

INSIGHTS ON THE COMPETITIVENESS OF THE ROMANIAN LABOUR MARKET. A DESCRIPTION OF THE POVERTY STATE AND THE EFFECTIVENESS OF SOCIAL TRANSFERS

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Abstract

In this paper, we assess the poverty state and the effectiveness of social transfers in Romania and in other three neighbouring countries (Bulgaria, the Czech Republic, Croatia and Poland) as compared to the EU average with the aim to provide measures for improving the social protection system in our country. We find that Romania is the second country in the EU as regards the people at risk of poverty or social exclusion and has the lowest threshold for risk of poverty in the entire EU, of 103.33 euro per month. Unfortunately, the social transfers are not effective for solving the poverty problem and the spending on social assistances cannot be increased, as it represents already over one third of the revenues of the state budget.

Keywords: poverty, social transfers, Romania, European Union

JEL codes: C40, I31, I38

1. Introduction

The activity rate can be considered an indicator of competitiveness as well as a high unemployment rate for youth can, as well, describe a situation in which an economy lacks its young and talented labour force. Scharle (2003) points that low activity rate means an obstacle for the competitiveness of a country. For example, in Romania, the efficiency of the labour market places our country on the 110 rank among 148 analysed countries in the Global Competitiveness Report 2013-2014 (World Economic Forum, 2013).

But this discussion must be carried forward. If the benefits on the labour market (such as wages) are relatively small and the poverty degree is high, the incentives for work are low. The measures for diminishing the percentage of population in poverty are the government transfers. Still, the resolution of this situation lies in their effectiveness.

In this paper, our aim is to have an overview as regards the poverty state and the effectiveness of social transfers in solving the poverty problem. We are interested in assessing the size of poverty in Romania compared with the European Union (EU) and with other three neighbouring countries: Bulgaria, the Czech Republic, Croatia and Poland. Then, we establish the effectiveness of social transfers in Romania compared with the other EU states and we identify several measures for

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reforming the social protection system. The paper is organized as follows: in section two we present several measures taken at the EU level for fighting against poverty. Section three is dedicated to a short literature review regarding the relation between poverty and social transfers. In section four we present the data as regards the poverty at the EU level and in Romania and in section five we assess the effectiveness of the social transfers especially in Romania. In conclusions, we propose several measures for improving the social protection system in Romania.

2. Measures for fighting against poverty at the European level

At the European level, the policy for fighting against poverty has experienced several stages. At its roots, the design and of the social protection policy is a national competence. Still, in 1992, two important commitments were taken by the member states in this respect. The Council Recommendation 92/441/EEC pointed that each person in the EU “should have access to sufficient resources and assistance to live in a manner compatible with human dignity” (EU legislation, 2014). At the same time, the member states agreed on the convergence of objectives and policies as regards the social protection.

At the Lisbon European Council in 2000, the strategic goal of the EU for 2010 was established. The EU was proposed „to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion” (European Parliament, 2000). This also meant to establish the conditions needed for full employment and combating social exclusion. A year later, alongside with the Treaty of Nice in 2001, was adopted the Commission’s Social Policy Agenda for reforming the European social model (Kountouros, 2003). The Article 137 in the Treaty of Nice contained explicit references to combating poverty and the modernisation of the social protection systems.

More recently, the Europe 2020 strategy, also known as the EU Agenda for growth and jobs, has a clear objective as regards this area: reducing by at least 20 million people the number of those at risk of poverty or social exclusion.

3. Short literature review regarding the relation between poverty and social transfers

Atkinson (2000) found that the European countries with the highest level of social spending managed to reduce the most the poverty level. Nine years later, the results of Caminada and Goudswaard (2009) are no longer as clear. Although the authors find that an increase in the level of social expenditure reduces poverty in OECD countries, the relation is weaker at the EU level and there are identified several differences as compared to EU15.

