THE CURRENT REFORMS OF THE LABOUR MARKETS AND OF THE RELATED SOCIAL POLICIES AT EUROPEAN UNION LEVEL – ARE THEY THE BEST SOLUTIONS TO SOLVE THE PROBLEMS WHICH APPEARED DURING THE CRISIS?

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Rezumat

Criza economică şi financiară globală pare a avea şi în prezent o remanență nefastă materializată în creşterea deficitelor bugetare şi a datoriilor publice la nivelul Uniunii Europene, situație remarcată cu precădere în vechile state membre. Printre efectele majore ale crizei se poate remarca o accentuare a problemelor din sfera fiscal-bugetară dar şi din cea socială şi a pieței muncii, cu un impact considerabil asupra restabilirii echilibrelor macroeconomice prezente şi viitoare. De fapt, măsurile menite a repune finanțele publice pe linia de plutire pentru asigurarea sustenabilității fiscal-bugetare au constituit baza de plecare pentru declanşarea reformelor economico-sociale, acestea din urmă având nu de puține ori mai degrabă efecte negative decât pozitive asupra economiilor analizate. Astfel, în acest articol vom prezenta măsurile propuse de guvernele câtorva țări ale UE în privința pieței muncii, a sistemelor de sănătate, educație şi protecție socială, cu sublinierea aspectelor criticabile, precum lipsa unor fructificări concrete ale programelor destinate creşterii ocupării şi

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a unor politici sociale destinate ameliorării şi compensării efectelor procesului de îmbătrânire a populației.

Abstract

The global economic and financial crisis seems to have unfortunate residual effects materialised in the increase of the budget deficits and of the public debt within the European Union, situation observed mostly in the old member states. Among the major effects of the crisis we can notice more serious fiscal-budgetary problems, as well as social and labour market problems, with a strong impact on the restoration of the present and future macroeconomic balance. Actually, the measures meant to restore the public finances on their floating line, thus ensuring the fiscal-budgetary sustainability, were the starting line for the economic and social reforms, which many times had rather adverse effects than beneficial effects on the analysed economies. In this paper we will present the measures proposed by the governments of some EU (European Union) countries for the labour market, health systems, education and social protection, highlighting the criticisable aspects, such as the lack of concrete results of the employment programs and of the social policies aiming to ameliorate and compensate the effects of population ageing.

Keywords: economic crisis, structural reforms, public policies

JEL Classification: G01, J08, J26

Introduction

The current economic and financial crisis struck rather hard the states of the European Union, the impact of this crisis generating a financial and economic shock across the real and nominal economy, with a devastating effect particularly on the public budgets. This situation occurred because of a major lack of coherence and coordination of the EU member states, in the field of the public economic and social policies. The major economic effects of the present global financial and economic crisis have generated the strong decrease of the economic growth and of the consumption, concomitantly with the increase of the public deficits, of the public indebtedness and of the unemployment. We may thus note more dramatic major problems of the labour market and of the social field.

The short, medium, and long-term sustainability of the public finances plays a major role in the restoration of the EU macroeconomic balances, and this is the starting point for the present national economic and social reforms. The crisis compelled the fiscal policies to reconcile the sustainable accomplishment of the fiscal criteria of convergence and the measures that may allow limiting the effects of the global economic and financial crisis on the European economies.

The excessive stress on the sustainability of the fiscal criteria, with no concrete support from the real economy, without actually trying to limit the effects of the crisis (by economic revival and job creation), led and leads to the development and implementation of insufficient, sometimes even useless, structural reforms whose effects are rather perverse than positive.

The European macroeconomic revival is to be accomplished by: reduction of the public debt and of the budget deficit; reform of the system of social protection, of the health care system and of the pension system; increase of the employment rate, measures which are indispensable for most programs of convergence and stability from the EU member states. These aspects are stipulated in a rather formal manner in the current structural reforms and don't involve an actual and correct simultaneity and harmonization of these objectives. A significant example is the European Union vision on the pensions systems from the EU member states, which stipulates further sanctions if the "healthy" reforms imposed by the Union are delayed by the member states, or if the private systems of pensions are affected (for instance, Hungary). The necessity of making substantial economies within the public budgets for the harmonization of the fiscal-budgetary deficits imposed major restrictions within the social systems from the EU member states, systems which should be protected utmost from the adverse effects of the global economic and financial crisis. The exposure of the population to new waves of restrictions within the health care and social protection systems, as well as the lack of real results from the programs aiming to increase the employment rate, because of the population ageing, will certainly generate new medium-term and long-term misbalances of the public budgets, which will have to be stabilised by new major interventions on the labour market and in the policies mentioned above. Invoking the phenomenon of population ageing as source of the “bad things” with no concrete measures to stimulate a higher birth rate and to improve the educational and professional training system, is a simplistic and certainly inadequate measure for the economic, political and social sustainability of the European Union, within the context of the need for a higher work productivity and for a better international competitiveness of the EU products and services.

