

ASPECTS OF LABOR MARKET TRENDS AND SOCIAL IMPLICATIONS IN THE EUROPEAN UNION (EU) IN THE CONTEXT OF THE CURRENT GLOBAL CRISIS - CASE STUDY ON ROMANIA

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Rezumat

Europa se confruntă cu provocări foarte mari precum actuala criză financiară și economică, schimbările climatice, dezvoltarea durabilă, securitatea energetică etc. Pentru a face față acestor provocări, Uniunea Europeană (UE) are nevoie de anumite instrumente pe care le oferă Tratatul de la Lisabona semnat la 13 decembrie 2007. Acest Tratat garantează, printre altele, că UE va activa în direcția dezvoltării durabile pe baza unei creșteri economice echilibrate și a stabilității prețurilor, a unei economii sociale de piață extrem de competitive vizând ocuparea deplină a forței de muncă și asigurarea progresului social. De asemenea, în Tratat se subliniază că acesta va contribui la eradicarea sărăciei. În prezent, șomajul reprezintă una dintre cele mai grave probleme în UE, și în România. Astfel, în acest articol, se

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vor prezenta unele aspecte privind evoluția pieței muncii și implicațiile sociale la nivelul UE cu referire specială la țara noastră în contextul actualei crize mondiale.

Abstract

Europe faces huge challenges such as the current economic and financial crisis, climate changes, sustainable development, energetic security etc. To meet these challenges, European Union (EU) needs some tools that are offered by Lisbon Treaty signed on December 13, 2007. This treaty guarantees, inter alia, that the EU will work towards sustainable development, based on balanced economic growth and price stability, on a highly competitive social market economy aiming at full employment and social progress. Also, the Treaty stresses that it will help to eradicate poverty. Currently, unemployment is one of the most serious problems in the EU, and also in Romania. The following article will present some aspects of the labor market developments and its social implications at EU level with special reference to our country in the context of the current global crisis.

Keywords: economic and financial crisis, employment, unemployment

JEL classification: E24, G01, I0

I. Unemployment – one of the most serious problems in the EU

The Lisbon treaty signed on December 13, 2007, which modifies the EU Treaty and the Treaty for the European Community establishment, contains important provisions on the EU social objectives. Thus, in all its policies and actions, the EU will aim to reach a high employment level. It will also refrain from any action that would interfere with the role of the member states in supplying the services of general interest (health care, social services, state schools etc.). However, although it supports a proper employment and a proper economic restoration by cofinancing the economy of the member states, the EU, through its leaders (mainly Germany and France), insists more that all member states solve their fiscal-budgetary problems and less on the crucial issue of the economic

restoration – essential for the correction of both deficits – fiscal-budgetary and social.

Taking into considerations the provisions of the Treaty, during 2007-2009, one of the most serious problems of the EU was and still is the general increase of the unemployment rate. Employment too, didn't progress in 2007-2009, especially since in 2009, the EU27 employment rate decreased to 64.6% from 65.9% in 2008. The decrease of the employment rate was even more dramatic in the Euro area, decreasing from 66% in 2008 to 64.7% in 2009¹, which shows that the west European countries felt the strongest shock of the economic and financial crisis both in economic and in social terms. Sweeping through all continents, counter clock-wise, the global financial and economic crisis expanded the effect of the USA adverse phenomena on to the European continent, outing considerable pressure and a lot of tension on the financial-banking system, on the business and population, and on the national governments. Generally, the increase of the unemployment rate determines a loss of welfare both for the individuals and for the companies and the state. The latter will see a rising expenditure for social benefits concomitant with the incapacity to collect taxes and dues at pre-unemployment rate increase levels, because the taxation basis narrowed. Therefore, the unemployment rate is an important indicator, from two perspectives: economic and social. Looking back, during 2000-2008, the unemployment rate in the EU was considerably higher than in the United States, but after the crisis emerged, it increased stronger in the USA than in the EU, peaking (1.9 million unemployed) in both regions in the first quarter on 2009. Although during the first quarter of 2010, the unemployment rate started to decrease in the USA for the first time in almost three years, in the EU unemployment still increases, although less sharply than in 2009².

