



## **European Employment Observatory**

### **EEO Review: Youth Employment Measures, 2010**

#### **Romania**

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*This article is the sole responsibility of the author(s)*

## 1. Introduction

In 2008, there were 3.11 million young people, aged between 15 and 24, in Romania, making up approximately 14.46 % of the country's total population. If we also add to this the population aged between 25 and 29, thus thoroughly extending the 'age limit' of youth, we reach 4.78 million or around 22.23 % of the country's total 21.5 million inhabitants. This is of course not a negligible number, showing that a window of opportunity in demographic terms still exists for the country. However trends are more than worrying, pointing to the fact that while the 'window' might still appear open for now it is closing and at a fast pace. Compared with the last Census (which was carried out in 2002), the age group of 15 to 24 years decreased in size by around 8 %, with a high proportion - 75 % - of this loss taking place over the short timeframe of three years between 2005 and 2007. This is the same for the population aged between 25 and 29, which has decreased in size by around 6 % since the beginning of the decade (based on the same 2002 Census). Once again, almost the whole of the loss took place practically during the last three years of the period. This clearly shows a reversal of trends. If until 2006-2007 at least, this latter segment of the population was still on the increase, afterwards, the declining trend clearly marked the entry into this particular age group of the post-1990 smaller cohorts. While much can be attributed to the difficulties of transition, as noted in the 2005 EEO Review on Youth Employment, as well as in other works published since, it goes far deeper in time, as early as the 1950s.

Thus at a time when the population in the West of Europe was experiencing its baby boom, birth rates fell in Romania between 1948 and 1966 by a significant 41 %, owing fully to the hardships imposed on the country by the communist regime. Pro-birth policies enacted and fully applied by the communist regime in the mid-1960s, as well as in the 1980s, took their toll in the 1990s, as they helped to engender a certain type of behaviour which can only be seen as more than self-restrictive when it comes to child-bearing. Coupled with the many and radical changes that occurred throughout the last twenty years, this has led the large generations born in the mid-1960s to postpone having children until they are over the age of 30, a fact which has deprived the country of what would have been a strong reservoir for growth in the first half of the 21<sup>st</sup> century.

In terms of the labour market, the fact that economic growth throughout the first eight years of the decade has not been matched by significant job creation has diverted large cohorts of the young population from the labour market into what can be considered, given the country's level of economic development, as *prolonged education*. On the one hand this might have been a positive development as it markedly improved the level of education of the country's population as a whole, with the share of those reporting higher education rising from a very low 6.2 % (as a share of the population aged 15 years and over) in 1996, to 9.6 % in 2008 and with enrolment rates in a form of education for those aged 19-23 skyrocketing from 22.6 % in 1996 to 63.3 % in 2008 (a 180 % rise over 12 years, making thus for a crude average annual rise of 15 %). On the other hand it has also marked a corresponding rejection of the labour market for the same age cohorts. Activity rates for young people dropped dramatically, falling by 13 percentage points between 2000 and 2008. This means that around the time when the Romanian economy recorded an average annual growth of 6 %, with the country's GDP rising nominally four times as against the base-year of 2000, more and more young people were actually shunning, if not employment, economic participation in any case.

Massive unemployment nevertheless afflicts the 15-19 year olds, with rates here topping the national average by no less than 375 %. However, as we climb the age-ladder, rates gradually fall to around 16 % of the 20-25 year olds (still 100 % higher than the national average and touching 20 % in 2010), while the 25-29 age group reaches a level that hovers around the average. Worryingly however, is the unemployment rate for this highest of the young-age groups (25-29) which in 2010 has grown so as to exceed even a rapidly climbing national average. The long-term unemployment rate remains high amongst all of the three young-age groups. At the lowest, somewhere around 31 %, it has even witnessed peaks of 50 % during the last three years (i.e. since 2008-EUROSTAT data), for some of the age groups taken as young, notably the 20-24s where it stood at a staggering 53 % in 2008 - a 'growth year' for Romania. The fact that long-term unemployment appears to be on the decline in 2010 while on the overall picture rates are mounting, can only be explained by the tough conditions of the Romanian unemployment insurance act which, as we will subsequently argue, gives youngsters an unenviable, 'worse-than-the-average' , status when they begin to take unemployment benefit.