Aspects regarding the reforms of the labour market and the related social policies in some countries outside the Eurozone

The reduction of the structural deficit (to less than 2% from the GDP by 2014) and the adoption of the Euro by 2015 are important anchors in the promotion of the budgetary and structural reforms necessary in order to increase the economic flexibility of Romania.

Taking into account the objectives stipulated by the Europe 2020 strategy, the Euro Plus pact and the preventive agreement with the CE (European Commission) and IMF (International Monetary Fund), in Romania, the medium term and long term strategy has the following objectives: consolidation of the public finances sustainability, consolidation of the financial stability, promotion of competitiveness and of employment.

In terms of employment, the strategy aims to increase occupation and flexicurity by implementing the new Labour Code; modification of the legal framework for the stimulation of employment and for the system of unemployment benefits; development of a unitary framework for the wage system in the public sector by adopting the *Framework law 284/2010* regarding the unitary payment of the staff paid from public funds; consolidated flexicurity of the process of negotiation and of the social dialogue; correlation of the educational system with labour market requirements; reform of the legal framework for the professional formation of the adult people; implementation of the *National strategy for the reduction of the informal work in 2010-2011*; change *Law 279/2005 regarding the on-the-job apprenticing*; development of a simplified framework, on mutual basis, for the acknowledgement of diplomas within the European area; implementation of the law regarding the occasional work done by casual workers; reform of the social assistance system with the purpose to achieve a better distribution of the financial and human resources within the system, including in the decentralised structures of the local public administration.

The evolution of the pension system, of the national education system and of the public health system has a particular impact on the labour market and on the economy in general. The Government of Romania, through the current Program of Convergence, stipulates the following measures (already implemented or under implementation) in agreement with the objectives of Euro Plus pact:

- Entering in force of the law on the unitary system of public pensions, *Law 263/2010*, by which: the standard age for retirement will be gradually increased by 2030, to 65 for men and 63 for women, while the full period of subscription will increase gradually by 2030, to 35 years for men and women; tightened conditions for partial early retirement by setting a penalty of 0.75% for each month earlier than the standard age of retirement. In this way, the government considered that the people will be encouraged to prolong their active professional life;
- Acceleration of the process of reducing the arrears of the consolidated general budget by the reorganisation of the health care system;
- Operate the program of indemnities for children rearing;
- Ensure the predictability of the system of pre-university education using the principle "the financing follows the student"; improve the formula of financing by student for the pre-university education, according to the Law of the national education, 1/2011.
- Finalise the legislative framework for the social assistance, including the social work and services.

However, the actual results on the labour market and in the field of the social policies show that there was no coherence of these policies, and that the necessary and adequate measured failed to be implemented.

This can be seen from the discrepancy between the evolution of the number of employees in the national economy and the number of registered unemployed people: both indicators had a similar evolution, decreasing during the past three years[1]. The explanation of

[1] *Thus, the number of employees in the national economy reached 4,113 thousand people in March 2011, after three years of successive reductions, just to increase*

this situation resides in: the hard effects of the crisis on the private and public sector, in the layoffs and pay-cut applied since the summer of 2010, which forced many people out of the labour market; lack or inefficiency of the public policies on the labour market, which failed to increase the employment rate in agreement with the governmental provisions; the young population, properly trained, leaves the country to work abroad because here there are no jobs adequate to their training, while the pay is improper; lack of correlation between the professional training of the young people and the real necessities of the labour market; decreased proportion of the young population, which shows a dramatic ageing of the population, which will decrease further the proportion of occupied population; deterring the unemployed population to register formally within the system of social insurances and the lack of motivation for the registered unemployed people to seek a job.

