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The Effects Induced by the Recent Economic Crisis on the Labour Market Policies in Romania

Cristian INCALTARAU¹, Liviu-George MAHA²

Abstract

The recent financial crisis has reanimated the old dispute between economic efficiency and social solidarity upholders. On the one hand, the contraction of economic activity has reduced government revenues. On the other hand, the redundant population has increased, emphasizing the vulnerability of population and putting additional pressure on social policies expenditure. If the spending on labour market policies was showing a downward trend during the pre-crisis period, it has suddenly increased during the crisis, focusing mainly on passive policies consisting in financial assistance. These kind of policies do not have the strength to solve the problems the Romanian labour market is facing for many years now and that have currently been enlarged by the recent crisis, but only to keep them latent and preventing them to feed up social pressure. Therefore, this paper aims to outline a broader view on Romanian labour market, on the problems it's facing, on the effects induced by the recent crisis, in order to offer some recommendations for the policies addressing these problems.

Keywords: economic crisis, labour market policy, activity rate, unemployment, informal economy.

Introduction

In the context of the economic crisis and diminution of economic activities the problem of efficiency in decreasing budgetary resource allocation emerges. The debate between supporters of economic profitability and social solidarity is in the pipeline in the context of the economic crisis and salary cuts, on the one hand and

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the increase in the number of vulnerable people, on the other hand. The importance of social security is undoubtedly a major issue of social responsibility based on the spirit of the community as we have to acknowledge that the opportunities at our disposal vary greatly according to our location. The social security system tries to ameliorate these differences and provide a minimum support for those in need. However, the great debate focuses around ways of fund raising for social security, i.e. on the level of taxation for economic activities not to be suppressed so that the economic environment remains competitive and keep attracting foreign investments in order to develop the private sector. Moreover, once the necessary funds have been found, it is important to establish how the social security system should address intervention needs, that is social care benefits (in this way, social problems could be dealt with by supplementing or substituting individual or family revenues) or social care services (activities or measures taken to respond to risk situations and social exclusion). Unlike social aids which only provide financial support, social services are proactive, considering the conducting of an overall analysis of the social-economic situation of the persons targeted, to identify their needs.

The diminution in economic activities as a result of the economic crisis not only highlighted the difficulty of finding jobs, but also imposed many restructuring of the economic activities provided which led to redundancies and a rise in unemployment, respectively. As a result, the economic crisis showed its effects at a social level, especially in the rise of vulnerable people further to job losses and the decrease of available revenues, respectively. The importance of social policies for the labour market is more important than never in view of reducing social risks by supporting the reintegration of the active population on the labour market. However, these policies need to monitor the rise of social services provided to an increasing number of vulnerable persons in view of maintaining allocations from previous years or decreasing allocations; hence the occurrence of the problem of these policies' efficiency and seeking sources that will not additionally suppress economic activity which is vulnerable enough.

This article aims at highlighting the way in which the economic crisis affected social policies addressing the Romanian labour market. It will also provide several recommendations on their lines of action to increase efficiency and efficacy.

The Economic Crisis and Problems of the Romanian Labour Market

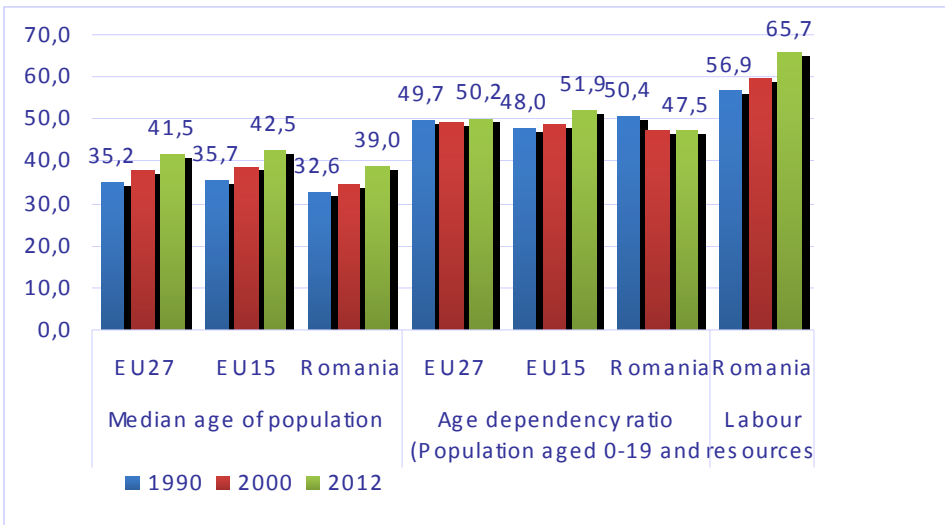
To create and implement appropriate policies so as to solve the problems on the Romanian labour market we need to avoid an older habit that is to take over policies applied in other European countries, as such. Policies need to be specific, that is aim at existing characteristics on the Romanian market that are different from other EU member states. Despite being worsened by the economic crisis,

these problems mainly owe to the long period of socialism that marked the population's mindset, not to mention the transition to a more liberal regime guided by the market mechanism. This passage was a sudden one and the population was forced to adjust to a rapid pace so as to maintain itself on a new competitive market which increasingly emphasized personal development that led to various problems on the labour market brought to light and stressed by the economic crisis.

Drop of Birth Rate and Human Resources Depletion

The analysis of the Romanian labour market can only start from the demographic premise, i.e. from the identification of existing human resources. The difficulties generated by the economic crisis, the uncertainty about keeping the current jobs maintained the decreasing tendency of the Romanian birth rate. According to the National Institute of Statistics, the birth rate decreased from 10.3% in 2008 to 9.2% in 2011. The trend is not a new one, as the tendency of a decreasing birth rate could be noted ever since the 70s, but natural growth has become negative since 1992. Population ageing is also highlighted by the increase in the population's median age by 6.4 years during 1990-2012 (Figure 1). There are various factors that have induced this structural change of population, some of them specific to the transition period in Romania: legalized abortion, drop of the standard of living during the transition from planned economy to market economy, the wider process of demographic transition (Caldwell, Caldwell, Caldwell, McDonald, & Schindlmayr, 2006), international migration which favours demographic transition (Fargues, 2011) and last, but not least the self-maintenance mechanism of population ageing (the drop of birth rate leads to a decrease in population if fertility rate stays at the same level). Others are specific to the evolution worldwide as far as medical services improvement or technology development is concerned. We will not go into further details, but it is worth mentioning that *Romania still has a younger population than many EU countries*. The proof lies in the level of the population's median age, i.e. 39 years for Romania and 41.5 years for EU27.