Morissens and Sainsbury (2002) are conducting a more refined analysis and indicate that there are significant differences in the way the social protection systems managed to reduce poverty, pointing that the relative efficiency of several countries has decreased during the 1990s. Still, one thing is clear: the poverty rate increased in most countries for vulnerable groups, except the elderly.

Keeping in analysis the impact of different types of social protection systems, Haalsch and Kraus (2004) are searching for a relation between the centralization degree and the results of the social assistance policy. The authors find that the very centralized systems are more efficient in income redistribution than decentralized systems. Moreover, for systems with a medium level of centralization, the hypothesis that a higher decentralization leads to more efficiency is not supported.

When analyzing the effectiveness of social protection systems, European Commission (2010) provides the fact that the impact of social benefits was lowest in Bulgaria, Greece, Spain, Italy and Cyprus. Also, more than half of the number of those at risk of poverty has been reduced in Hungary, Sweden, Finland, Ireland and Denmark.

Investigating the problem of effectiveness in social transfers, Longford and Nicodemo (2010) are managing to find to what extent poverty could be reduced if social transfers would reach the highest degree of effectiveness. The authors find that the highest improvements in poverty reduction would occur in Scandinavian and Central European countries and the lowest in the Mediterranean countries. For all the analyzed countries, the result obtained in the study points to an improvement of the national median equivalized income for each household.

4. The poverty situation at EU level and in Romania

Romania is one of the countries in the EU with the fewest holidays declared days off, according to a study of Mercer Marsh Benefits in 2013 (Ziarul Bursa, 2014). As a result, one should expect to also have a good situation of the employees' welfare. Instead, Romania is on the first places in the EU as regards the poverty rates and the lowest wage levels.

In Romania, 40.4% of total population, meaning 8.6 million people, are considered to be at risk of poverty or social exclusion in 2013, slightly dropping from 41.7% in 2012 (8.9 million people). In the European Union and Eurostat accept, this indicator is including persons that are below the poverty threshold, in severe material deprivation and living in a household with very low work intensity.

With this percentage, our country has the second largest share of people at risk of poverty or social exclusion, after Bulgaria (48% in 2013). The share of Romania's population at risk of poverty is 15.9 percentage points (pp) higher than the EU average and 17.4 pp higher than the Euro area average (Table 1). While Poland is near the EU average, the Czech Republic has the highest performance in this respect, with 14.6% of population at risk of poverty. The situation of Romania and Bulgaria is quite serious, given that even Croatia, which joined the EU in 2013, has almost one third of population at risk of poverty or social exclusion. The difference in the poverty rates between men and women is not extremely significant. For the analyzed countries, the difference is between 0.7 pp (in Poland) and 3 pp (in the Czech Republic). In Romania, the share of women at poverty rate is 1.9 pp higher than the men in the same situation, very close to the EU-28 gap (1.8 pp). This situation signals that not only in Romania, but in the whole EU, the female population has an important potential on the labour market. In this respect, public policies meant to sustain females' employment and entrepreneurship are capable of resulting in higher employment rates in order to achieve the objectives of the Europe 2020 strategy.

Table 1.

Population at risk of poverty or social exclusion in 2013, percentage of total population

	Total	Males	Females
EU-28	24,5	23,6	25,4
Euro area (18 countries)	23,0	22,1	23,8
Bulgaria	48,0	46,5	49,4
Czech Republic	14,6	13,1	16,1
Croatia (data for 2012)	32,3	31,2	33,3
Poland	25,8	25,5	26,2
Romania	40,4	39,4	41,3

Source: Eurostat

We are also interested in the age of people at risk of poverty (Table 2). People younger than 18 years are the most affected by poverty and social exclusion in EU, Euro area and in all the analyzed countries, except for Bulgaria. Almost half of the Romanian and Bulgarian children are in this situation, compared to little over one quarter at the EU level. Again, the Czech Republic has the best performance.

Also, the working-age population (persons between 18-64 years) is facing severe poverty. A quarter of the EU working-age population is facing poverty as compared with four out of ten Romanians or Bulgarians. Only 15.2% of active-age people in the Czech Republic have problems with the income.

