

ANALYSIS OF LABOUR MARKET IN ROMANIA AND THE EUROPEAN UNION

Tănase Diana, Franț Florin, Manciu Venera, Tănase Adrian

¹*Department of Business Engineering, Faculty of Engineering and Management, Eftimie Murgu University of Reșița, Romania*

²*Department Max Weber, Faculty of Administrative Sciences, Eftimie Murgu University of Reșița, Romania*

³*Department of Economics, Faculty of Economics, Eftimie Murgu University of Reșița, Romania*

⁴*Department of Economics, Faculty of Economics, Eftimie Murgu University of Reșița, Romania*

d.tanase@uem.ro

f.frant@uem.ro

v.manciu@uem.ro

a.tanase@uem.ro

Abstract: *The paper aims at analysing the labour market, one of the most complex forms of market in economy. The present work forwards a comparative survey regarding the labour market in Romania and in the other European Union member states. The paper starts by highlighting general aspects related to labour market and continues by the presentation of the European Union countries' ranking according to the labour market efficiency, top elaborated on the basis of the World Economic Forum data. Furthermore, the paper analyses labour productiveness, employment rate and unemployment rate both in Romania and in the other countries of the European Union. In the end the authors forward conclusions regarding the possibilities of increasing competitiveness on Romania's labour market.*

Keywords: labour market; labour force; productiveness

JEL classification: J01, J21, J24

1. Theoretical Background

It is known worldwide that human resources are a crucial element in any country's economy, as it is recognised that labour force is a determining pillar of economic growth, an essential element of competitiveness and hence of economic development.

The triad physical capital - human capital - technological progress is essential for the development of any economy.

In this context, human resources represent "the key to increasing a country's global competitiveness and thus to realizing long-term economic success" (**Arcelus and Doran, 2003**).

The concept of human capital started to gain recognisance in the economic literature in 1961, along with the publication, in *The American Economic Review*, of Theodore W. Schultz's article entitled "Investment in Human Capital", where human capital was treated similarly with the physical capital (Schultz, 1961: 1-17).

There are numerous preoccupations in the economic literature related to the comprehension of the role of human capital in economic activity, among which we

must cite the remarkable contributions of R. Mincer, William Petty, Adam Smith, J. S. Mill, Alfred Marshall, Karl Marx etc. (Mirela Minică, 2005: 9-12.)

Among the promoters interested in studying human capital we can also mention Gary S. Becker (1994: 52-64), who defines this concept as “the monetary and non monetary activities influencing future monetary revenues”. These activities include school education, professional training during work, medical expenditure, migration, search for information about prices and revenues.

In this context, *labour market represents one of the most complex forms of market existing in economy, as it represents the economic space where the traded factor is labour*, and, according to Vogel (2003: 349-372), *labour market represents the main arena where the individual living conditions are determined*.

Efficiency and flexibility on labour market are critical for any economy, and consequently the intention is that the population fit for work fills positions and finds jobs so that the most efficient use in economy can be reached. Moreover, human resources should be stimulated in order to yield the best efficiency at the place of work (WEF, 2011:5).

2. Comparative survey regarding labour market in Romania and the European Union

As regards labour market efficiency, *Romania ranks 23rd in the top of EU member states* (table 1), whereas *UK and Denmark* are still first and second (however, one year ago, their ranking was the other way around).

In 2012, *UK* improved its situation related to economic competitiveness, first of all grace to the increase of the labour market efficiency.

In this respect, in *UK* what is important is the co-operation relation between employer and employee, flexibility in setting the salaries, as well as the employment and laying-off practices. Furthermore, in *UK* they lay a remarkable stress on professional management, on the close correlation between employees' remuneration and labour productiveness, on the attraction of highly qualified labour force, etc. (WEF, 2013: 468-475).

On the other hand, Denmark has a unique specific labour market and still singles out as one of the most efficient labour markets in the world, with more flexibility in setting salaries or laying-off policies and thus with a higher employment capacity than in the other European countries. (WEF, 2011:23).