The shock of the economic crisis has only made things appear worse. While the practical 'labour market lid' created by the rapid advance on the labour market of generations born in the mid-1960s, was what actually diverted the flows of still sufficiently large generations born in the 1980s towards the education system and away from the labour market in the late 1990s and early 2000s, it is the same 'lid' that puts the same generations, plus, and in increasing number, those born in the early 1990s, at a gross disadvantage on the labour market today. The fact that, according to EUROSTAT data, the unemployment rate for young people shows little difference between low, medium and high skilled, with rates for young people aged between 20-24 being a full 7.6 pp. higher for those high skilled than for those low skilled while, for the age group 25-29, where we would have expected the high skilled to perform far better, the same unemployment rates are practically equal for the low and high skilled (around 11 %), points at a worrying, quite dangerous phenomenon of 'over supply in education'. It only serves as to confirm the 'inflation-type phenomenon' in education described by many when analysing the supply of skills in the emerging economies of the New Member States (Central and Eastern Europe), including by the author of this report and whereby, massive supply of well and higher educated young people far more than outstrips the actual demand. This generates an education, or rather an '*educated labour supply bubble*', bound to burst when markets take a dip. In other words, labour supply displays a level of education outstripping current demand in terms of the jobs on offer.

## **2. Measures taken to promote youth employment**

Few resources were made available for the promotion of youth employment at the beginning of the 1990s. However as the decade went on and the economy benefited from a growing influx of foreign direct investment (FDI), thus tremendously increasing its productivity, terms also improved for the public budget. Unfortunately resources were not directed towards employment generation measures but were funnelled into the education system, with higher education being the main beneficiary. While active labour market policies (ALMPs), as a share of the country's GDP unemployment insurance fund, out of which almost all ALMPs are financed including those geared towards young people, never surpassed 1 % of GDP (active measures never taking more than an absolute 0.16-0.17 %), the education budget grew enormously from a reasonable 3.5 % of GDP at the beginning of the decade to a totally

wasteful almost 6 % in 2008. At its peak in 2007-08, Research & Development - part of the education budget - accounted for only 0.8 % of GDP and the remainder was spent on salaries and expensive campuses which the author of this report predicts will become empty in the years to come, given prevailing demographic trends.

## **2.1. School education and training policies**

In spite of the fact that significant resources have been spent on higher education in the past years, certain achievements can be identified. First the number of years in school mandated by law has increased from only eight years at the beginning of the decade to 11 currently, with 10 mandatory years in school and one mandatory year of pre-schooling. The school enrolment rate has been the highest and on a growing trend for higher education where for the university year 2008-2009 (last validated data-NIS) it reached 54.9 %, compared with a low of only 20.9 % in 1995, 31.9 % in 2000 and 47.5 % in 2005, thus marking a full 162 % increase as against the mid-nineties, a 72 % increase since the beginning of the decade, and a quite significant 15 % rise since the middle of the decade. Although at a lesser pace than for those aged 19-23 and over, school enrolment rates for the 15-18 age group also increased, going up from a low of 59.7 % in 1996 to 79.2 % in 2008. School enrolment rates for this age group have been for the whole period higher for female than for male young people.

It should, however, be noted that the recent reductions in public spending will severely affect rural areas. Many small rural schools will be closed thus leaving large numbers of young people unable to attend school due to a multitude of factors, while teachers, apart from seeing their basic salary cut by 25 %, will also no longer receive the supplementary allowance for teaching in rural areas. This will make many of them renounce teaching for other jobs, either at home or abroad. In both cases nevertheless quality in rural education will drop as remaining resources will be more than strained.

There have been some difficulties in getting apprenticeships ‘off the ground’ in Romania. Although a special law as mandated by the Labour Code since 2003 has been in place since 2005, it has seen slow take-up. One initial cause of this was the legal requirement for enterprises willing to apply apprenticeship schemes and engage in apprenticeship contracts (which have been defined as a special type of labour contract involving both work as well as vocational training in the workplace) to have a number of specially trained apprenticeship foremen, equipped not only with sufficient professional experience and expertise but being also in the possession of a certificate attesting to formal training-related knowledge and skills. While this issue has finally been resolved, the advent of the crisis simply eliminated any incentive for apprenticeships, as employers have found themselves struggling to maintain, sometimes while drastically cutting either wages or working hours, their regular staff.