The situation is even more serious since the group of young with less than 18 years is reflecting the situation in their families: the high share of children at risk of poverty is meaning a high share of families with low incomes or without work places. The situation of children as compared to the adult group is worse in all the five countries, but also in the EU and the Euro Area.

The group of elderly people is the one less exposed to poverty (except for Bulgaria), although the differences between the countries are significant. Only one tenth of elderly people in the Czech Republic is confronting with poverty as compared to over a half in Bulgaria or 35% in Romania. The elderly people tend to be more protected from poverty not only in the Euro Area, but also at the EU level, including the countries that joined the EU in 2004 (the Czech Republic and Poland). The worse

situation is in Bulgaria, where the share of elderly people at risk of poverty and social exclusion is over three times higher than in the EU, while in Romania is almost two times higher. The newest EU member state, Croatia, is better placed than Romania and Bulgaria.

Table 2.

People at risk of poverty or social exclusion by age, percentage of total population

	Less than 18 years	18-64 years	65 years and over
EU-28	27,6	25,3	18,3
Euro area (18 countries)	25,0	24,3	16,5
Bulgaria	51,5	44,3	57,6
Czech Republic	16,4	15,2	10,4
Croatia	33,8	31,5	33,2
Poland	29,8	26,1	19,7
Romania	48,5	39,4	35,0

Source: Eurostat

Eurostat is calculating the threshold for risk of poverty as 60% of median equivalised income. Therefore, the threshold is different depending on country. Romania has the lowest threshold in the entire EU (Table 3). For 2013, the threshold was 1,240 euro, meaning almost the threshold of Belgium for a month. In other words, any Romanian whose income is less than 103.33 euro per month is at risk of poverty. The threshold in Romania is 3.72 lower than in the Czech Republic, 2.5 times lower than in Poland, 2.6 times lower than in Croatia and 1.4 times lower than in Bulgaria.

For each country (except for Croatia, due to data unavailability), the crisis pushed down the poverty threshold; this happened in 2010 for the Czech Republic, Poland and Romania and in 2011 for Bulgaria. The threshold began to grow in the next year. Still, in 2013, Romania and Bulgaria are the only countries in which the thresholds have not increased again at the maximum level registered in 2009 or 2010.

Table 3

The annually at risk of poverty threshold, Euro

	2007	2008	2009	2010	2011	2012	2013
Bulgaria	888	1.303	1.697	1.810	1.749	1.716	1.754
Czech Republic	3.254	3.641	4.377	4.235	4.471	4.675	4.616
Croatia	-	-	-	3.461	3.356	3.243	-
Poland	2.101	2.493	3.058	2.643	3.015	3.036	3.098
Romania	995	1.172	1.297	1.222	1.270	1.270	1.240

Source: Eurostat

5. The effectiveness of social transfers

Before social transfers, Croatia is the country with the highest share of total population at risk of poverty and also with the highest shares of active-age and elderly people in this situation, while Romania has the highest percentage of children at risk of poverty (Table 4).

Table 4.

At risk of poverty rate before social transfers (pensions excluded), percentage of total population, 2013

	Total	Less than 18 years	18-64 years	65 years and over
EU-28	25,8	34,6	25,7	17,2
Bulgaria	26,7	38,1	22,7	30,4
Czech Republic	16,6	22,4	17,1	8,5
Croatia (data for 2012)	30,4	33,8	27,6	35,6
Poland	23,0	29,9	22,8	14,7
Romania	27,8	40,0	26,9	17,0

Source: Eurostat

Even after social transfers, Romania remains the country with the largest share of total, young and active-age population at risk of poverty, well above the EU average (Table 5). For the elderly group, Bulgaria records the highest share in people at risk of poverty. This proves the ineffectiveness of social transfers in Romania and in Bulgaria (for elderly people, but we also should take into account that, in the data provided by Eurostat, pensions are excluded).

Table 5.