If in other countries, the aspects related to labour market are regulated by a series of laws, more or less adapted to the market requirements, in Denmark, based on the existing legal norms, employers and trade unions assume together the responsibility for most aspects related to labour market. This dialogue secures civilised relations, high salaries and special labour conditions. Denmark has practically the most flexible labour market in Europe.

Moreover, Denmark reports the highest number of employees and unemployed persons attending training courses.

In Romania, *labour market operation is hindered by the existence, still largely spread, of black labour or moonlighting, by the filling of different positions based on criteria different from those of value, by labour force emigration, by the problems occurred in the employee-employer relation, by the existence of a contested legislation in the field etc.*

Table 1: Index of labour force efficiency in the European Union countries

Country	Labour market efficiency	
	Rank	Points
UK	1	5.42
Denmark	2	5.22
Estonia	3	5.11
Finland	4	5.00
Ireland	5	5.00
Netherland	6	4.99
Sweden	7	4.81
Latvia	8	4.78
Austria	9	4.69
Luxembourg	10	4.66
Cyprus	11	4.57
Belgium	12	4.54
Bulgaria	13	4.54
Germany	14	4.51
Poland	15	4.48
France	16	4.41
Czech Republic	17	4.32
Hungary	18	4.27
Slovakia	19	4.20
Slovenia	20	4.15
Malta	21	4.14
Lithuania	22	4.11
Romania	23	4.01
Spain	24	3.98
Portugal	25	3.80
Italy	26	3.72
Greece	27	3.56

Source: Elaborated by the authors based on the data from World Economic Forum, *The Global Competitiveness Report 2012 – 2013*, pp. 18-19.

Note: These points are calculated by the World Economic Forum based on the statistic data or data collected with the help of surveys. In the case of surveys, the answers to questions were placed on a scale from 1 to 7 (1 corresponds to the lowest score, whereas 7 corresponds to the highest score). For each question, the individual answers are aggregated on the country level, in order to obtain the score of the respective country. On the other hand, the data from statistic sources are standardised for the same range [1, 7].

Excessive taxation in Romania makes many firms operate outside the legal norms, which results in many employees working without a contract and consequently they cannot benefit from the diverse types of insurance and social security.

The fiscal pressure on the low-income employees was 43.8% in 2011, our country's figures being exceeded, in this respect, only by Belgium (49.7%), Germany (45.6%), France (46.5%), Italy (44.5%), Hungary (45.2%). (Eurostat, 2012: 258).

In the EU countries there are discrepancies also as regards the *labour force cost per hour (in industry and services)*. For instance, in 2007 it was 3.40 euros in Romania, higher only than the level registered in Bulgaria (1.89 euros). The highest labour force cost per hour is recorded in Denmark (34.74 euros), closely followed by Sweden (33.30 euros), Luxembourg (33 euros, and 33.63 in 2008) Belgium (32.56 euros, and 33.66 in 2008) and France (31.06, and 31.78 in 2008). (Eurostat, 2012: 259).

In Latvia, Lithuania, Slovakia and Estonia, in 2007, the labour force cost per hour was ranging between 4.40 euros and 6.60 euros, whereas in Poland, Malta and the Czech Republic it was ranging from 6.70 euros to 8.20 euros.

Although on a much lower level than in the European Union countries (except Bulgaria), in Romania “*the increase of labour force cost* is much more substantial than in the EU countries, which is only natural in the process of bridging the gap to reach the level of salary incomes in the EU, but this fact translates also in the progressive loss of the comparative advantage of cheap labour force” (Cojanu et al. 2007: 41).

Thus, even if the minimum salary has increased in these past years (in 2006 it was around 90 euros), in the first semester of 2013, according to Eurostat (2012), the minimum salary in *Romania* was 157.26 euros, the lowest in the EU, whereas the highest minimum salary is paid in Luxembourg (1874.19 euros). Thus, according to the level of the minimum guaranteed salary, the EU member states can be classified in three categories (table 2).