Furthermore, the age dependency ratio is higher in EU as compared to Romania and labour resources are rising which points out to the fact that the pressure on social policies should be lower in Romania than in other EU countries.

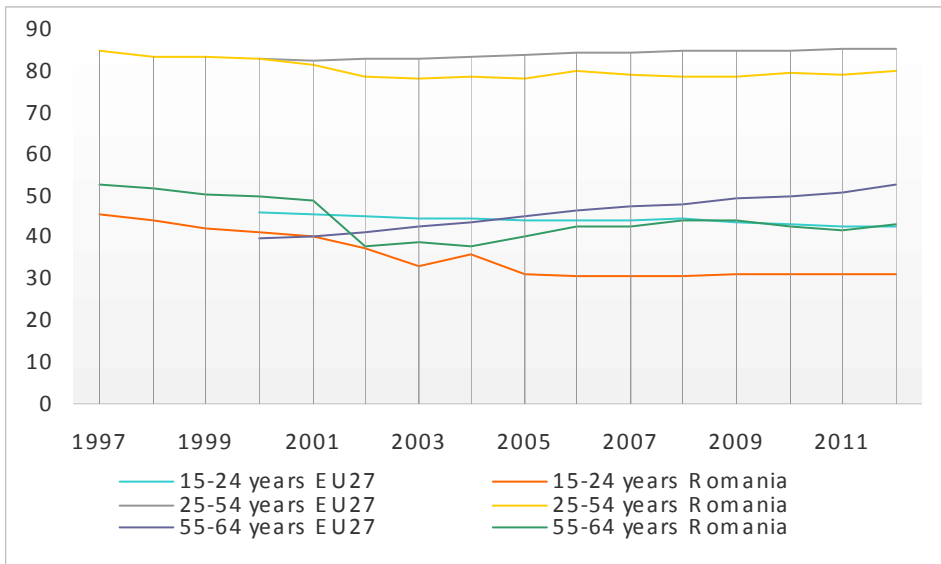


Source: Eurostat, INS; Data for 2012 are temporary

Figure 1. Median age of population, age dependency ratio and labour resources

Low Level of Activity Rate

Although Romania detains more human resources, that are people able to work, due to its population structure, the activity rate is more reduced as compared to the EU level, thus highlighting a *lower implication of Romanians on the labour market*. The period of economic crisis did not generate any significant fluctuations on the activity rate, yet its analysis (Figure 2) which expresses the percentage of active population (that is people that provide available workforce for the production of goods and services, i.e. people employed and the unemployed looking for a job) of the total population signals that for all age groups considered, this is below the average rate recorded in EU27, especially among marginal age groups, that is the young (15-24 years) and those close to retirement (55-64 years), respectively. As a result, although Romania has a higher potential from the viewpoint of human resources as compared to the EU, it cannot value it so as to decrease the inactivity rate.



Source: Eurostat

Figure 2. Activity rate by age group

In order to understand the low point of the activity rate, we need to enlarge our perspective of analysis and have in view specific factors to the development of Romania and, to be more precise, its period of transition since the 90s. The transition from planned economy to the market one had negative effects which considerably reduced the population's standard of living. The transition process was a slow one, prevented by the political class that postponed privatisations and restructurings, trying to use the state's resources for personal interests as much as possible. Even if Romania did not go through genuine "shock therapy", the privatisations and restructurings it induced, despite their slower pace as compared to other Central and Eastern European countries, made redundant a considerable part of the population, thus increasing the number of unemployed.

Used to the safety of their workplace in a planned economic system, the reconversion of these people was a hard one. Most of them remained unemployed on the long term. There were several reasons for the ones made redundant as a result of restructurings and privatisations not to integrate on the labour market any more. The planned regime mainly suppressed individual initiative so these people's reintegration on the labour market in the new forming capitalist system was almost impossible. Thus, the problem was not only the reconversion, but also a change of mentality. First, the state did not implement wide policies for workforce requalification so as to facilitate the reconversion on the labour market and lower the high number of unemployed. Second, the financial support provided by

the state was erroneously targeted, discouraging work and contributing to the maintenance of unemployment. In 1995, 70% of the expenses incurred by the Unemployment Fund were oriented towards these passive policies (Earle & Pauna, 1998: 232), to provide financial aids and not active measures meant to encourage the creation of new jobs. Third, the Romanian state was not concerned at all with the improvement of the business environment for the development of the private sector to absorb the redundant workforce. Fourth, since it was so hard to find a job, most Romanians have moved to rural areas since 1992 when house restorations started. Thus, they preferred to complete their incomes by means of social aids and activities pertaining to informal economy. Consequently, informal economy is another reason reflected on the labour marked by the low occupancy degree among population and especially age categories at the ends of the activity interval.

Growth of Informal Economy

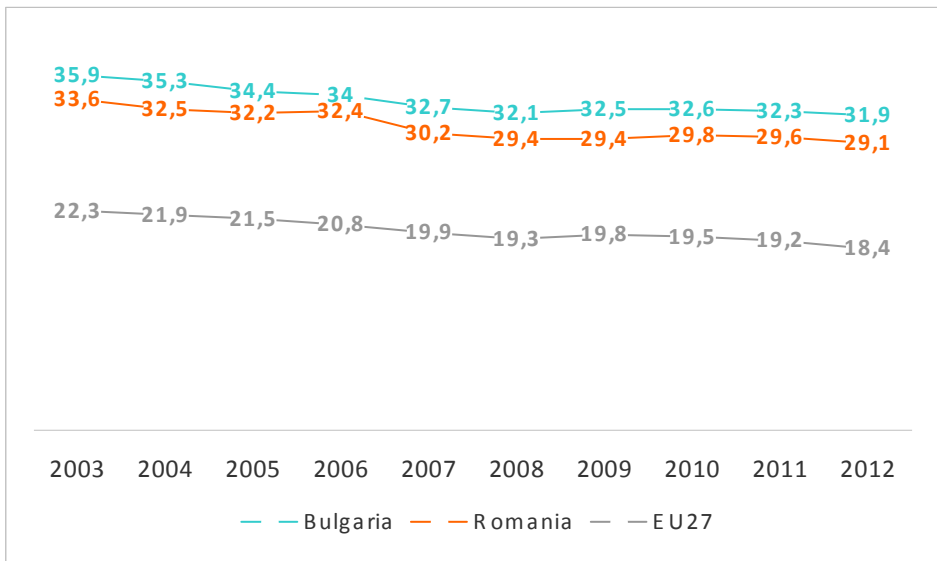
The low level of the activity rate partially owes to informal economy which refers to illegal activities that define shadow economy and undeclared legal activities. The difficulties created by the economic crisis and its effects contributed to a growth of informal economy from 29.4% in 2008 to 29.8% in 2010 (Figure 3). During the period of economic growth before the economic crisis, a shifting tendency from people dealing with informal economy to the formal one could be noticed; also, this suddenly dropped in 2009 (Packard, Koettl, & Montenegro, 2012). Despite the evolution of positive economy, the transition from unemployment to informal economy recorded a higher increase which highlights the Romanians' strong availability to get involved in informal economy