The pensions system must operate on the basis of a sustainable balance between the number of contributors and the number of pensioners, i.e. a rather physical (employee to pensioners ratio) than financial balance. Furthermore, under normal conditions, the system of pensions should represent an accumulation and even a fructification of capital, not an allotment of these funds towards other destinations in the budget, so that there should be no problem of the ratio of the employees to the pensioners. According to INS (National Institute of Statistics) data, the average number of pensioners decreased in 2009-2010, and even in 2011, from 5,688 thousand people in the first quarter of 2009, to 5,628 people in the first quarter of 2011. This decrease is due both to the mortality among the old people, and to the tightened criteria for retirement, for all types of pensions (gradual increase of the standard age for retirement, gradual increase of the full period of subscription, freezing the early retirement between June-December 2010, cancelling the pension for invalidity for a number of beneficiaries after all cases were reviewed, etc.), which decreased the number of new-comers into the pensions system.

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modestly to 4,185 thousand people in June 2011. At the same time, the number of registered unemployed decreased gradually over the same period, to just 436 thousand people in June 2011. Source: INS, Monthly statistical bulletin no. 6/2011.

Aiming to improve the long-term sustainability of the public finances, the Government of Romania aims to restrict the expenditure with the social work and medical care, next to the reform of the public system of pensions starting in 2011, by broadening the basis of social contributions, simultaneously with the reduction of the additional costs related to population ageing. Thus, according to the view of the Government, the structural reform of the healthcare system from Romania aims to improve the quality and efficiency of the health care services and to increase the access of the population to medical care. The measures taken to this purpose include: organisational and decisional decentralization and debureaucratization of the healthcare system, rationalization of the healthcare system and of the number of hospitals in Romania; establishment of a legislative and institutional framework which to allow the development of the Romanian healthcare system in interconnection with the European healthcare system; improved quality of the health care and higher access to preventive and curative medical services; higher access of the patient to modern treatments at affordable prices through a new policy of setting the price of medicines; redefinition of the basic package of medical services; informatization of the healthcare system and operationalization of the health card; development of the private health insurances; development of the primary and ambulatory health care through a better financing; decrease of the costs with medical assistance in the hospitals by improving the management of hospitals which should operate on the basis of the financial autonomy; development and planning the human resources working in the healthcare system; establishment and consolidation of the national system for emergency medical assistance and qualified first aid; increase the taxation basis by increasing the number of contributors; efficientization of the cost with medicines by introducing the system of the reference price and by decreasing the profit added to the medicines; decentralisation of competencies in the field of healthcare; supplementation of the sources of financing for the public healthcare system using the clawback system (the producers of medicines contribute progressively to the cost of the medicines purchased or compensated by the state); decentralisation of the National Fund for Health Social Insurances (FNUASS) to the level of the County house for healthcare insurance; efficient use of FNUASS by the development of practice protocols as basis for accounting; rationalization of the network of hospitals to increase the quality and efficiency of services; introduction and finalization of the co-payment concept.

Similarly to Romania and to other regional countries, in order to decrease the expenditure from the budget, **Hungary** imposed several measures of austerity since 2010: higher taxes, freezing the wages paid from the budget, elimination of the 13^{th} pension; freezing the social aids for a period of two years, increasing the retirement age to 65. The *Convergence Program of Hungary 2011-2015* stipulates the reform of the labour market, of the pension system, of the healthcare system and of the educational system.

Although the Hungarian labour market was marked by the negative evolution from the end of 2009, starting with August 2010, the number of employees started to increase: the number of fulltime employees increased, as well as the hours worked in the sector of tradables, while in the sector of nontradables increased the number of half-time employees. Despite the fact that the unemployment rate, stabilized at 11.2% at the end of 2010, decreased to 9.7% in July 2011, the long-term employment and the unemployment rate among the young people exceed the EU average (according to Eurostat Data); the employment rate also is extremely low, which shows structural and conjunctural problems of the labour market in Hungary. The Magyar government wants to increase the employment rate by decreasing the tax on the personal income, by modernising the vocational education and by supporting the scientific and engineering educational programs, which may help the development of the human capital.