Table 2: Minimum salary in EU countries in the 1st semester of 2013

Under 300 euros	Between 300 and 800 euros	Above 800 euros
Romania (157.26 euros) Bulgaria (158.50 euros) Lithuania (289.62 euros) Latvia (287.07 euros)	Czech Republic (312.01 euros) Estonia (320 euros) Slovakia (337.70 euros) Hungary (340.55 euros) Poland (376.58 euros) Portugal (565.83 euros) Greece (683.76 euros) Malta (697.42 euros) Spain (752.85 euros) Slovenia (783.66 euros)	UK (1264.25 euros) France (1430.22 euros) Ireland (1461.85 euros) Netherlands (1469.40 euros) Belgium (1472.42 euros) Luxembourg (1874.19 euros)

Source: Elaborated by the authors based on the Eurostat data (2012)

Note: For the other EU countries there are no data available.

However, we must take into account that in view of growing economic efficiency, the index of salary growth must be lower than the index of labour productivity. .

In 2011, in *Romania*, *labour productivity per employee* was 49.4%, (figure 1) of the European Union average, higher only than in Bulgaria (44.0%).

The highest labour productivity (above the EU average) was recorded in Luxembourg (169.1%). Labour productivity per employee was higher than the EU average in other countries also, the highest percentages being registered in

Ireland (139.8%), Belgium (127.7%), Austria (116.8%), France (116.7%), Sweden (115.8%) - Eurostat (2012).

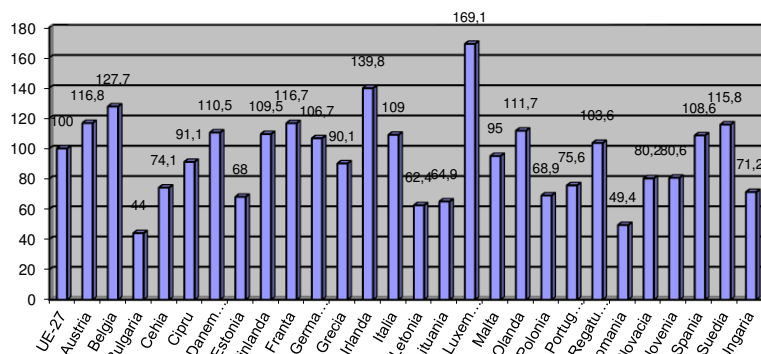


Figure 1: Labour productivity per employee (2011)

Source: Elaborated by the authors based on the Eurostat data (2012)

Note: Greece – provisional data

As for labour productivity per worked hour (EU-27 = 100), the highest values were recorded in Luxembourg (184%), The Netherlands (133.5%), France (130.6%), Ireland (128.2%), Germany (125.2%) – figure 2.

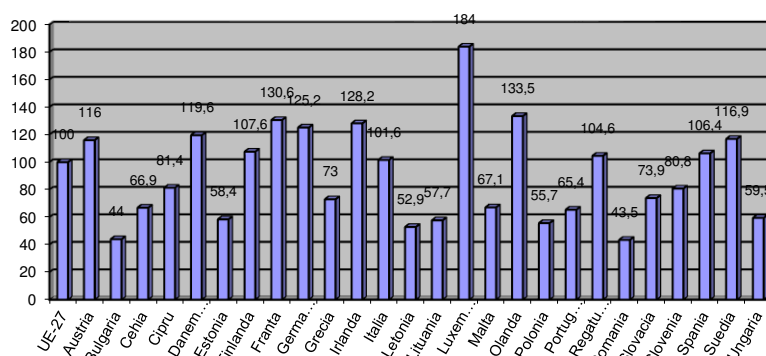


Figure 2: Labour productivity per worked hour (2011)

Source: Elaborated by the authors based on the Eurostat data (2012)

Note: Greece and Portugal – provisional data

Belgium: no data available

The gap between our country and the EU-27 average is also apparent as regards the percentage of employed population per sectors of economy. Whereas in the European Union, in 2009, the percentage of persons employed in agriculture was only 5.1% (of total employed population), in Romania it was 29.1%. In industry, the percentage of employed population was 18% in EU-27 and 30% in Romania. On the other hand, in EU-27, more than two thirds of the employees are employed in services (67.3%), compared to only 40.9% in our country (NIS, 2010).