The Development of Informal Economy started during the Communist Period. By sacrificing internal consumption for exports, the standard of living strongly dropped in the 80s. This climate forced the development of a parallel informal market which facilitated the obtaining of various goods that were largely unavailable or even absent from the formal market. Authorities often ignored these activities as they were aware of their importance for the population's survival (as food products were rationalised). Moreover, many members of the communist party were involved in such activities warning substantial amounts of money which prevented their deconspiration. Informal economy did not disappear; on the contrary, it survived the fall of the communist period as it was essential for the population's survival since the deterioration in the standard of living after 1989.

In order to address the issue of informal economy, it is essential to distinguish between the *two categories of informal activities* (Parlevliet & Xenogiani, 2008): on the one hand, there are agricultural workers left with no options that carry out these activities to survive and, on the other hand, unregistered firms or firms that report lower values of profits or lower number of employees. The first category

mainly consists of unemployed who lost their jobs after the winding-up of CAP (Agricultural Production Cooperatives) or as a result of privatisation and restructuring processes from the transition period that started to return to rural areas after being given land; to this category, we can also add the number of Romanian emigrants that return to Romania for short periods of time and who are not interested in a permanent job. The second category of activities owes to corruption and complicated bureaucracy, not to mention another behavioural factor, which occurred as a reaction to the communist regime and has developed in time. Collectivisation made Romanians feel they had the right to recover the goods confiscated by the state, by all means. The lack of goods in the 80s forced the population to get involved in informal economy to satisfy its needs. After the change of political regime, the individuals' behaviour could not change radically all of a sudden and this makes them still feel a denial of state involvement, distrust in its institutions and underestimation of the social services it provides.

Shadow economy reached impressive quotas during the transition period, being estimated at approximately a third of the 2003 GDP (Figure 3).



Source: *Schneider, 2012*

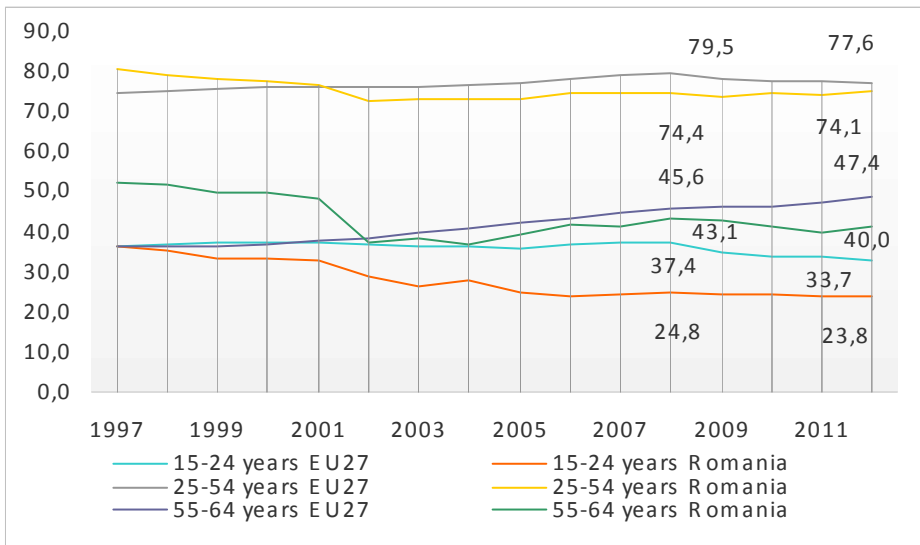
Figure 3. *Size of the Shadow Economy (% GDP)*

After bringing stability to the macro economy and ever since the Romanian economy has started to record economic growth for several years in a row, Schneider's (2012) estimations signal the fact that the rate of informal economy in the GDP dropped from 33.6 percent in 2003 to 29.1 percent in 2012. At EU level, Romania is ranked second after Bulgaria as far as the size of informal

economy is concerned, as it is estimated at 29.1%, that is a three times higher than the EU average (18.4 percent).

Highlight on Low Employment Rate

As previously showed, Romania records lower activity rates than the EU average for the three age categories analysed. In this context, employment rates are lower than the ones recorded in EU27 for each of the three age groups considered which further draws attention to the capacity to integrate the available resources on the labour market. *The young, that is the 14-24 age group, reflects the greater difference between the EU27 level and Romania that is 42.6%, as opposed to 32.9% for 2012.* The shrinking of economy during this period was reflected on the labour market by the diminution of employment rate among all other age groups considered both at EU and Romania level. The only exception is the 55-64 age group at EU level which recorded a 1.8% increase of the employment rate between 2008 and 2011. The increase in the activity rate and employment rate, respectively was also supported by the increasing tendency of the retirement age in many EU countries.



Source: Eurostat

Figure 4. Employment rate by age group

Informal economy is definitely one of the causes of an extremely low employment rate. Hazans (2011) estimated that approximately 11.8% of the active population was employed in the informal sector in 2009, in Romania. Stanculescu and Marin (in eds. Ariton, Dobre, Ioniă, Nuu, & Pippidi, 2011) estimated that

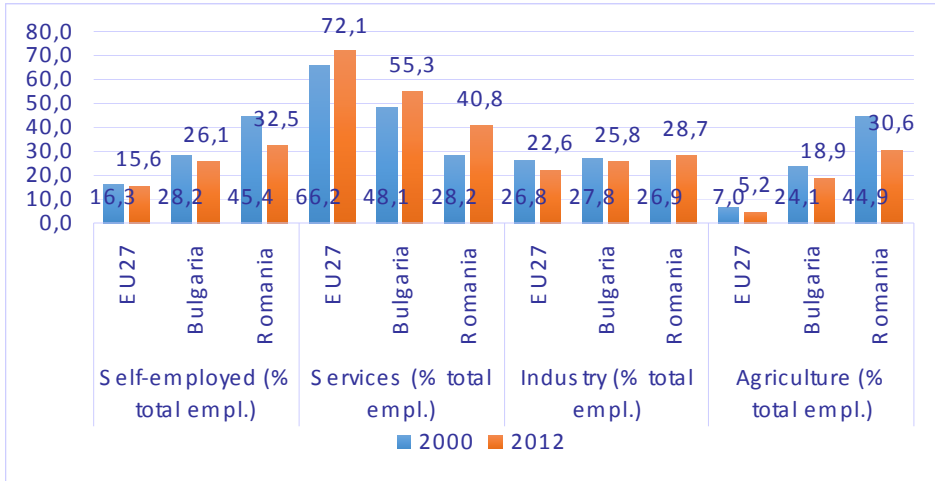
between 1.4 and 1.7 million people worked in the informal sector (as a primary or secondary activity). Mainly the young are involved in such activities that are approximately 19% of the people aged between 15 and 24 working in informal economy.

