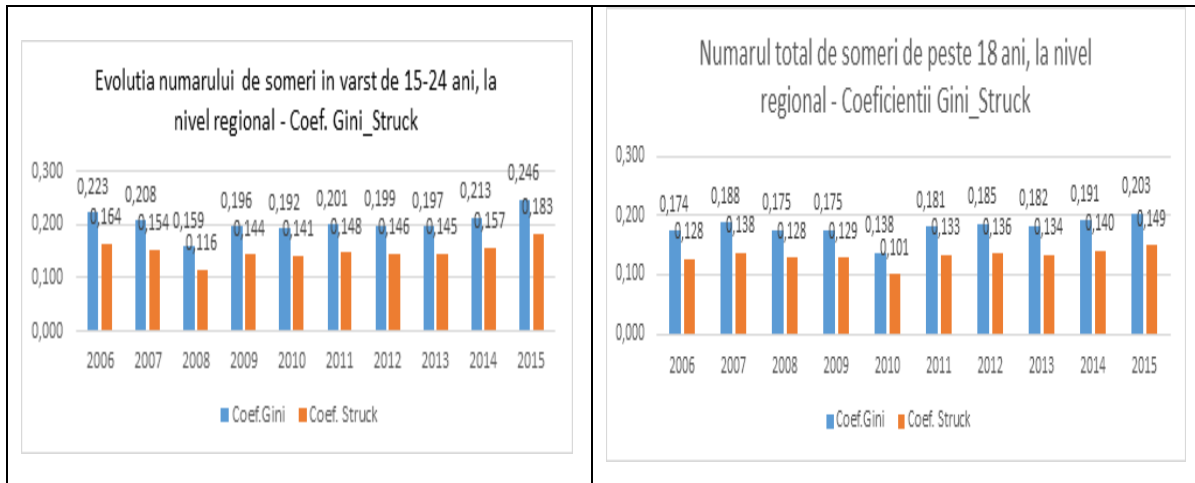


Diagram 6  
Source: authors' computation

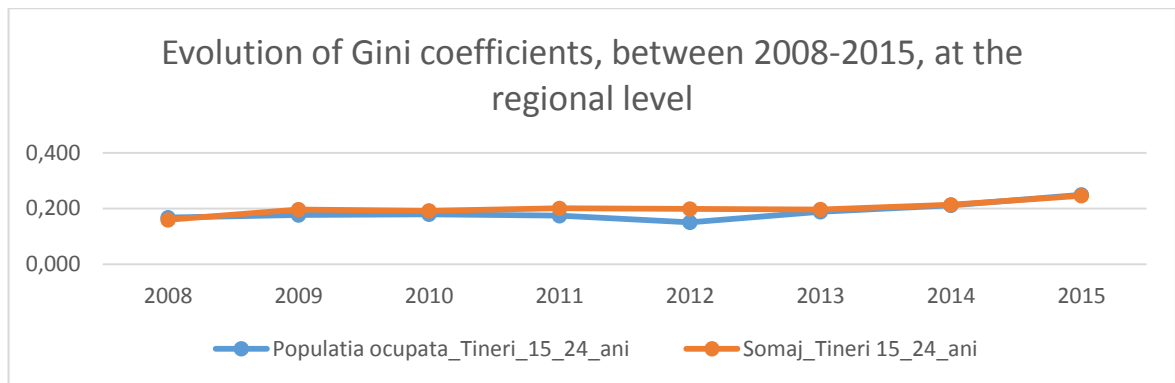


Diagram 7  
Source: Authors' processing

## Conclusions

The increased phenomenon of early leavers, the high youth unemployment rate, the total inactivity rate of the young people between 15-24 (NEET rate), the low and sometimes precarious employment are worrying phenomena characterising the interaction between the labour market and the education system. They should be seen from the perspective of the increase of work complexity in contemporary economy and the imperative of promoting the inclusive society.

Aiming at the identification of regional inequalities with the help of Gini\_Struck coefficients, we found that their level was not so high, but in a rising tendency with both indicators, youth unemployment and employment. From the point of view of the comparison with the population of working age, we found that the regional disparities are relatively low for both age groups, but higher among the young people.

The consequences of such adverse phenomena have an economic and social dimension, manifest at the level of the society and of the individual. At a social scale they will affect the short and

long term growth potential and the level of productivity. For the individual, the unemployment early in life will influence the later evolution of unemployment, the future wage performance and a whole career path. At the same time, the uncertainty of income will have an impact on the decision of building a family and bringing up children, with an influence on the already precarious demographic developments in European and national context.

Reputed analysts recommend, with reference to the existing context in southern European countries, the improvement of the suboptimal systems of education and training and we consider that secondary technological education in Romania is deficient and with a low potential to avoid skills mismatch on the labour market. On the other hand, fighting the rigidity of the labour market to be able to create a greater number of permanent jobs.

Other analyses emphasize on active labour market policies which should take the following shapes:

- job search assistance and improvement of employment services, of increased relevance when there are impediments in job search and matching process on the labour market;
- training programmes is a practice of crucial importance, for which the specialized literature recommends as an efficient form "dual apprenticeship system", when school-based-training and on-the-job training co-exist;
- wages and training subsidies which are imperative here when the market faces "a lack of labour demand";
- if we add support for entrepreneurship and self-employment we can guarantee a mix of activation measures which might establish sustainable employment.

Romania as a European member state must join efforts with the other member states and the European Commission which have already committed to support the active inclusion of the young people, by involvement in the following areas: promotion of modern education systems and training, which might lead, including by transnational learning, to inducing the key competences and e-skills and employability consolidation; supporting employment mobility, assistance in finding a first job and to start a career, plus support for entrepreneurship and self-employment, the entire approach being meant to lay the foundations of sustainable employment.

These are the main coordinates of the important of the Youth on the Move European initiative, in synergy with "Agenda for New Skills and Jobs". Both are meant to support the young people in dealing with the challenges raised by the European objective of building "highly competitive social market economy" in the context of knowledge economy, which means building a strong, fully competitive economy and a new inclusive society.

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