The high percentage of the population employed in agriculture, corroborated with the low percentage of people employed in services reflects not only the misbalances on

the labour market, but also the general inefficiency of economic activities in our country.

The fact that Romania joined the European Union had a powerful influence on its labour market, which became a component of the EU community labour market. This led to a higher mobility of labour force. Although the labour force flow is still limited by a series of regulation compared to the flow of products, services or capital (Marelli, 2006: 16-48) *in Romania, emigration has exhibited an ascendant trend, due to the better labour conditions and, first of all, due to higher wages in the other EU community countries, with negative effects in certain fields of activity confronted with a labour force deficit.*

Moreover, *Romania* is also confronted with a decline in the domain of labour force because of the *demographic stagnation and general population's ageing*, situation encountered in other states of Central Europe also, characterised by a low birth rate and an increasing death rate, which leads to the progressive reduction of the population fit for work.

In 2010 Romania's demographic situation was in regress, continuing the descendant trend begun in 1991. If on July 1st 1990, Romania's total population numbered 23.2 million inhabitants, according to the National Institute of Statistics (NIS, 2011), on July 1st 2010 it dropped to 21.4 million inhabitants, without taking into account the temporary outbound migration.

In 2011, *the employment rate* for the population aged between 15 and 64 in the EU was 64.3%, exhibiting a slight growth compared to 2010 (64.1%), nevertheless it remained *below the 70% target set by the Lisbon European Council for 2010.*

In 2011, rates higher than 70% were recorded in The Netherlands (74.9%), Sweden (74.1%), Denmark (73.1%), Germany (72.5%) Austria (72.1%), whereas rates even lower than 60% were registered in Poland (59.7%), Slovakia (59.5%), Ireland (58.9%), Bulgaria (58.5%), Spain (57.7%), Malta (57.6%), Italy (56.9%), Hungary (55.8%), Greece (55.6%) and *Romania* (58.5%). (Eurostat, 2012: 233).

As regards the employment rate among women, the Lisbon European Council set the goal that it reach 60% until 2010 (Eurostat, 2010: 282-283), but this target was not reached, not even in 2001. Thus, in 2011 the employment rate among women was 58.5% in the European Union, considerable lower than the employment rate among men (70.1%). However, in 2011, the employment rate among women was higher than 60% in almost half of the EU member states, and than 70% in Denmark (70.4%) and Sweden (71.8%).

In 2011, whereas the total employment rate in Romania was 58.5%, in the case of women it was only 52%, while the employment rate among men was 65%.

Regarded in time, in Romania the employment rate has exhibited a sinuous evolution, but with a *general descendant trend*, and it had the smallest values in the period 2002-2005 (figure 3). Thus, if in 1997 the employment rate in Romania was 65.4% (71.9% for men and 59.1% for women), in 2011 it was only 58.5% (65% for men and 52% for women).