Another factor that lies at the basis of a low employment rate especially among the young is the increase of people enrolled in tertiary education. According to *Eurostat*, if in 2000, only 9.2% of the population aged between 25 and 34 held a university degree, in 2012 the figure reached 23.4%. Although this level was much below the EU27 average (35.3%), the evolution after 2000 points out to an increase of the population's participation to education cycles. Even if studies prevent the young to enter the labour market, they definitely have more chances of getting a job after they graduate. However, it is important to recall that such comparisons omit another important aspect that is education quality which is the variable reflected in quantity on the labour market by a higher employment rate.

Another factor that favoured the drop of the activity rate and employment rate, respectively is international migration, a factor also quoted with respect to the difficulties in recruiting company personnel (Katarina, 2013; Serban & Toth, 2007). Since 2002, Schengen access procedures have been simplified and this led to the emigration of a large number of people. As the number of emigrants increased with the development of migration networks between Romania and destination countries (especially Spain and Italy that attracted three quarters of the Romanian temporary migration during 2002-2006 (coord. Sandu, 2006, p. 28), migration became less selective and the amount of primary educated emigrants and women and people from rural areas, respectively considerably increased. As a result, the drop in migration selectivity, and the fact that migration seemed more and more attractive to people showed in the sudden decrease of activity rates for all age groups considered since 2002 (Figure 3).

Since 45% of the Romanian population still lives in rural areas, the analysis of population employment rate could only reveal a higher percentage as compared to the EU average level for the population working in agriculture. Even if the percentage of the population working in agriculture dropped by 45% in 2000 to 31% in 2012 (Figure 5), this is still a higher one (as compared to 5.2% in EU27) in spite of the fact that it involves almost a third of the workforce, according to the World Bank and its statistics for 2011 which read that agriculture contributed to GDP by 7.4%. Moreover, in 2010 approximately 53% of the agricultural surface used was represented by exploitations pertaining to non-legal persons (individual agricultural exploitations, sole proprietorships, family businesses). The number of the people carrying out independent activities in agriculture was estimated to 2.1 million, that is approximately 25% of the Romanian workforce (Ministry of Agriculture and Rural Development, 2013). So these figures accurately reflect the strong division of Romanian agricultural surface, hence its exploitation by a high number of people and a low productivity.

The bottom line is that the sector represented by services employs the largest part of the workforce at a EU27 level that is approximately 72% of the workforce (Figure 5). Although the percentage of the people employed in services significantly increased from 28% in 2000 to 41% in 2012, the level remains a low one compared to the level in Bulgaria (approximately 55%).



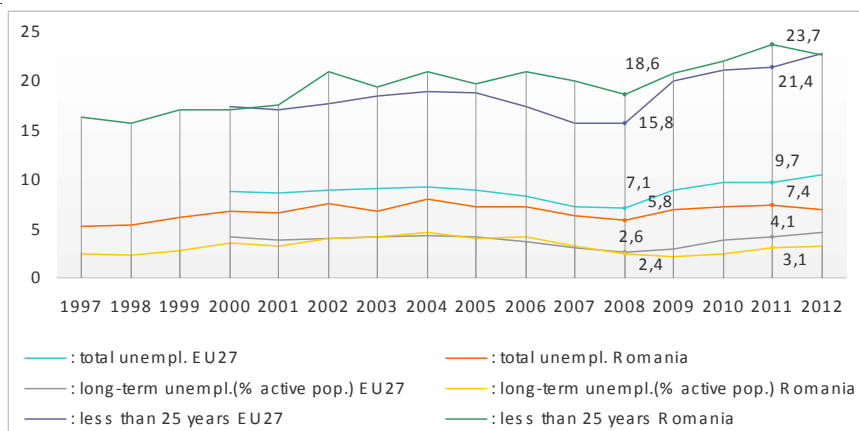
Source: Eurostat

Figure 5. Employment by activity

Although the percentage of the people that carry out independent activities dropped from approximately 45% in 2000 to approximately 32% in 2012 (Figure 5), a drop that is also reflected in the decrease of the amount of people employed in agriculture that comprises the highest percentage of independent activities, this level is still higher than the one in Bulgaria or EU27.

Growth of unemployment

As activity rates did not fluctuate during the period of economic crisis, the decrease of employment had to reflect an increase of the unemployment rate (Figure 6). Economic recession has generated both the increase of the total level of unemployment and, even more, unemployment within young population. Also, long-term unemployment rate has increased indicating the increased difficulty of reintegrating into the labour market. Overall, though, the rate of unemployment is lower in Romania than at the European level. The lower unemployment rate is due, in fact, as we have already mentioned, to a low activity rate.

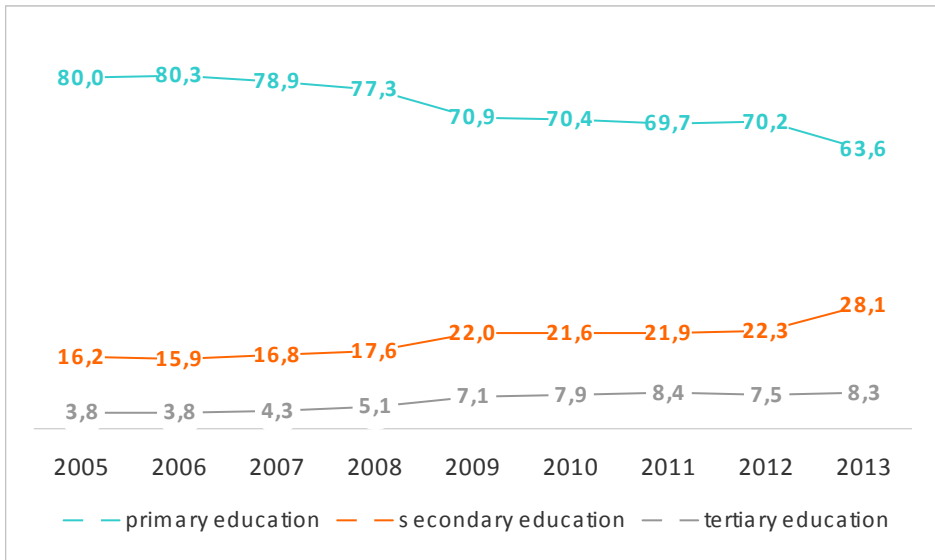


Source: Eurostat

Figure 6. Unemployment rate, long term unemployment rate and unemployment within young population