Another achievement is that, starting with the middle of the decade, a system of recognition of informally acquired skills and knowledge has been put into place under the aegis of the country’s National Adult Training Board-NATB / National Authority for Qualifications (the National Adult Training Board currently again seeing an administrative restructuring as it is due to be transferred from the authority of the Ministry of Labour to the Ministry of Education). This has enabled several training providers to take on the role of accreditation as evaluation centres, thus enabling many of those that acquired their qualifications informally to have these qualifications formalised and thus gain a better chance on the labour market. The Romanian system of validation of informal qualifications can be currently considered as good

practice at European level, given its openness as well as its modular character that allows individuals to obtain a certificate for part of the skills and knowledge needed to obtain a certain qualification and to go on a formal training course in order to obtain the remaining part, if this is deemed necessary. It is also possible to grant a full formal qualification on the basis of informal learning alone. The very fact that *comitete sectoriale* (Sector Committees) operating as bi-partite bodies in sectors of economic activity have seen their status enhanced, including by becoming public-interest bodies as of 2009, has greatly contributed to these gains. It has also been instrumental in the establishment of new qualifications that have emerged on the market and has encouraged a change in content for others. This very fact has led to the emergence of occupational standards which are mandatory for training and certification in several occupations, a fact that has greatly increased quality in vocational training provision.

The percentage of those neither in employment nor in education and training (NEET) remains somewhat significant and, in spite of the progress described above, is at 9 % for those aged between 15 and 19 and 13.8 % for those aged between 20 and 24 years of age. This points to the need to step up efforts to create more vocational training opportunities for those aged 20-24, as well as to make sure that the 15-19 age group is thoroughly included in education, with a focus on small, isolated communities where NEET rates are high.

Yet another difficult issue remains early school leaving which at 18-19 % remains relatively high, above the EU average. Reasons associated with poverty, low development and lack of access to education for impoverished communities have received ample citation. However, the root cause is in the way in which the Romanian education system and particularly its compulsory component is actually designed. This makes allowance for a reduced number of compulsory years in school, running actually only until the age of 15-16. All in all, including now one mandated pre-school year, only 10 grades and thus 11 years of schooling are compulsory. With many small communities having only a 'general school' (eight to nine grades depending on the number of classrooms and qualified teachers) within their boundaries and with high schools concentrated, apart from a few exceptions, almost exclusively in urban areas (where nonetheless only a little more than half of Romania's population lives), it is no wonder that for quite a large number of young people and their supporting households, going to school, especially after this ceases to be compulsory, becomes a burden. A proposal made during the last legislature and which was envisaging a thorough increase in the number of compulsory years in school, so as to reach to the age of 18 (full 12 grades plus the one compulsory year of kindergarten), has met with unexpected resistance on grounds relating to the status of high school and the necessity of keeping certain 'quality-in-education' standards which, such a measure, if adopted, would have thoroughly jeopardised (apparently by allowing practically 'everyone' to go through high-school, although this in no way guarantees a *baccalaureat* diploma - the country's prized, French-modelled, end of high school attestation and pre-requisite for entering higher education). To what extent that would have happened and also to what extent this would have helped in reducing school-drop-out, remains nevertheless debatable<sup>1</sup>.

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<sup>1</sup> Since this article was written, the new framework Education Law, which is due to be implemented from 2012, has been adopted by the Parliament. To a certain degree this Law tackles some of the problematic issues outlined by the paragraph

## **2.2. Labour market and employment-related policies and access to benefits**

With a few exceptions, the Romanian labour market can be regarded as rudimentary when it comes to its institutional arrangements. Both the Labour Code adopted in 2003 and the unemployment insurance act are based around the simplistic structure of one-man-one-job, with that one job presumed to be full time and governed by a non-determined duration contract. While this of course protects the insiders, it puts outsiders at a great disadvantage, young people being the first ones 'in the line of fire'. The same goes for unemployment benefit - to qualify for what is according to Romanian law a fully contribution-based benefit, the claimant is required to produce evidence of accumulating at least 12 months of contribution period to the unemployment fund during the last 24 months prior to his or her discharge. The very fact that in several cases young people take part-time jobs renders them fully unable to accumulate the bare minimum of contributions required. This helps to explain (up to a certain extent of course, with the rest being explained by the 'education bubble' mentioned earlier) why state jobs have been so sought after, even in times of economic prosperity and why even now, with salaries reduced by what has been a cumulative 50 % as against levels at the end of 2008, so many are still desperately clinging to jobs in this sector.