Next to these measures, the improvement of the employment rate among the people from the disadvantaged groups and among the people with low educational level, as well as job creation and assistance for integration on the labour market are some of the objectives set in the National Public Employment Programme. A strong motivational element, built into the plan for structural reform, is that the sum of the social benefit for a citizen must be lower than the income from working in the public sector, so that the result of the social benefits on the offer of labour is not counterproductive. The mentioned plan of structural reform redefined the pay for medical leave[2]; the total social transfers, on grounds of legal reasons, were set to a level which is lower than the minimal wage; the period during which a person seeking a job received allocation was reduced from 270 to 90 days and the unemployment benefit was cancelled; a nominal level was set for the family allocations and benefits; the benefits for the passive measures of the labour market policies and for the reform of the pension system were decreased[3].

The Hungarian system of pensions was restructured (at the end of 2010): the funds of compulsory private pensions were discontinued, and the state pensions plus the facultative pensions replaced the former three-pillar system. This was done because the government considered that the assets of pillar II of the compulsory private pensions may alleviate the decrease of the budget deficit in 2011 and 2012 by about 2% and 1% of the GDP, respectively.

Although the expenditures for healthcare are below the average EU level, the pharmaceutical expenses are higher than the international average. Thus, during the subsequent period, the pharmaceutical subsidies will be reduced substantially and there will be a minimal increase of the subsidies for the consumer prices in 2011. Some aspects of the system of pharmaceutical subsidies were defined in early 2011, so that economies can be obtained by: encouraging the prescriptions using active substances agreed by the Fund for Health Insurances; review of the rules for the definition in advance of the relevant therapeutic areas, taking into account the financing protocols for these areas, in order to provide for a higher cost efficiency; changing the application forms so as to accept new drugs in order to ensure the lowest cost at European level. Thus, the most efficient measures to attract funds in the field of pharmaceutics were the increase of the fees for the sales representatives; getting 12% from the payments of the producers and reviewing the volume of contracts.

The reorganisation of the educational system in Hungary relies on the new law of education which aims to increase the competitiveness in this field by focusing on the technical sciences, by

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[2] *Setting the upper limit to half of the previous value.*

[3] *Source: Convergence Programme of Hungary 2011 – 2015 Based on the Széll Kálmán Plan, Budapest, April 2011.*

improving the system of training and by producing optimal results in relation with the costs of the system. Some rules governing the higher education system were changed in 2010 by adding supplementary requirements for admission and by reducing the number of seats financed from the state budget for some faculties and specialisations. Overall, for the next period, the number of seats financed from the budget will decrease from 53,450 students in 2012, to just 30,000 students in 2014, the government arguing this decision by the demographical evolution of the Hungarian population. Furthermore, the organisational and institutional structure of the educational system (of the higher education, particularly) will be reviewed in order to rationalise and efficientize the expenditure in this field.

In the **Czech Republic**, most measures to reorganise the public budget aimed rather the incomes[4] than the expenditures. However, on the side of public expenditure, some social benefits were decreased, the pensions were frozen, the wages in the public sector were cut (by 10[5] and the pay rise was set at a low level for 2012-2014; the wage of the officials and judges were decreased and some positions in the governmental sector were cut. Although unemployment raises no special problems in Czech Republic (the unemployment rate decreased gradually since the end of 2010, to reach 6.4% in July 2011, according to Eurostat data), the Czech government focused, none the less, on the reduction of the structural unemployment and on the increase of employment. Thus, it aims to implement reforms of the social policies which to increase the motivation of the inactive people to get employed, and which to focus better the social benefits towards the areas which are most exposed socially. At the same time, the reforms highlight the need for a more flexible legislation of the labour market, particularly concerning the prolonging of the trial period and of the maximal working period for a contract of services, the introduction of the possibility for the temporary transfer of an employee from one employer to another, and the change of the conditions for payments upon the termination of the

[4] *The VAT and the excises were increased and the tax on property was doubled, according to the Convergence Program of Czech Republic, 2011.*
[5] *However, the wages will increase in the educational and healthcare systems, in order to stimulate and improve the quality of these systems, according to the Convergence Program of Czech Republic, 2011.*

work contracts and of the conditions for the compensation payments. Also, in order to responsibilize the people seeking a job by limiting the access t unemployment benefits (if the employee quits, he/she will receive just 45% of the net average monthly income).