International migration, along with informal economy and subsistence agriculture, are factors that maintain a low activity rate, and a low level of employment rate compared to other European states, respectively. Moreover, these factors contributed to the release of social pressure, in terms of, economic evolution by reducing the level of unemployment. In the second half of the '90s, the unemployed in urban areas whether returned to rural areas or emigrated abroad. To add more, the decrease of rate of unemployment, as we have noticed, had become prevalent among all age groups starting with 2002 after the facilitation of access to Schengen space.

Even though the percentage of unemployed people with higher education is much lower, compared with those having secondary or primary education, who are more adaptable, the economic crisis has also had an impact on the latter category. Following Figure 7, we can notice a slight growth of the percentage of unemployed having higher education from 5.1 % in 2008 to 8.4% in 2011. This increase is due, on the one hand, to reduction of economic activity and increase of competition on labour market, and, on the other hand, due to increased number of people with higher education. The majority of registered unemployed have only completed primary education (approximately 64 per cent).



Source: Ministry of Labour, Family, Social Protection and Elderly (data from 2013 are from September)

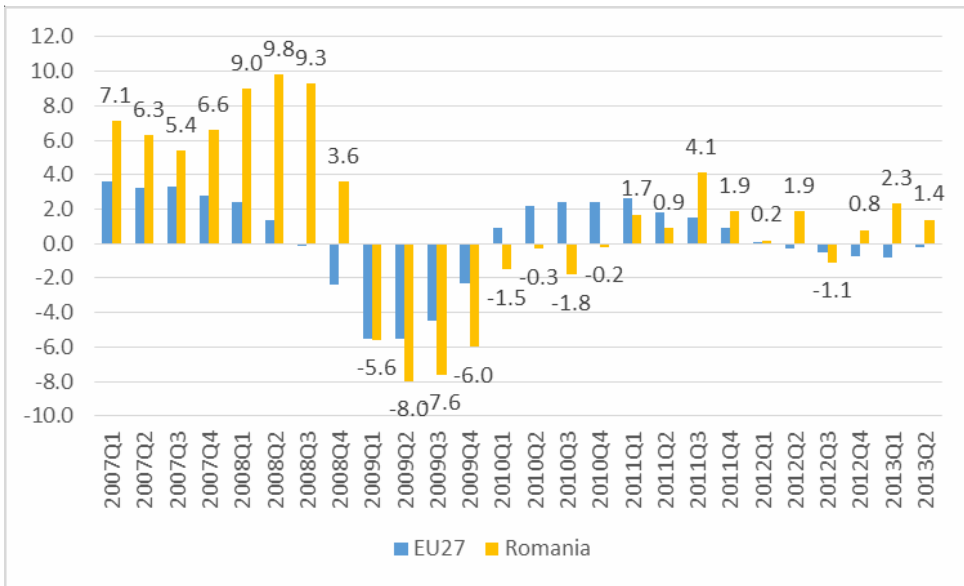
Figure 7. Unemployment by education at the end of the year (% total unemployed)

Economic Crisis and Labour Market Policies

Reflection of Crisis in Romania and Budgetary Pressure

Starting with the end of 2008, the economic crisis has been also felt in the European Union, the 3rd quarter of 2008 being the first one when the economy contracted compared to 3rd quarter of 2007 (Figure 8). Romania could not have avoided it, taking into account the close interconnection of EU economies. Thus, the 1st quarter of 2009 is the first time when economic downturn was recorded compared to the 1st quarter of 2008. If we relate quarter evolution of the economy to the previous quarter, Romanian economy entered into downturn even earlier, in the 4th semester of 2008. Negative trend was maintained throughout the period of 2009-2010. After 8 consecutive quarters of recession, the first sign of recovery has appeared in the 1st quarter of 2011. But the Romanian economy remained fairly stable, with growth rates below 2 percent (excluding 3rd quarter of 2011, compared to 3rd quarter of 2010 and 1st quarter of 2013, compared to 1st quarter of 2012). Furthermore, a decrease was again recorded in the 3rd quarter of 2012 compared to the same period of the previous year. In addition, it seems that even

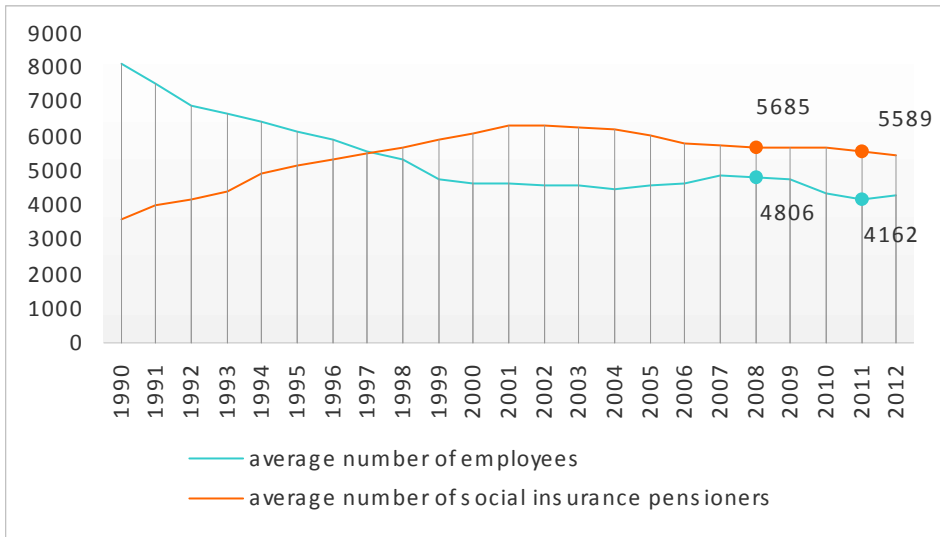
the EU has not found solutions to sustain economic growth, the economy of EU27 went back on a downward trend starting with the 3rd quarter of 2012.