### **2.2.1. Active Labour Market Policies**

The main activation scheme incorporated into the body of the aforementioned unemployment insurance law is a provision that gives employers who recruit young graduates, access to a subsidy for a period of 12 months, differentiated according to the formal level of educational attainment of the graduate. This period of subsidised employment can go up to 18 months if the young graduate is disabled. In the meantime the enterprise is given an exemption from contributions to the unemployment insurance fund in accordance of course with the number of graduates hired under the scheme, also running for respectively 12 or 18 months consecutively. The subsidy for one graduate can go from the equivalent of one national minimum salary for graduates of general or vocational schools, to the equivalent of 1.2 times the minimum wage if graduation from secondary education can be proven and finally reaches as much as the equivalent of 1.5 times the minimum wage for graduates of higher education. Enterprises can offer more than this of course but it is up to this ceiling that they receive the subsidy. While the terms might not appear very generous for the graduate, as the minimum salary is a bare gross RON 600 (EUR 142), enterprises, especially small and medium enterprises for which the subsidy has been designed, are displeased with the obligation to keep an employee in the job for 12 months just to receive the subsidy and at being exempted from what is the smallest of all mandated social protection contributions (a combined rate of 1 % employer and employee). Therefore, the total number of beneficiaries even in a year of economic crisis, such as 2009, did not exceed a very low 3 605.

In order to complement this demand-side incentive, there is also a supply-side incentive, unfortunately working around the same simplistic logic. Graduates aged at least 16, irrespective of their level of education, may benefit if employed on a 12 month full-time contract (eight hours per day, five days a week), from a subsidy, also paid from the unemployment insurance fund, at the same equivalent of the gross minimum guaranteed salary. The subsidy goes on for the duration of the 12 months of the contract. Data provided by the Ministry of Labour show a total of 2 989 beneficiaries for 2009.

However one has to say that a limited measure of success has been achieved by these measures as the total number of beneficiaries reported for 2009, for the two measures outlined, makes up around 10 % of the total number of registered unemployed aged below 25, or in other words from those age groups from which graduates are most likely to come.

### **2.2.2. Access to social security benefits**

As previously stated, being eligible for unemployment benefit is not easy in Romania, even with the required contribution history. For young people with no history of contributions and no income, the eligibility criteria are even harsher. A graduate, irrespective of the formally attained level of education, must register with the local National Agency for Employment (NAE) office within 60 days of his / her graduation in order to qualify for what is actually a portion of the full unemployment benefit, to be granted for only six months (extended to nine since 2009) and totalling no more than 50 % of the national minimum salary. This means a graduate without contribution history cannot receive more than RON 300 (EUR 71) in unemployment benefit per month. While the number of beneficiaries in 2009 was 7 488 individuals, or the rough equivalent of 12 % of the total number of registered unemployed in the age groups below 25, one can hardly believe that a fall into any kind of benefit trap can be contemplated at these low values. It should also be taken into account that as part of the Government's recently enacted austerity package, which took effect on 1 July 2010, all unemployment benefits have seen their value reduced by 15 %.

To the credit of the system nevertheless it has to be said that while on unemployment benefit, any individual - youngsters included - is entitled to the free provision of vocational training courses and also has access to the public health system. In the meantime, periods of paid unemployment are also credited into the public pension system, though of course, the low values received mean that not many pension points can be accumulated as such.

