Decent Work Policy options for the Romanian economy

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Ciprian Domnisoru*

Policy Integration Department
International Labour Office
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* The author is a doctoral student at the Heinz College, Carnegie Mellon University.
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Domnisoru, Ciprian

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Abstract: This paper analyses the determinants of the low employment rate in Romania and current policies and legislative changes aiming to increase employment, as they relate to the poverty reduction targets in the Europe 2020 agenda. I argue that the current policy option followed by Romanian authorities - increasing labour market flexibility - is based on a misdiagnosis of low employment, particularly of the effects of the tax wedge on labour, workforce migration, overtime use and employer preference for standard forms of employment on the overall employment rate. Considering that workforce migration will continue to put pressure on domestic employment, business-friendly policies and even high GDP growth may not be sufficient to achieve an increase in employment. An alternative path for Romanian authorities is to adopt a series of policies inspired from the ILO's Decent Work Agenda. These policies target an increase in quality employment that would combine job growth goals with poverty reduction targets. The analysis follows the four core objectives of the Decent Work Agenda: creating jobs, guaranteeing rights at work, extending social protection and promoting dialogue and conflict resolution. Recommendations include increasing compensation in case of lost income, increasing spending for active labour market policies, rural education, public childcare and healthcare, strengthening the capacity of labour inspectorates and reviewing the recent legislative changes that hinder union activity and social dialogue.

JEL classification: E24; J88; O15.

Resumé: Cet article analyse les déterminants du faible taux d'emploi observé en Roumanie ainsi que les politiques et modifications législatives actuelles visant à améliorer la situation de l'emploi, dans la mesure où celles-ci ont un rapport avec les objectifs de réduction de la pauvreté contenus dans la stratégie Europe 2020. Je soutiens que l'option politique actuellement adoptée par les autorités roumaines, à savoir accroître la flexibilité du marché du travail, s'appuie sur un diagnostic erroné de la faiblesse du taux d'emploi, notamment en ce qui concerne les effets sur le taux d'emploi global de la fiscalité sur le travail, de la migration de la main-d'œuvre, du recours aux heures supplémentaires et de la préférence des employeurs pour les formes typiques d'emploi. Compte tenu du fait que la migration de la main d'œuvre va continuer d'exercer une pression sur l'emploi intérieur, il est possible que des politiques favorables aux entreprises et même une forte croissance du PIB ne suffisent pas pour faire augmenter le taux d'emploi. Une alternative s'offre toutefois aux autorités roumaines, qui consiste à adopter une série de politiques inspirées de l'Agenda du travail décent de l'OIT. Ces politiques, qui ont pour but d'augmenter le nombre d'emplois de qualité, permettent de combiner des objectifs de croissance de l'emploi avec des objectifs de réduction de la pauvreté. L'analyse suit les quatre objectifs principaux de l'Agenda du travail décent, à savoir : créer des emplois, garantir les droits au travail, étendre la protection sociale et promouvoir le dialogue et la résolution des conflits. Les recommandations émises sont les suivantes : augmenter les indemnités en cas de perte de revenus ; augmenter les dépenses consacrées aux politiques actives du marché du travail, à l'éducation en milieu rural, aux structures publiques de garde d'enfants et aux soins de santé ; renforcer les capacités des inspections du travail ; réexaminer les récentes modifications législatives qui entravent l'activité syndicale et le dialogue social.

Classification JEL: E24; J88; O15.

Resumen: Este documento analiza los determinantes de la baja tasa de empleo en Rumanía y los cambios actuales en las políticas y la legislación dirigidos a aumentar el empleo, según se relacionan con las metas de reducción de la pobreza de la agenda Europa 2020. Argumento que la opción de política actual que siguen las autoridades Rumanas – aumentar la flexibilidad del mercado de trabajo- está basada en un diagnóstico equivocado del bajo empleo, particularmente respecto a los efectos sobre la tasa de empleo total de la presión fiscal en el trabajo, la migración de la mano de obra, el uso de horas extra y la preferencia del empleador por formas estándar de empleo. Teniendo en cuenta que la migración de la mano de obra continuará ejerciendo presión sobre el empleo nacional, las políticas favorables a las empresas e incluso un alto crecimiento del PIB pueden no ser suficientes para lograr un incremento en el empleo. Una vía alternativa para las autoridades Rumanas es la adopción de una serie de políticas inspiradas en la Agenda de Trabajo Decente de la OIT. Estas políticas se dirigen a un aumento en la calidad del empleo que combinaría los objetivos de crecimiento del empleo con metas de reducción de la pobreza. El análisis sigue los cuatro objetivos centrales de la Agenda de Trabajo Decente: crear trabajo, garantizar los derechos de los trabajadores, extender la protección social y promover el diálogo social y la resolución de conflictos. Las recomendaciones incluyen aumentar la compensación en caso de pérdida de ingreso, aumentar el gasto en políticas activas del mercado de trabajo, educación en las áreas rurales, sistemas públicos de salud y de atención a la infancia, fortalecer la capacidad de las inspecciones de trabajo y revisar los recientes cambios legislativos que dificultan la actividad de los sindicatos y el diálogo social.