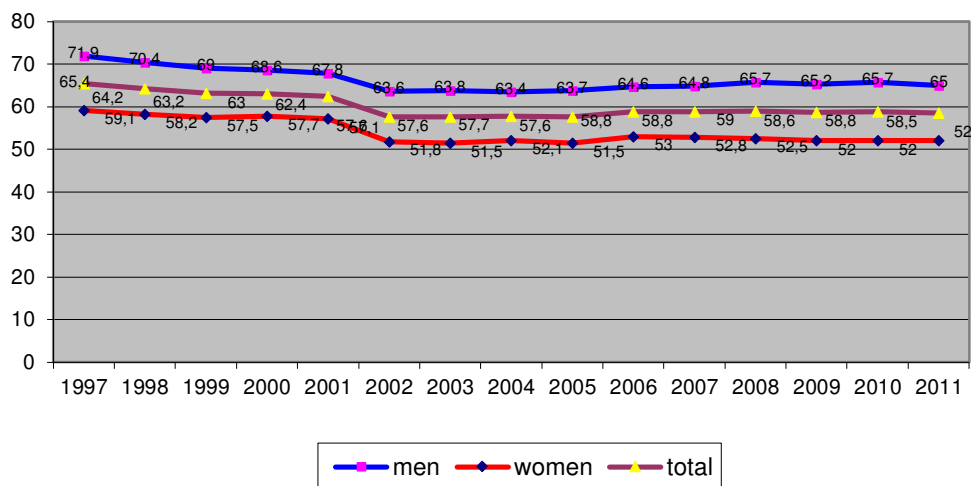


Figure 3: Employment rate in Romania (1997-2011)

Source: Elaborated by the authors based on the Eurostat data (2012: 234)

According to Eurostat (2012: 236), the employment rate among people with higher education is, naturally, higher than among people with secondary education and even more so for elementary and middle school graduates.

In Romania, in 2011, the employment rate among people with higher education was 82.1% (82.4% in 2010), among people with secondary education 62.3% (62.2% in 2010), and among elementary and middle school graduates 40.5% (43% in 2010).

On the other hand, in the European Union, *the unemployment rate* was 9% in 2009, as the economic crisis worsened the unemployment issue, and it reached a 9.7% rate in 2010 and 2011, and 10.5% in 2012.

The highest unemployment rate was recorded in Spain, 21.7% in 2011, and 25% in 2012, and this is one of many reasons why this country is ranked among the last EU countries when it comes to labour market efficiency.

The lowest unemployment rates were registered in Austria (4.2% in 2011, and slightly higher in 2012, more precisely 4.3%), in Luxembourg (4.8% in 2011, and 5.1% in 2012), The Netherlands (4.4% in 2011 and 5.3% in 2012), Germany (5.9% in 2011 and 5.5% in 2012).

Except several countries where the unemployment rate dropped in 2012 compared to 2011 – Germany, Denmark, Estonia, Lithuania, Malta, Finland, UK, Romania – the other countries exhibit a growth of the unemployment rate in 2012.

In *Romania*, the unemployment rate was 7% in 2012, slightly descendant compared to the previous years (7.4% in 2011, and 7.3% in 2010), but higher than in 2008 (5.8%), the year with the lowest values in the last decade (figure 4). In this period (1999-2012), higher unemployment rates were recorded among the male population in 2002 and 2004 (it was above 9%, the highest values in the analysed period).

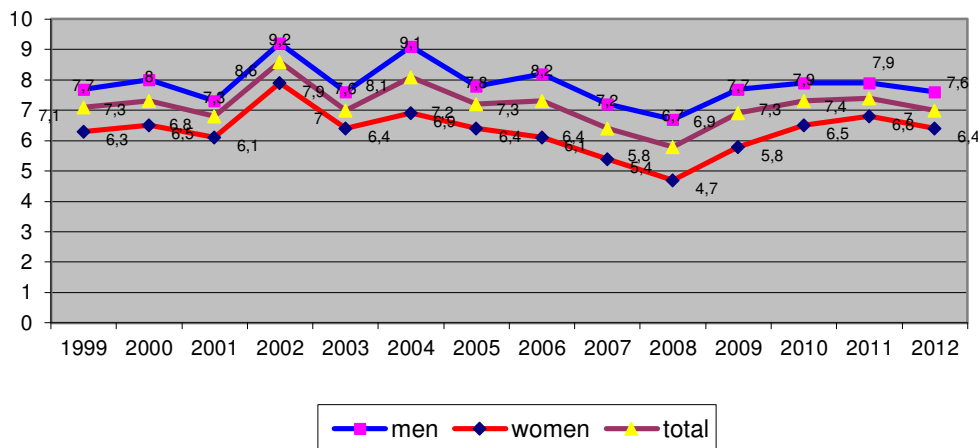


Figure 4: Unemployment rate in Romania (1999-2012)

Source: Elaborated by the authors based on the Eurostat data (2010: 247; 2012: 245)

3. Conclusion

Reality has proved that on the macroeconomic level no country has ever recorded a sustained period of economic development without granting a special attention to the human factor.