### **2.2.3. Tax systems and labour market legislation**

Apart from the measures mentioned above, all of which are currently being financed from the unemployment insurance fund, there are no other incentives in place for employers nor are there any special taxation regimes. However one has to mention the fact that the flat-rate income tax of 16 % which was introduced by the centre-right government in early 2005 and which has greatly stimulated economic activity at the height of Romania's period of growth throughout the past decade, has been retained by the successive Governments of Prime-Minister Emil Boc and this in spite of many pressures to return to the old, pre-2005, progressive taxation system. In addition, young people have been amongst the main beneficiaries of a special provision exempting software developers (mostly young people) from income tax. However, in 2009, as crisis struck and budget revenues took a hit, the government introduced a 'minimum corporate tax' to be paid not on profit but on generated turnover, a measure that was badly received by entrepreneurs and which has been blamed for many SME closures since it was introduced. To its credit nevertheless, the government annulled the tax starting 1 October 2010.

### **2.2.4. Promoting mobility of young people, both at national and transnational level**

It will again be hard for the Romanian government to support mobility for a variety of reasons. Nevertheless, as the Bologna system has been adopted by practically all of the higher education institutions in Romania and the system of transferable credits has been in place

already for a number of years, in principle at least all higher education graduates should have easy access both nationally and internationally (in Europe at least) to a host of job openings as well as training opportunities. Several reasons, which will not be explored here in great depth, make Romanian graduates highly prone to international mobility. The very fact that borders are now open and there are now more opportunities to work and study abroad make Romanian young people probably amongst the most mobile in Europe. The fact that the education system offers them at least two foreign languages, with the most widespread being English and French only contributes to that. As for the adult and vocational education system, the recognition of informally acquired skills, the adoption of nationally-recognised certificates as well as in some cases of national occupational standards and by all means the fact that in order to issue a nationally recognised certificate, each and any training provider has to pass through a standardised procedure governed by common rules established by the National Adult Training Board in its capacity as national qualification authority, provides not only young people but any worker with the possibility of seeking a job at national level and of enjoying practically unrestricted professional mobility.

### **2.3. Addressing problematic features of youth employment**

In order to address the growing youth unemployment, as well as the fact that the economy will be unable to generate a significant number of new jobs for some time to come, the Government has recently devised a scheme to encourage entrepreneurship among young people. As the Prime Minister recently revealed, a scheme that will target so-called ‘start-up enterprises’ created by individuals aged below 35, will give these entities several exemptions from taxation for some years after establishment, as well as generous subsidies for employment, in the form of exemptions from the mandatory social security contributions, of course for a limited duration. Profits re-invested by those companies will be also considered as tax-free. Several other advantages will include a state backed credit-guarantee up to a certain ceiling which will allow new entrepreneurs to tap into cheaper, easier financing. The scheme looks more than generous given the fact that the Government has been up until now focused more on savings but the Prime Minister has avoided giving a deadline for the adoption and implementation of this measure. Expectations are however that it might commence even towards the end of 2010 so as to start applications in earnest in 2011, when the economy is hoped to grow by at least 1.5-2 %, after two years of freefall.

### **2.4. Roles of the labour market actors**

Social dialogue is part and parcel of the Romanian labour market institutional setting. The Economic and Social Council brings together representatives of employers and unions, jointly state representatives, to discuss the country’s economic and social legislation and deliver a consultative opinion to the government before sending proposed legislation to Parliament. It has an important role in the setting of the national minimum salary which afterwards is decreed by the government. In the meantime, the National Adult Training Board, acting as the country’s qualification authority, operates entirely on a tripartite basis and there has been considerable progress made in this field, as illustrated above with the most notable one being the adoption, via branch, branch sector or occupational or professional consensus, of occupational standards governing the process of vocational training for a certain occupation and enabling the delivery of standardised outputs in the field. Also, one has to note that both the National Agency for Employment, which also benefits from an entire axis of the Human

Development Resources Operational Programme, as well as the National Pension House, also have tripartite governing bodies.

The country's public employment service, as stated throughout this paper, remains the principal administration entrusted at least where current provisions are concerned, with the delivery of youth-related labour market programmes and actions. It acts in accordance with provisions enshrined in the Unemployment Insurance Law. As Romania is a unitary state, no powers regarding the administration of the Unemployment Insurance Fund, out of which most of the youth-related measures are financed, are vested with the local or judet (county) authorities (the regional level *per se* does not exist administratively in Romania). Therefore there is practically no variation in the way measures are really applied from one region to another or from one locality to another, apart from minor technicalities. The recent restructuring measures of the PES have had more to do with the austerity measures commanding a reduction in the number of personnel and administrative structures than with a real change in the way services are operated. However, it seems that finally, under the heavy blow of the crisis, a change, in the form of a new Unemployment Insurance Law, is finally in sight.