Source: Eurostat; seasonally adjusted and adjusted data by working days, (data regarding Romania for Q1 2011 - Q2 2013 are provisional)

Figure 8. Gross domestic product at market prices, percentage change compared to corresponding period of the previous year

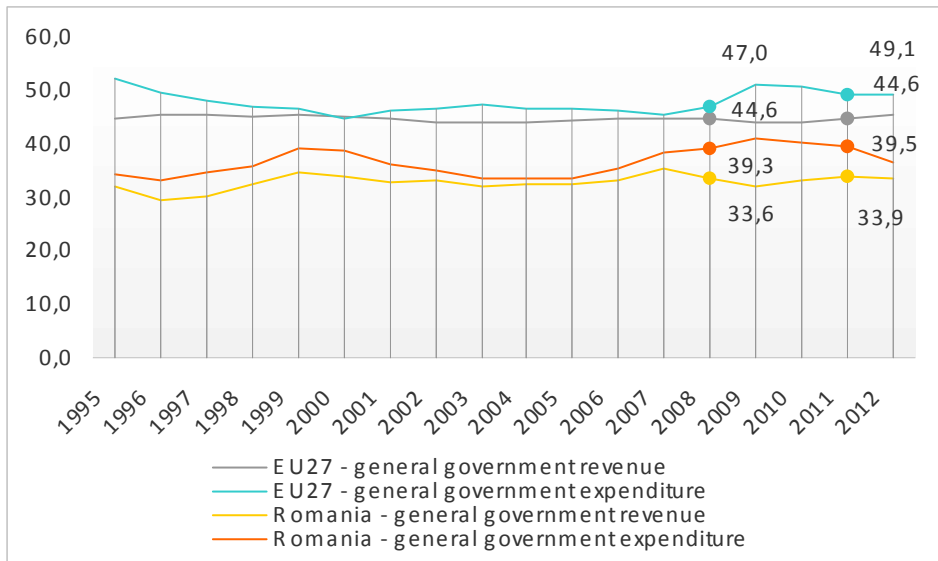
Even though the demographic structure indicates a higher share of active population, compared to other European countries, the level of urbanization is still very low. Economic crisis appears on a background of older issues that the Romanian economy faced and is still facing. The activity rates for the age groups marginal to employment intervals are lower than in the EU countries, a considerable percentage of these work in informal economy, which is estimated to reach almost a quarter of GDP. The economic crisis only emphasized further the existing challenges by decreasing the activity rate and increasing unemployment and growth of informal economy. The number of employees decreased approximately by 0.6 million people between 2008 and 2011 (Figure 9). The number of pensioners has been surpassed by the number of employees since 1997 and decreased by 0.1 million people during the same period.



Source: *Romanian National Institute of Statistics*

Figure 9. *Average number of employees and social insurance pensioners (thousands persons)*

Still, as the number of employed decreased rapidly, the fiscal burden on these will be even higher and this becomes a problem for the state budget. In this context, the confrontation between the interventionist and liberal paradigms has been reborn. What is the most appropriate solution - to increase budgetary expenditure on policies stimulating economy and supporting population by increasing taxes (or through loans that will be covered in a period of economic growth) or not intervene and give market the power to purify the economy (a more painful and slow process)?

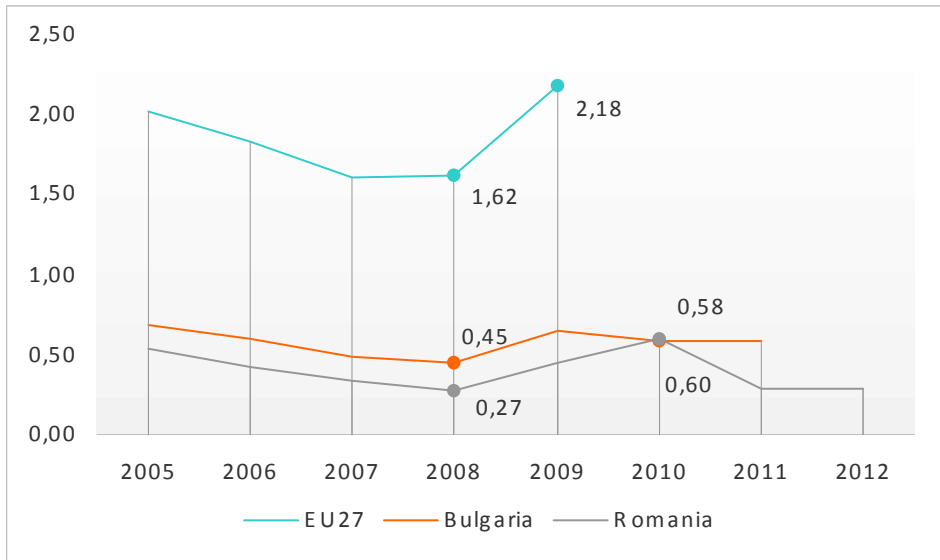


Source: Eurostat

Figure 10. Government revenue and government expenditure

Budgetary context got worse during crisis and the governmental deficit increased. Expenses increased, on the one hand, due to increase of expenditure on social policies, and, also to decrease of the size of GDP. The share of revenue in GDP decreased in relation to value of decreased GDP, due to contraction of economic activity and decrease of collected amounts, respectively. However, we note the efforts that have been made to reduce governmental deficit from 9% of GDP in 2009 to 3% in 2012. Thus, along with the level of budgetary expenditure, the level of revenue is much lower in Romania than in the 27 states of the EU, 33.6% compared to 45.4% in 2012 (Figure 10).

The manifestation of the economic crisis felt by lowering employment levels and by increasing unemployment, respectively, led to increased costs of labor market policies. In case of Romania, expenses on labour market policies increased in share from 0.27% in 2008 to 0,6 in 2010 (Figure 11). Even though GDP contracted during the period 2009-2010 by approximately 8 per cent, expenditure on labour market policies have increased rapidly, doubling in the same period. The same trend of expenditure growth could be noticed in the 27 states of the EU and its share in GDP is approximately 5 times higher.