The stock of human capital existing at a certain moment is an important factor of economic and social growth and development, which is proved by the development of macroeconomic researches focused on education integration into the production functions used in the study of economic growth.

It was found that the countries with highly educated and trained population are the most productive countries from the economic viewpoint.

Thus, as our country exhibits numerous limitations on the labour market, efforts should be made for harmonising individual interests with general, society's interests, as regards training; consequently we must establish the best correlation possible between the youth qualification and economy's requirements.

Education and professional training are the most important investments in human capital, as employees' productiveness depends not only on their capacity for effort and their motivation, but also on the investments made in them, both at the place of work and beyond.

Obviously, the development of human capital is made not only through school education and professional training at the place of work, but also through investment in people's health condition.

Furthermore, we should also focus on career planning, recruitment and hiring of labour force and on the technical and human endowment of these activities with specialised personnel, as well as on labour duration, including workload.

In order to enhance professional planning and training, as well as labour conditions, we must expand the forms of employment (including part-time), in view of securing both for young graduates – "inactivity is a bigger problem among out-of-school youth than unemployment" (Scarpetta and Sonnet 2012: 4-30) – and for older persons a

rapid insertion to the labour market, as well as support from the labour market institutions.

For a labour market to function properly, the employer-employee relation is crucial and in this respect what is important is not only the atmosphere at the place of work, salary calculation and incentives granting or providing professional training courses, but also the way of planning and managing annual vacations, medical leaves or unpaid leaves.

Moreover, as regards human capital issues we must pay attention to those related to regional and national disparities in accumulating human capital, as well as to the problems of over-qualified labour force migration.

Labour market should offer population *the job change flexibility*, including shifting from one type of economic activity to another, fast and at low costs, allowing at the same time salary fluctuations. An efficient labour market should also ensure *a clear relation between the incentives offered to employees and their efforts*, as well as the best use of the available talents - which *includes the equality between men and women in the business environment*.

References

- Arcelus, F.J. and Doran, P. (2003) "Global Competitiveness and Canadian Sectoral/Regional Labour Productivity Differences", *Journal of comparative international management*, Volume 6, No. 2 December 2003, [online], <http://journals.hil.unb.ca/index.php/jcim/article/view/449/747>
- Becker, S.G. (1994) *Comportamentul uman – o abordare economică*, All Publishing House, Bucharest.
- Cojanu, V., Bîrsan, M. and Unguru M. (2007) *Competitivitatea economiei românești: ajustări necesare atingerii obiectivelor Agendei Lisabona*, European Institute of Romania, Bucharest.
- Eurostat (2010), *Europe in figures — Eurostat yearbook 2010*.
- Eurostat (2012), *Europe in figures — Eurostat yearbook 2012*.
- Marelli, E. (2006) "Globalisation And Local Labour Markets", *International Review of Economics*, RISEC, Volume 53, No. 1, pp. 16-48.
- Minică, M. (2005) *Capitalul uman și creșterea economică în România*, Printing House Mirton, Timișoara.
- National Institute of Statistics (NIS), (2010), *Romania's Statistic Yearbook 2010*, Bucharest.
- National Institute of Statistics (NIS), (2011), *Romania's Statistic Yearbook 2011*, Bucharest.
- Scarpetta, S. and Sonnet, A. (2012) "Investing in Skills to Foster Youth Employability – What Are the Key Policy Challenges?", *Intereconomics*, pp. 4-30.
- Schultz, T. W. (1961) "Investment in Human Capital", *The American Economic Review*, Vol. 51, No. 1, March, pp. 1-17.
- Vogel, J. (2003) "The Labour Market", *Social Indicators Research* 64, Kluwer Academic Publishers. Printed in the Netherlands, pp. 349-372.
- World Economic Forum (WEF), (2011) *The Global Competitiveness Report 2010 – 2011*.
- World Economic Forum (WEF), (2013) *The Global Competitiveness Report 2012 – 2013*.