Clasificación JEL: E24; J88; O15.

The Policy Integration Department

The Policy Integration Department pursues the ILO's decent work and fair globalization agenda from an integrated perspective.

The central objective of the Policy Integration Department is to further greater policy coherence and the integration of social and economic policies at both the international and national level. To this end, it works closely with other multilateral agencies and national actors such as Governments, trade unions, employers' federations, NGOs and universities. Through its policy-oriented research agenda, it explores complementarities and interdependencies between employment, working conditions, social protection, social dialogue and labour standards. Current work is organized around four thematic areas that call for greater policy coherence: Fair globalization, the global poor and informality, macro-economic policies for decent work, and emerging issues.

Director of the Policy Integration Department: *Stephen Pursey*

Decent Work Policy options for the Romanian economy

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Decent Work Policy options for the Romanian economy

1. Introduction

Romanian economic policy in the 2000s focused on creating an investor and tax-friendly environment. Low taxes resulted in a low share of government revenue and consequently low social protection spending. Economic growth did not narrow income gaps and the Gini coefficient increased from 29 in the year 2000 to 36 in 2008. The European Union (EU) accession opened the door for 10 per cent of the population to work abroad, for wages seven times higher on average than in Romania. Because of the massive workforce migration – particularly that of agricultural workers – there was virtually no employment growth since 2000, despite significant increases in real gross domestic product (GDP).

The EU development agenda - Europe 2020 - has specific targets for Romania: increasing the employment rate from 58.8 to 70 per cent and reducing the number of people at risk of poverty by 580,000, or 5.5 per cent of the country's population. While increasing employment seems a safe bet for poverty reduction, the rate of in-work poverty in Romania is highest in the EU27, at 17 per cent. Romania has the second lowest minimum wage in the EU, after Bulgaria, and the lowest gap between minimum and average wages in the EU27. In this context, we need to understand whether the quality of employment in Romania is sufficient for an increase in employment to also lead to a reduction in the number of people at risk of poverty.

To increase employment, Romanian authorities have recently adopted a set of International Monetary Fund (IMF) and World Bank policy prescriptions to make labour legislation more flexible and promote part-time and temporary work. Yet employment growth through non-standard contracts may not be sufficient to ensure the reduction in in-work poverty needed for Romania to achieve the Europe 2020 poverty reduction target.

This paper analyses the determinants of the Romanian (low) employment rate and makes a series of policy recommendations inspired from the decent work policy agenda. Targeting the decent work policy objectives is a path to increasing employment while reducing in-work poverty by creating better quality jobs, guaranteeing rights at work and promoting social dialogue and social protection.

2. Romania in the late 2000s recession

Romania saw one of the largest drops in GDP in the EU27 in 2009 (7.1 per cent) and was one of five European countries not to return to growth in 2010, with a further 1.3 per cent decrease in GDP. I argue that the main reason for the protracted recession was the management of the fiscal deficit. Some of the most draconic austerity cuts in Europe were implemented late in the recession, furthering a drop in consumption that delayed any domestic growth. While unemployment did not increase significantly in Romania during the recession, authorities blamed the labour market legislation for the lack of employment growth in 2011. They proceeded to significantly change labour legislation to promote flexibility and reduce the costs of hiring and firing but hindered union activity, social dialogue and collective bargaining in the process. However, industrial production and export-oriented manufacturing picked up much quicker than domestic consumption, showing that the Romanian business environment had remained competitive during the crisis despite any labour market rigidities.