The legislative changes programmed by the Czech government to the system of pensions consider the establishment of a more precise and predictable system, particularly since, as the population ages, the dynamics of the expenditure with the pensions gets problematic. Thus, they plan to increase the retirement age by 2 months per year, even after reaching the limit age of 65; the age limit for retirement will increase by 6 months per year for the women born in 1956 and afterwards, aiming to unify the retirement age for men and women[6]. At the same time, the system of pension indexing will be done in agreement with the evolution of the index of consumer prices and by a third from the increase of the real wage. The penalties for early retirement will increase. In Czech Republic, pillar II of the system of pensions is set to be introduced as of 2013 for the people up to the age of 35 at the time when the reform was initiated; the people above this age may decide to join this pillar until mid-2012. Pillar two will be financed from the funds transferred from pillar one – 3% from a total contribution of 28%, of which the employee pays 6.5% - and the insured persons will have to pay an additional 2% from own resources[7]. Furthermore, the people choosing an insurance policy which also protects their parents will have to pay an additional 1%. Therefore, in order to support the reform of the system of pensions with this new pillar, the contribution to social insurances will be increased to 30%, of which 25% will be transferred to pillar one (PAYG) and the rest to pillar 2.

The governmental reform of the healthcare system aims the introduction of hospitalization taxes and of taxes for checking by a specialist doctor without having an address from the family doctor.

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[6] *A full unification of the retirement age at 66 and 8 months is expected by 2041 for the people born in 1975. For each year after 1975, the retirement age will increase with an additional 2 months, with no limit, according to the Convergence Program of Czech Republic, 2011.*

[7] *Consequently, the contribution of a person just to the first pillar will represent 29%, while the contribution to the second pillar too, will represent 31%, according to the Convergence Program of Czech Republic, 2011.*

New standards for the public healthcare insurances will be introduced, which stipulate that the patient will have to pay for the medical services not included in the standard package.

The governmental measures in the field of education aim to adjust this system to the requirements of the Czech economy, oriented towards the industrial production and export. Thus, the tertiary education will be reformed by redefining the typology of the higher education institutions for a better relation between the state and the higher education institutions. Thus, the universities will be diversified and the quality of their results will have to be improved, while the educational taxes will have to cover the educational expenditure.

In ***Poland***, the labour market and the social policies proved to be really flexible during the period of crisis because they allowed the economy to stimulate the use of the private sector for investments required by the fast increase of competitiveness on the foreign markets. In 2010, the improved economic activity had a positive influence on the demand for work, which increased particularly in the field of services. Although the number of employees and of self-employed increased in 2010, the rate of employment according to Europe 2020 strategy[8] decreased from 65% to 64.6% in 2008-2010. In Poland, like in other European states, during the period of economic and financial crisis, occupation increased due to the temporary employment, not due to the permanent employment. The general instability observed on the labour market from EU 27 and from Poland caused the unemployment rate to increase to 9.6% in 2010 (from 7.1% in 2008), only to decrease slightly to 9.4% in the first seven months of 2011 (according to Eurostat data). Unemployment was still high compared with the period before crisis. The low increase of the work productivity, the planned reduction of jobs in the public sector and the freezing of the wage funds for the public sector led and will lead in 2011-2012 to a rather modest increase of the wages, according to the Polish government[9].

[8] *The Europe 2020 strategy target for occupation is 75%. This indicator is calculated for the population aged 20 – 64, not for the population aged 15 – 64, according to the Eurostat data.*

[9] *Source: Republic of Poland Convergence Programme 2011 Update.*

Until 2011, the Polish government took short-term measures to increase the revenues to the budget and used few structural changes that may affect substantially the labour market and the social policies. However, starting with 2011, the need to decrease the budget deficit and the public expenditure within the limit imposed by the convergence criteria, determined further measures: decreasing or freezing the public expenditure for investment, social benefits, wages and pensions; limiting the early retirement possibilities and replacing it with the bridging pension, while for the teachers, the replacement of early retirement with a compensatory allocation, a temporary solution like the bridging pension; the early retirement was maintained for the army and miners; the social security and the pension systems were reformed; establishment of the demographic reserve fund[10], which supplements the pension fund. Some expenses for the less efficient programs of the labour market have been cut substantially.