### **3. Conclusions**

The austerity measures taken by the current Government have certainly helped in keeping the investors happy, as the Romanian economy will remain firmly within the terms of the IMF-led Stand-By agreement. They also helped in keeping the exchange rate relatively steady, although this may bring relatively small comfort to millions of households and thousands of businesses. Indebted households, with young people's households making up quite a share of them, and businesses, would probably have preferred some depreciation, with some jobs and demand remaining on the market, rather than economic stability with no jobs and no demand for products or services. The burden of household and business debt is not decreasing; on the contrary, it is increasing, thus hampering prospects for a quicker and sufficiently deep recovery.

This is why there is a need in Romania for a credible recovery plan that would place less emphasis on stability of prices and put more emphasis on growth. It is arguable that young people, who make up a nation's most valuable productive force, yearn less for stability and rather more for the dynamism of growth.

## Annex

<b>Table 1: YOUTH EMPLOYMENT / UNEMPLOYMENT TRENDS (Q1 data)</b>									
<b>Data</b>	<b>Age group 15-19</b>			<b>Age group 20-24</b>			<b>Age group 25-29</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Employment rate (%)	8.3	7.8	7.0	36.7	36.9	35.7	68.9	66.2	65.9
Unemployment rate (%)	33.7	38.6	31.6	16.2	17.4	20.6	6.8	8.0	10.8
Long-term unemployment as a % of unemployed	27.0	21.3	(24.3)	53.1	40.6	35.3	52.5	38.4	31.6
Youth unemployment to population ratio	4.2	4.9	3.2	7.1	7.8	9.3	5.0	5.8	8.0

Source: Eurostat, Labour Force Survey

- : Data not available

Data in brackets not reliable due to small sample size.

<b>Table 2: YOUTH UNEMPLOYMENT TRENDS (Q1 data, %)</b>						
<b>Data</b>	<b>Age group 15-24</b>		<b>Age group 20-24</b>		<b>Age group 25-29</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Unemployment for the low-skilled (ISCED 0-2)	24.0	15.7	12.4	13.7	13.2	11.6
Unemployment for the medium-skilled (ISCED 3-4)	20.1	25.6	17.2	23.3	8.0	10.3
Unemployment for the high skilled (ISCED 5-6)	19.4	21.3	19.4	21.3	4.7	11.3

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted

<b>Table 3: YOUTH TEMPORARY CONTRACTS (% OF EMPLOYEES) (Annual data)</b>				
<b>Data</b>	<b>Age group 15-19</b>		<b>Age group 20-24</b>	
	<b>2009</b>		<b>2009</b>	
Temporary work as a % of employment	-		2.2	
			1.0	

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted

<b>Table 4: NEITHER IN EMPLOYMENT NOR IN ANY EDUCATION OR TRAINING (NEET) (Annual data)</b>		
<b>Data</b>	<b>Age group 15-19</b>	<b>Age group 20-24</b>
	<b>2008</b>	<b>2008</b>
NEET rate (% of the age group) (annual averages)	9.0	13.8

Source: Eurostat, EU Labour Force Survey, Annual averages

<b>Table 5: EARLY SCHOOL LEAVERS* (Annual data)</b>		
<b>Data</b>	<b>Age group 18-24</b>	
	<b>2008</b>	<b>2009</b>
Early school leavers (% of the age group)	18.9	19.1

Source: Eurostat, Labour Force Survey

\* Percentage of the population aged 18-24 having attained at most lower secondary education and not being involved in further education or training.

<b>Table 6: DIFFERENCE IN YOUTH UNEMPLOYMENT RATE BETWEEN Q4-2009 AND Q4-2007</b>		
<b>Data</b>	<b>Age group 15-19</b>	<b>Age group 15-24</b>
Difference in youth unemployment rate between Q4-2009 and Q4-2007	7.6	1.1

Source: Eurostat, Labour Force Survey. Data non-seasonally adjusted