Source: Eurostat and Romanian National Institute of Statistics

Figure 11. Labour market policies (LMP) expenditure (%GDP)

The Impact of Economic Crisis on the Structure of Labour Market Policy

As we have noticed earlier, during recession and in the context of increased number of vulnerable people, the state tried to help people in difficulty by increasing the level of expenditure for labour market policies. Depending on the nature and intensity of the labor market policies, these are divided into two big categories: active and passive measures. *Active measures* balance supply and demand on the labour market, influencing directly the volume and structure of employment and ending with the change in status on the labour market of the people involved. *Passive measures* help the disadvantaged through financial aid (e.g. unemployment allowance) which compensates the lack of income caused by the unemployment of these or by their inactivity. Statistics at the European level also introduces *labour market services* which refer to services for the unemployed or employees, who are interested in recruiting labour force, and which, unlike active measures do not change the status of the unemployed on the labour market but are a means of changing their job.

Expenditure on labour market policies were on a downward trend in the context of several consecutive years of economic growth and the companies were starting to face difficulties in recruiting labour force (Serban & Toth, 2007). The period of recession was reflected on the labour market by sudden decrease of rate of

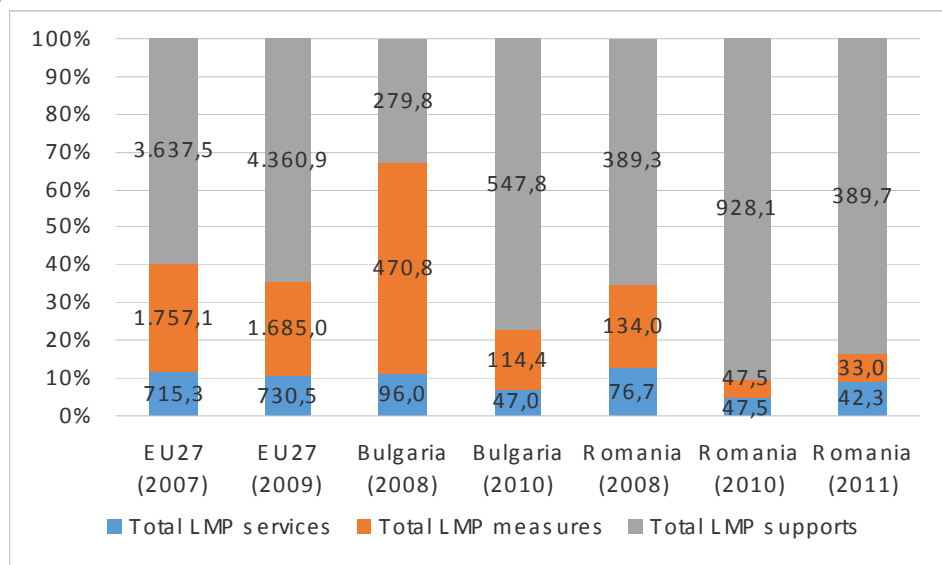
employment and increase of unemployment, respectively, and the Romanian state suddenly increased expenditure on policies addressing the labour market needs, doubling it in just two years, 2008 compared to 2010 (Table 1). Additional funds allocated to these policies were directed to financial aid. Not only that the share of funds allocated to other types of interventions decreased, LM Services and LM Measures, respectively, but also their value decreased, the differences being directed to LM supports. The share of financial aid reached 65% in 2008 and 91% in 2010 with almost a doubled value of total expenditure on interventions.

Table 1. *Expenditure by LMP intervention – Romania (mil. Euro)*

	2007	2008	2009	2010	2011
Labour market services	46.22	47.79	37.04	34.77	35.23
Total LMP measures	95.04	83.46	47.87	34.75	27.47
Training	12.75	12.41	4.15	4.24	6.05
Job rotation and job sharing	:	:	:	:	:
Employment incentives	52.29	49.93	35.69	23.11	15.42
Supported employment and rehabilitation	:	:	:	:	:
Direct job creation	29.17	20.08	7.99	7.37	5.98
Start-up incentives	0.83	1.05	0.04	0.03	0.03
Total LMP supports	283.71	242.51	449.61	679.61	324.26
Out-of-work income maintenance and support	283.71	242.51	449.61	679.61	324.26
Early retirement	:	:	:	:	:
Total LMP	424.97	373.76	534.52	749.13	386.97

Source: *Eurostat*

Share of expenditure for active measures, services (LM services), respectively, in total expenditure on labour market policies (LM services), is still inferior to both 27 EU states and Bulgaria. (Figure 12). If the value of amounts for LM services and LM measures in the 27 EU has remained the same, the only relation to amounts allocated to LM supports, both in Romania and Bulgaria, decreased significantly both in value and share in favour of LM supports.



Source: Eurostat

Figure 12. *LMP services*³, *LMP measures*⁴, *LMP supports*⁵ as percentage of total LMP and PPS per person wanting to work⁶

The decrease of expenditure on active measures has determined also the decrease of rate of participation of job seekers who benefit from these measures. (table 2). Overall, if in 2008, 6.7 out of 100 job seekers benefited from LM measures, and in 2010 just 3.2 job seekers.

³ Cover all services and activities of the public employment service (PES) together with any other publicly funded services for jobseekers.

⁴ Measures cover activation measures for the unemployed and other target groups including the categories of training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

⁵ Cover financial assistance that aims to compensate individuals for loss of wage or salary (out-of-work income maintenance and support, i.e. mostly unemployment benefits) or which facilitates early retirement.

⁶ Persons wanting to work are defined as the unemployed plus the labour reserve. The unemployed according to the ILO definition are persons without work, currently available for work and actively seeking work. The labour reserve denotes the inactive persons wanting to work, i.e. it is a subgroup of the inactive persons. The inactive persons are defined as neither employed nor unemployed.

Table 2. LMP participants per 100 persons wanting to work

	2007	2008	2009	2010	2011
Labour market services	:	:	:	:	:
Total LMP measures	6.7	6.7	3.3	3.2	2.8
Training	1.2	2.2	0.7	0.7	1.0
Job rotation and job sharing	:	:	:	:	:
Employment incentives	3.8	3.5	2.0	2.0	1.5
Supported employment and rehabilitation	:	:	:	:	:
Direct job creation	1.7	1.1	0.6	0.5	0.4
Start-up incentives	:	:	:	:	:
Total LMP supports	13.4	11.4	24.2	27.1	12.2
Out-of-work income maintenance and support	13.4	11.4	24.2	27.1	12.2
Early retirement	:	:	:	:	:

Source: Eurostat

The decrease of rate of participation in LM measures is reflected in all three types of interventions. On the other hand, the increase of funds allocated to LM supports has attracted a larger number of participants, from 11.4 out of people who wanted to work in 2008 to 27.1 in 2010.