At risk of poverty rate after social transfers (pensions excluded), percentage of total population, 2013

	Total	Less than 18 years	18-64 years	65 years and over
EU-28	16,7	20,3	16,4	13,8
Bulgaria	21,0	28,4	17,1	27,9
Czech Republic	8,6	11,3	8,6	5,8
Croatia (data for 2012)	20,5	22,3	18,0	26,5
Poland	17,3	23,2	16,7	12,3
Romania	22,4	32,1	21,5	15,0

Source: Eurostat

If calculating the difference, social transfers are reducing by less than 10 pp the total share of population at risk of poverty, as shown in Table 6. Social transfers seem to be the most effective for the young less than 18 years at the European level and less effective than the EU average in the analyzed countries. Still, for these countries, the children group sees the largest drop in poverty due to social transfers, while the elderly group the lowest, probably due to the exclusion of pensions.

Table 6.

The effectiveness of social transfers in reducing the poverty, percentage points

	Total	Less than 18 years	18-64 years	65 years and over
EU-28	-9,1	-14,3	-9,3	-3,4
Bulgaria	-5,7	-9,7	-5,6	-2,5
Czech Republic	-8	-11,1	-8,5	-2,7
Croatia (data for 2012)	-9,9	-11,5	-9,6	-9,1
Poland	-5,7	-6,7	-6,1	-2,4
Romania	-5,4	-7,9	-5,4	-2

Source: authors' calculations

According to Eurostat, Romania is the third country in the EU with the lowest percentage of social contributions in GDP at the EU level (16.2% of GDP in 2011), after Latvia (14.8% of GDP) and Estonia (15.9% of GDP). At the opposite end is Denmark, with 32.8% of GDP for social contributions, France (31.6% of GDP) and the Netherlands (30.5% of GDP). The EU average is 27.9% of GDP, while the Euro area average is higher (28.7%). Given these numbers, the simple answer in solving the poverty in Romania would be simple: increasing the funds for social assistance. But it is difficult for Romania to have such a policy, given that the spending on social assistance represented over one third of total revenues at the state budget in 2013 and over 40% of total revenues in 2009 and 2010.

Table 7.

The percentage allocated to spending on social assistance

Year	Social assistance spending (mil. RON)	GDP (mil. RON)	% of GDP	Total revenues (mil. RON)	% of total revenues
2013	68.378,9	625.617,0	10,9	200.045,7	34,2
2012	67.048,50	585.200,00	11,5	193.148,20	34,7
2011	68.007,50	547.829,00	12,4	181.566,90	37,5
2010	68.601,90	511.581,30	13,4	168.598,50	40,7
2009	63962,1	505503	12,7	156624,9	40,8

Source: Romanian Ministry of Finance

6. Conclusions

Our country is the second in the EU as regards the people at risk of poverty or social exclusion, after Bulgaria. Romania has the lowest threshold for risk of poverty in the entire EU. For 2013, the threshold was 1,240 euro, meaning almost the threshold of Belgium for a month. In other word, any Romanian whose income is less than 103.33 euro per month is at risk of poverty. Unfortunately, the social transfers are not effective for solving the poverty problem and the spending on social assistances cannot be increased, as they represent already over one third of the revenues of the state budget.

The reform of the social protection system in Romania appears therefore to be utterly important. Firstly, we claim for an improved design of the social assistance and employment measures. For example, Romania has the support of the EU for reforming its apprenticeship system in order to provide better chances for the youth employment. Secondly, several testing instruments would be appropriate when deciding on social assistance measures, in order to test their positive or negative impact. A similar approach is provided in the Small Business Act, which proposes a "SME test". Under this approach, the European Commission analyse the effects of legislative proposals on SMEs, following the principle "Think small first" (European Commission, 2014).

Also, the existing social assistance programmes need more attention towards a better targeting and surveillance.

Finally, Romania needs an increase of transparency as regards the way in which the spending for social assistance are allotted and also on their effects on the long term. This is also a way for increasing the citizen participation in decision-making and in the public debate.

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