In Poland, unlikely from Hungary, the reforms of the system of compulsory pension with private administration determined a decrease of the contributions to this system. As of May, 1st, 2011, the contributions transferred from the system of social insurances to the open pension funds decreased from 7.3% to just 2.3%, while from 2017 they will amount to 3.5% from the basis for the contribution for pension. This reduction is intended to alleviate the budget deficit by about 1.1% in 2011-2012.[11]

Despite the increase of the number of students from the tertiary education, the Polish educational system is not correlated with the real necessities of the labour market. The number of adult people and of people with poor skills interested or integrated in life-long education and in vocational education is very low. The research-development system is poorly implemented in industry and in the higher education. The Polish government intends to increase the number of preschool care for children (nurseries, day-care centres etc.) thus allowing the young mothers to integrate faster and in larger numbers on the labour market. This goes for the adult women too, who are often forced to

[10] *It is estimated to 4 billion Polish zloty, which is 0.47% of the GDP, according to the Convergence Programme of Poland 2011 Update.*
[11] *Source: Republic of Poland Convergence Programme 2011 Update.*

withdraw earlier from the labour market in order to raise their nephews or other people in need of care.

Aspects regarding the reform of the labour market and related social policies in some countries from the Eurozone

Although they are within the Euro zone, ***Estonia, Slovakia*** and ***Slovenia*** also suffered strong economic and social losses during the global economic and financial crisis. Thus, in 2008-2010, the unemployment rate increased dramatically (almost tripled in Estonia), the employment rate decreased impressively, the wages were almost frozen like in most EU countries, the long-term unemployment and the unemployment of young people soared much over the European average (except Slovenia). This situation doesn’t seem to recover in the coming years, at least if we consider these indicators for the first three months of 2011. The reform of the labour market and of its related fields aims to decrease unemployment and to increase the employment rate by focusing on the active policies of the labour market, which make work more attractive by fiscal and non-fiscal incentives so that the entrepreneurs employ an increasing number of young people. The reform also plans limited expenditure for the pensions and social and medical care, so that the budget deficit returns to the normal parameters.

Confronted with unprecedented fiscal-budgetary problems, ***Greece*** is in its third year of recession and it was saved repeatedly from default by the financial agreements with the IMF and European Union. The 25% cut of the wages in the public systems and of the pensions (since 2010) were not enough to return to the normal state. According to the Eurostat data, unemployment hiked since 2010 (12.6%), on the background of the worsening social perspectives. The government took measures to decrease the expenditure in hospitals, to reduce the bonuses and to freeze the wages of the public officials, to increase the retirement age, to increase the excises on fuels, as well as other constraining measures. These austerity measures aggravated the recession and wiped a lot of jobs, the resulting unemployment matching that from Spain and Italy.

In ***Spain***, the reforms and measures of austerity from 2010 and 2011, such as increasing the retirement age to 67, worsening the rules for early retirement, 5% cut of the wages for the public officials, freezing the pensions, cancelling the 2500 euro bonus for the newborns, decreasing the investments and increasing the VAT, didn't yield the expected results. Thus, the unemployment rate reached 21% (June 2011), the highest level in EU and the public debt exceeded 65% of the GDP.

Italy is also confronted with a public debt in excess of 120% of the GDP, more than in any other EU member state. The huge problems confronting Italy, such as low economic growth, population ageing, political incertitude and high unemployment rates may take Italy along the road followed by Greece, endangering the European Union and the Euro. Because its problems are much more serious than those of Greece, there are voices saying that Italy needs more drastic austerity measures, including for the labour market and the social policies in order to avoid the state of default.

In ***Germany***, the extremely good domestic performance supports an unemployment rate at minimal levels so as not to hinder the economic growth, which is supported both by the domestic demand (2/3 of it) and by the foreign demand. If the employment rate decreased in France, Italy, Spain, Portugal and Greece, it increased in Germany, reaching 74.9%, little under the 75% target of Europe 2020 strategy. The German labour market proved to be strong in times of crisis: the companies adopted a plan for fewer working hours, which didn't affect dramatically the labour market. Thus, the number of unemployed people decreased by 179 thousand people in 2010, and the number of employees increased to 40.48 million people. The reform of the German labour market aims to increase occupation, expecting 320 thousand more people employed in 2011. Because of the negative demographic evolution, the German authorities plan prolonging the retirement age to 67 years, while introducing additional restrictions for early retirement[12].

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