The 2009 recession cut short nine years of economic growth, which had been fuelled by significant capital inflows and debt spending on the eve of Romania's accession to the EU in 2007. With growth rates as high as 8.5 per cent over the 2000-08 period, Romania's GDP per capita more than tripled from €2,000 in the year 2000 to €6,500 in 2008. The stock of inward foreign investment increased from US$7 billion in 2000 to US$69 billion in 2008, while total foreign debt increased from US$11 billion to US$105 billion, or 51.4 per cent of GDP in 2008, with the vast majority held by the private sector (public debt represented only 19.5 per cent of GDP).

Despite the increase in foreign debt, by European standards, Romania was nowhere near a debt crisis in 2008. Debt interest payments stood at 1.7 per cent of GDP, public debt was a low 19.5 per cent of GDP (compared to Greece's 109 per cent or Italy's 106 per cent) and the debt-to-GDP ratio of 51.4 per cent of GDP was also considerably below Hungary's (109.2 per cent) or Portugal's (182.6 per cent). Yet in 2011, Romania is the IMF's second largest debtor after Greece.

At the onset of the recession, the Romanian economy was affected by capital flight, US$10 billion in 2008. This was the second largest outflow in the EU27, after Poland (US$18 billion in 2008). Romania faced a sharp depreciation of the national currency and a considerable decline in investor appetite. Foreign direct investment represented 6.8 per cent of GDP in 2008 but dropped to 2.8 per cent in 2009. Not only were investor flows shrinking considerably, but remittances, which amounted to 4.4 per cent of Romania's GDP in 2009, dropped by an estimated 45 per cent, the highest decrease in any Economic Commission for Europe (ECE) country (World Bank, 2011a, p. 210). To counter the fall in capital inflows, in May 2009, the Romanian government entered a two-year stand-by agreement with the IMF for €12.95 billion, with the EU, World Bank and European Bank for Reconstruction and Development (EBRD) contributing more funds for a total of €19.95 billion.

The loan agreements countered the capital flight largely through the European Bank Coordination "Vienna" Initiative, which ensured that foreign banks remained engaged in Eastern Europe.[1] The agreement also required Eastern European countries to adopt a set of macro policies to restore a "sound financial environment".[2] In practice, that meant austerity measures targeting fiscal sustainability.

About a third of the IMF and European Commission loan disbursements in 2009 and 2010 were used to finance the deficit. The first inflows largely covered the deficit for the second half of 2009, while in the first half of 2009 the deficit was financed domestically through the issuing of government securities, as credit default swap (CDS) spreads for Romania were at 700bps. A large share of the IMF-EC loan (about €6 billion) was added to the reserves of the National Bank of Romania (NBR) in 2009. This allowed the NBR to decrease minimum reserve requirements (MRR) for foreign currency, theoretically allowing banks to lend more. Romania had a particularly high reserve requirement rate for foreign currency compared to other ECE countries - 40 per cent in February 2009, compared to 2 per cent in the euro area, 12 per cent in Bulgaria, 15 per cent in Estonia and

[1] The European Bank Coordination "Vienna" Initiative is composed of International Financial Institutions (IMF, EBRD, European Investment Bank (EIB), the World Bank Group), European Institutions (European Commission, European Central Bank (ECB) as observer), central banks, regulatory and fiscal authorities as well as large western banking corporations active in Eastern Europe.

[2] IMF Press Release No. 11/88, 18 Mar. 2011. Statement at the Conclusion of the European Bank Coordination Initiative's Full Forum, available at:
http://www.imf.org/external/np/sec/pr/2011/pr1188.htm [15 Sep. 2011].

under 10 per cent in Poland and Hungary. This rate was relaxed to 35, 30 and 25 per cent successively in 2009, back to its 2002-05 levels of about 25-30 per cent. The increase in the reserve requirements had been implemented to temper the rise in foreign currency lending during the boom economic growth period, so a reduction was expected. The European Commission and IMF loans displaced the decrease in minimum reserves balance in the balance sheet of the National Bank and as a result, banks had an inflow of about €4 billion in 2009. While private sector lending did not increase in 2009 according to NBR statistics, foreign banks used the extra foreign currency liquidity to purchase government euro denominated securities. Reducing the reserve requirements thus came at a great cost to the Romanian government, as banks used the extra liquidity to buy euro-denominated government securities. The Romanian government thus switched from paying a modest interest rate for reserves to paying the IMF loan interest for the funds that displaced the reserves and then paying again in order to attract the extra liquidity banks now had, at rates higher than those of the IMF/European Commission loan. In the end, the Romanian taxpayer paid for foreign banks to maintain their exposure to Romania.