According to European Union statistics³ during 2007-2009, the unemployment rate increased in the Euro zone from 7.5% in 2007 to

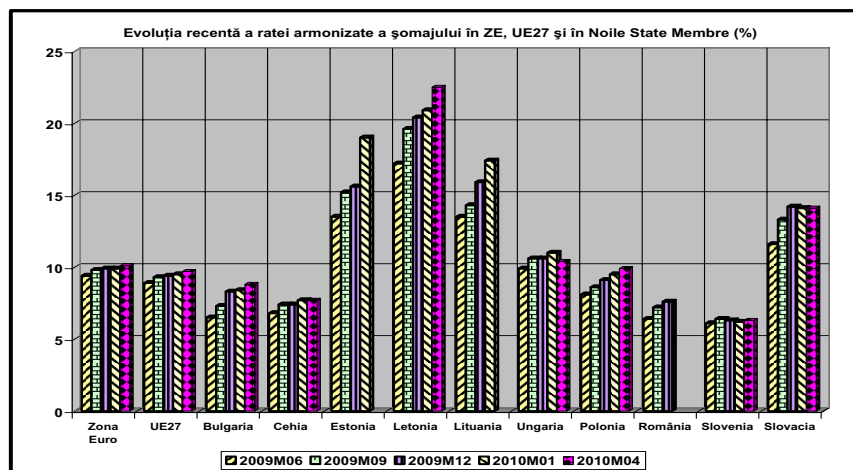
¹ Source: Eurostat.

² Source: Hannah KIIVER, Remko HIJMAN, Eurostat, *Statistics in focus 20/2010, Impact of the crisis on unemployment so far less pronounced in the EU than in the US.*

³ Source: *Statistics Pocket Book Online, last updating 25.06.2010.*

9.4% in 2009, reaching currently 10.1% (April 2010), as also shown by the evolution of this indicator at EU27 level. Thus, unemployment rate in EU27 was 7.1% in 2007, reaching 8.9% in 2009. In 2007, the lowest unemployment rates were in the Netherlands (3.2%), Denmark (3.8%) and Cyprus (4%) and the highest in Slovakia (11.2%), Poland (9.6%) and Germany (8.4%), while in 2008, and the highest unemployment rates were recorded in Spain (11.4%), Slovakia (9.5%), France and Hungary (both with 7.8%), and the lowest in the same countries: Netherlands (2.8%), Denmark (3.4%) and Cyprus (3.6%). In 2009, the unemployment rate soared to alarming levels in Spain (18%), Latvia (17.2%), Estonia (13.8%), Lithuania (13.7%) and Slovakia (12%), increasing in the other member states too. Spain has currently the highest unemployment rate (19.7% in April 2010) in the euro area, and labour market rigidity continues to generate mass unemployment. The other European states are not doing better either, if we refer to the new member states, whose situation deteriorate seriously during the past months (see *Chart 1*).

Chart 1



Source: Eurostat data

The chart shows that the Baltic States were and still are in great difficulty. Thus, Latvia was confronted with dramatic social movements partly generated by the extremely high unemployment rate (22.5% in April 2010). Lithuania is in the same situation and it

also experienced social convulsions, the unemployment rate reaching 17.4% in March 2010. Ireland also reported a high unemployment rate in April 2010 (11.9%). The states which before the crisis were regarded as a success in terms of convergence (real convergence, particularly), such as Ireland, are now confronted with serious difficulties on the labour market, being dramatically affected by the crisis.

According to European Commission estimates, the overall European unemployment rate will probably exceed 10% in 2010. According to recent statistics, in May 2010, the unemployment rate was unchanged in relation to the previous month (9.6% in EU27 and 10% in the euro area), the number of unemployed reaching 23.117 million in EU27, 15.789 million belonging to the euro zone. Compared to 2009, in 2010, the unemployment rate decreased in just five member states and increased in all the others. The most spectacular decreases were noticed in Germany (from 7.6% to 7%) and in Austria (from 4.9% to 4%). The most spectacular increases were in Latvia (from 13.5% to 20% in the first quarter of 2009 – 2010) and in Estonia (from 11% to 19%, in the first quarter of 2009 - 2010)⁴. An explanation for the high unemployment figures in some EU countries resides in the dramatic increase of unemployment among the youth (below25). Thus, in March 2010, the unemployment rate among the youth reached almost 40% in the countries with the most serious unemployment problems (Spain: 40.1%, Latvia: 39.7%, Estonia: 39.8%), extremely high levels which remained in May 2010 too.