Table 3. Activation of registered unemployed⁷

	2008	2009	2010	2011
Belgium	46,7	:	:	:
Bulgaria	27,1	16,9	7,0	5,1
Czech Republic	7,5	5,6	6,1	4,6
Denmark	27,2	21,1	25,4	27,1
Germany	19,0	17,8	17,8	14,8
Estonia	5,9	5,7	7,6	10,8
Ireland	11,5	12,4	11,5	14,8
Greece	9,8	13,7	13,7	:
Spain	:	:	:	:
France	:	:	29,5	24,1
Italy	:	:	:	:
Cyprus	:	:	:	:
Latvia	7,8	8,9	15,7	17,5
Lithuania	:	5,9	4,5	:
Luxembourg	50,4	46,2	45,8	50,8

⁷ Stock of participants in regular activation measures that were previously registered unemployed divided by the stock of registered unemployed plus the stock of participants in regular activation measures that were previously registered unemployed and are not counted as registered unemployed during a measure.

Hungary	:	13,4	24,0	16,6
Malta	4,3	5,5	12,4	12,5
Netherlands	35,7	31,4	30,1	29,5
Austria	35,9	35,3	39,0	35,2
Poland	:	13,3	13,6	8,5
Portugal	27,4	24,8	22,4	20,8
Romania	16,4	6,7	6,0	8,2
Slovenia	10,3	14,4	19,0	15,4
Slovakia	33,8	16,6	23,6	16,7
Finland	20,5	16,3	19,9	20,8
Sweden	31,1	24,2	29,3	28,4
United Kingdom	:	:	:	:
Norway	:	:	:	:

Source: Eurostat

Performance of Labour Market measures in Romania is low, compared to other states of Central and Eastern Europe, such as Bulgaria, Czech Republic, Lithuania or Estonia, which oriented towards LM supports. On the other hand, states, such as Luxemburg, Austria, the Netherlands, Denmark, Sweden have kept allocation for active measures compared to the period before the crisis, managing to reactivate an important part of the unemployed (table 3).

Thus, has not learn from the experience of the'90s when the state has not managed to fight long-term unemployment, generated by large-scale restructuring processes as it neither encouraged the creation of new jobs by supporting private business, nor implemented large-scale policies of professional reconversion of the population. In 1995, 70% of expenditure of the Unemployment Fund was spent on passive measures, providing simple financial aid (Earle & Pauna, 1998, p. 232). During this period, passive measures were favoured on expense of active ones which involved creation of new jobs, decrease of unemployment, respectively. During crisis, even if the amounts allocated to labour market policies doubled, Romania oriented towards passive measures to which 90% of the available amounts were allocated.

Conclusions and Recommendations on Labour Market Policies

Recent economic crisis has been strongly felt in Romania, increasing the vulnerability of a considerable part of the population. The reduction of economic activity has determined the decrease of the rate of employment and increase of rate of unemployment, respectively. Practically, the economic crisis drew attention on older issues, emphasizing them. With a higher share of active population compared to the EU, Romania has not managed to bring back to employment an important part of age categories situated at the ends of employment range. Informal economy, numerous rural population, international migration, issues of quality and quantity in education are just few reasons for which the level of involvement on the labour market is so low. It maintains high vulnerability for a large part of population and forces the state to intervene and facilitate integration to the labour market by different measures. Even if the amounts allocated for labour market intervention policies had been on a downward trend for a few years, during recession the state suddenly increased their value. These were allocated mostly to passive measures, of financial aid, with low impact on stimulating economic growth by increasing consumption, while the share of active measures was almost insignificant. It seems that Romania has not found a solution for fighting long-term unemployment yet. But the issues on the labour market are not only due to lack of active measures, but are caused by older issues which have been ignored and could be solved by large-scale policies involving measures in many directions.

Factors, such as, informal economy, international migration, high share of people working in subsistence agriculture, have maintained low rate of unemployment, in spite of low employment rate, because of the low activity rate. Even if the low level of involvement on the formal labour market has reduced the pressure on social expenditure, maintaining the low rate of unemployment, this has made it difficult for employers to recruit new employees. Even though, the pressure of demand for labour has been decreasing during recession, as a result of decrease of economic activity, it will probably reoccur again in the period of economic growth.

Education is one of the most important issues in order to increase the activity rate. *The increase of participation in educational programs* should be a priority for Romanian policies. As it has been acknowledged that the development of society depends on mainly on education of the population, the state committed itself to provide equal access to educational services to entire population, eliminating barriers that could appear. Providing access to schools and school infrastructure, respectively, providing means of transport for long distances and school supplies are few directions in this sense. Conditioning state allowance for children by school attendance and providing scholarships for students having good results

represent other measures which can stimulate the improvement of the education level of population. Not only that a more educated society will be more engaged and will contribute to growth of production and labour productivity, but also lack of some basic skills could lead to social isolation of individuals and it will decrease their contribution in the future.

But the improvement of participation in educational programs has to come along with a strategy of growing the quality of programs in education. Low quality of education and discrepancy with labour market has often been indicated by employers. Along with the increase of financing allocated to education, a common strategy of development of education set by consensus and implemented by all parties is required. This should include, *close cooperation with the private sector* in order to train future graduates and a deeper *correlation of allocated funds with performance* and not with the number of students/pupils⁸.

The second issue, which maintains the low activity rate is informal economy which has grown during the economic crisis. The two categories of activities that the informal activities include should be addressed differently. Unregistered companies or those which report a lower level of income or number of employees could be encouraged to become legal by *reducing the level of taxation*. To increase transparency and informal activities, the reduction of taxation should be accompanied by the *simplification of the fiscal system* (Biris, 2012). As concerns subsistence agriculture, this is more difficult to deal with as it involves big investments. *Development of infrastructure and connection with urban areas* are priorities for rural areas development in order to diversify business in rural areas which have big potential. Infrastructure of rural areas should increase its attractiveness and encourage the orientation of remittances received from emigrants towards investments (McCormick & Wahba, 2003) which will further develop rural areas (Incaltarau & Maha, 2012). The second measure could be the *differentiation in granting subsidies in agriculture depending on areas* as to stimulate grouping of arable land and increasing productivity, respectively. Increasing the flexibility of agreements on the labour market could increase the option for temporary or part-time agreements that would offer a solution for people working in informal economy and students.

Thus, the social services are not enough for solving the problems the labour market is facing, but only for keeping them latent. Although emphasized by the current economic crisis, these problems are induced by older causes. Therefore, a wider vision on labour market is required, in order to support deeper economic, social and political transformations.

⁸ Only 25 percent of funds received by universities from Romanian Ministry of Education are related to their research performance (UEFISCDI & CNFIS, 2014).

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