According to the Lisbon Treaty, the EMU has a major importance, with the euro as currency, for the return of Europe to prosperity and job creation. During the recent years, the continuous increase of unemployment eroded the trust in this economy at the lowest level after 1990.

II. Aspects on the evolution of the labour market and the social implications in Romania within the context of the current world crisis

The European Strategy for Employment sets the principle of collaboration between the EU member states in terms of employment.

⁴ Source: Eurostat, Newsrelease Euroindicators, 97/2010 - 2 July 2010, May 2010, Euro area unemployment rate at 10.0%, EU27 at 9.6%.

An important role in this direction belongs to the meetings on this subject, among which: the Luxemburg process (1997), Cardiff (1998), Köln (1999), Lisbon and Stockholm (2000), Barcelona (2002), Lisbon (2005) or the relaunching of the Lisbon Strategy. The Lisbon Agenda stipulates the attraction and maintenance of more persons on the labour force market, improving the adaptability of the human capital and increase the investments in it, correlated with the demographic problem and with the migration, social, exclusion, and associated elements such as population health, sensitive aspects of the poverty.

As far as Romania is concerned, before its accession to the euro zone, the Romanian state must focus its efforts on these priorities. However, under the present conditions, when all EU countries, Romania among them, feel the effects of the global financial and economic crisis, some of these priorities will not be accomplished.

After the accession of Romania to the EU, in some sectors of the labour market there was a deficit of both workers (in constructions, textile industry etc.) and of specialists (engineering, health, finances-banks), which indicated a misbalanced labour market. Thus the income from wages preserved a significant inflationist potential in the fourth quarter of 2007 and the beginning of 2008.

The positive evolution of the unemployment rate before the crisis started reflected in the long-term unemployment rate and on the preservation of the employment rate. Although the employment rate increased in 2008 and the employment rate among the elder reached 43.1%⁵, this situation can not be regarded as satisfactory from the perspectives of the targets set by the Lisbon Strategy. The speed of employment increase slowed down to 0.4% in 2007 compared to the previous year, situation which persisted in 2008. This shows that the labour market in Romania has strong structural misbalances which existed even before the crisis emerged: extremely low work productivity, wage raises uncorrelated with the increase of work productivity, modest employment rates compared to other European states, high fiscal pressure on the cost of work, especially regarding the persons on low incomes, insufficient social protection.

At the end of 2009, the global financial and economic crisis actually burst the labour market in Romania. Thus, the number of employees decreased to 4,367.7 thousands persons, and the number

⁵ *Source: Eurostat.*

of the unemployed reached 709,383 people by the end of December, which means 7.8% unemployment rate. This level is similar to the one of March 2004, according to the National Employment Agency (ANOFM). Since then, the number of the unemployed decreased constantly, on the background of a favourable economic context, so that the unemployment rate decreased to 5.9% in 2005 and to 5.2% in 2006, according to data published by the National Bank of Romania.

The lack of measures in support of the economic agents allowed the effects of the crisis to be felt increasingly strong and the number of the unemployed increased month by month. Thus, in April 2010, the number of unemployed reached 738,187, which means 8.1% unemployment rate (National Institute of Statistics, NSI, data).

In terms of professional education and training, Romania still displays a very low rate of enrolment in education and training for the age group 25-64. As it is known, the level of training is very important in the development of the knowledge-based economy and for the long-term sustainable evolution of the labour market. A special role in this direction might be played by the public projects or by the public-private projects that could attract a large part of the population tempted to join the labour market faster. The persistence of labour market deficiencies lies in the *insufficient harmonization of labour force qualification in response to the demand for work*, this aspect being a weak spot of the education system from the Central and East European countries. In the case of Romania, the root of the problem is in the lack of collaboration between the Ministry of Education and the Ministry of Labour to develop education plans correlated with the labour market demands. This causes labour force surplus in some areas and a major deficit of work force in other areas. It is not rarely that the companies feel a discrepancy between their necessities and the labour force qualifications. This aspect has multiple adverse effects: high structural unemployment among the young graduates; increased costs for the companies who have to compete for the low number of graduates having the qualifications they need; low work productivity and professional performance of the newly employed; additional funds invested by the companies for the proper training of this staff. All these elements are losses for all the social partners that are involved, which requires revision towards a higher compatibility between the professional training from the system of education and

the demand for labour force. Therefore, a key point in the current and future evolutions of the labour market is the educational level of the population, in general, and of the work force, in particular. The acute misbalances between the labour market and the system of education in Romania are further stressed by the influence of the economic and financial crisis.

The current national and international context, the lower employment rate, the higher unemployment rate because of the shrinking economic activity, because of the lower remittances sent by the Romanians working abroad, affects the welfare of the households and of the companies and Romanian society as a whole.

In 2009-2010, the strong economic contraction is an exposure for the economy and for the financial stability. This vulnerability worsens strongly the financial status of the companies and of the state and causes unemployment to increase. If in 2009, most of the unemployed came from the private companies (578,280 people, 81.5%, according to NSI data) in the first part of 2010, the number of unemployed increases due to the reorganisation of the budgetary system. Within this context, the deterioration of the economic situation demanded, on the one hand, a more active process of social protection and, on the other hand, the stimulation of investments in productive areas, which would provide sustainability to the medium- and long-term economic growth. None was accomplished (properly) and presently, because of the aggravating budgetary constraints, there are no premises for the remediation of this situation.

The increase of unemployment affects the state budget which loses each year billions of euro by paying unemployment benefits (additional expenditure from the budget, which comes at a bad timing); by failing to cash the income tax (which the former employees, currently unemployed, would have paid) and from the VAT which they don't pay through consumption.

III. Some conclusions

Within the current context of the world financial and economic crisis, the evolution of the European economy continues to display dramatic economic and social misbalances: high unemployment rates, decreasing employment rate, persistence of tensions on the capital and labour markets, prudence and distrust in the financial and

banking system, strong fiscal-budgetary deficits, which mean that the situation still is little prepared for a sustainable economic growth.

In many countries in recession, the fiscal antidote aimed the create jobs, not to increase the pay, as it happened in Romania until last year. On the background of the recession, the pay raise resulted in job erosion due to the lower competitiveness.

The struggle against the rising unemployment requires job creation, the careful stimulation of some areas of public investment. There still seems to be a lot of disorder in this area and a strategy is required which to include clear, complete rules which to be observed.

On the background of the current international crisis and of the measures taken by the Government of Romania, poverty will undoubtedly increase in 2010 compared to the previous two years (2008-2009).

In front of the international crisis, the existing programs of social protection must be intensified and inclusion must be consolidated by improving the access of the poor to the benefits of social assistance. Of a major importance, however, would be the development and implementation of public programs to attract investments in production and thus contribute to the economic revival.

Among the main effects of this crisis confronting Romania is the decrease of the domestic production, which has adverse effects on he income from wages, job safety and company profits.

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CURRENT MACROECONOMIC SOLUTIONS

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Rezumat

Stadiul actual la nivel macroeconomic impune implementarea unui program complex de măsuri îndreptate în direcția asigurării sustenabilității pe termen lung. Cu excepția efectelor datorate producerii fenomenelor de risc macroeconomic, actuala situație macroeconomică este datorată devansării substanțiale a capacității administrative a managementului macroeconomic de către capacitatea evolutivă a sistemului actorilor pieței.

Punctul de plecare în direcția dezvoltării unui astfel de program este blocarea căilor de transmitere și multiplicare a riscurilor macroeconomice în sistem și eliminarea factorilor perturbatori din sistem. Obiectivele programului pe termen scurt sunt reprezentate, în mod generic, de evitarea colapsului macroeconomic, iar pe termen lung obiectivele sunt convergente cu nevoia de asigurare a unui trend economic sustenabil.

Abstract

The actual macroeconomic situation asks to put into practice a complex program towards a long term sustainable development. Excepting the effects due to the macroeconomic risk phenomena, the actual situation is a result of the big gap between the high level of the evolution capacity of the companies and the rigid structure of the macroeconomic management. The start point towards solving such situation is to stop all the ways for transfer and multiply the macroeconomic risks and also to push out all the risk factors from the

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