Entering the recession, Romania had one of the worst fiscal balances in the EU27 (the fourth largest fiscal deficit). To counter the drop in fiscal revenues, the government resorted to pro-cyclical measures to increase excises, cut government consumption and reduce investment. Despite these cuts, the deficit stood at 7.2 per cent at the end of 2009. As late as February 2009, Romanian authorities did not anticipate such a large contraction of the Romanian economy and still budgeted a 2.5 per cent increase in GDP for 2009, although the fourth quarter of 2008 had brought a 13 per cent drop of GDP. In just a few months after the optimistic 2.5 per cent increase forecast, the outlook changed to a 4 per cent drop in GDP. The GDP growth and deficit figures were revised repeatedly in 2009, showing that authorities did not foresee such a drop in fiscal revenues. The actual drop in GDP in 2009 was 7.1 per cent but when Romania negotiated the IMF loan at the beginning of 2009, the fiscal policy conditionalities under the loan were modest: budget cuts of 1.1 per cent of GDP, which included a revision of public compensation and public pension legislation. While the Romanian government did cut bonuses and the 13th salary for public employees in 2009, the public wage bill actually increased by 2.4 per cent in 2009.

Faced with the 7.1 per cent drop in GDP in 2009 and a further deterioration of the fiscal balance to levels unacceptable under the IMF loan agreement, the Romanian government resorted in June 2010 to a series of austerity cuts unrivalled in Europe. Public sector wages were cut by 25 per cent, value added tax (VAT) increased by five percentage points to 24 per cent, childcare allowances and unemployment benefits were cut by 15 per cent, and, starting 1 January 2011, unemployment benefits were cut by approximately 25 per cent.[3] Health sector reforms largely consisted of the closing of about 60 of the country's 420 hospitals in 2011, most of them in rural areas. In the education sector, the government is planning to close or merge 1,000 of the country's 4,700 schools, particularly small schools in rural areas, for further cost cuts (Romanian Ministry of Education, 2011). Out of the 132,000 public jobs cut in the recession, about 32,000 were in the health sector and 29,500 in the education sector (Romanian Fiscal Council, 2011).

The population bore the brunt of the austerity cuts in 2010. According to the Economist Intelligence Unit (EIU), average real wages decreased by 3.4 per cent in 2010, the second largest decrease in real wages in the EU27 after Greece. Private consumption dropped by 8.7 per cent in 2009 and a further 1.6 per cent in 2010 (EIU). While the depreciation of

[3] By being linked to a new reference amount ("the social reference indicator") of RON500 and no longer to the minimal wage of RON670, unemployment benefits effectively decreased by about 25 per cent.

the RON since mid-2007 produced an improvement of about 15 per cent in competitiveness (IMF, 2011a), it also meant higher loan repayments for consumers indebted in foreign currency and the VAT hike also disproportionately affected the country's poorest. A survey on the effects of the crisis (World Bank and UNICEF, 2009) found that between 50 and 60 per cent of respondents reduced food consumption while about 20 per cent delayed medical visits and reduced medicine consumption.

Was the Romanian government in any position to shield the poor in the recession by finding other sources to reduce the fiscal deficit? While neighbouring Hungary increased taxes for banks and large retailers, at no point did Romanian authorities consider such measures. However, the pharmaceutical industry was the intended target of a claw-back tax, mentioned in the letters of intent to the IMF but never enforced. Government spending on pharmaceuticals had increased from €281million in 2004 to €1.2 billion in 2010. The government considered introducing a claw-back tax of 5 to 11 per cent of the revenues of pharmaceutical companies in Romania, but the implementation was delayed and is still under consideration. While the Romanian Ministry of Health estimated that closing 60 rural hospitals would lead to savings of RON160 million (€38 million), the deficit of the national highway and public road company stood at RON1.3 billion (€300 million). The austerity cuts in June 2010 were a desperate measure to curb the deficit and could have been replaced by more gradual measures to control government expenditure in 2009, particularly the cost of pharmaceuticals and road construction.

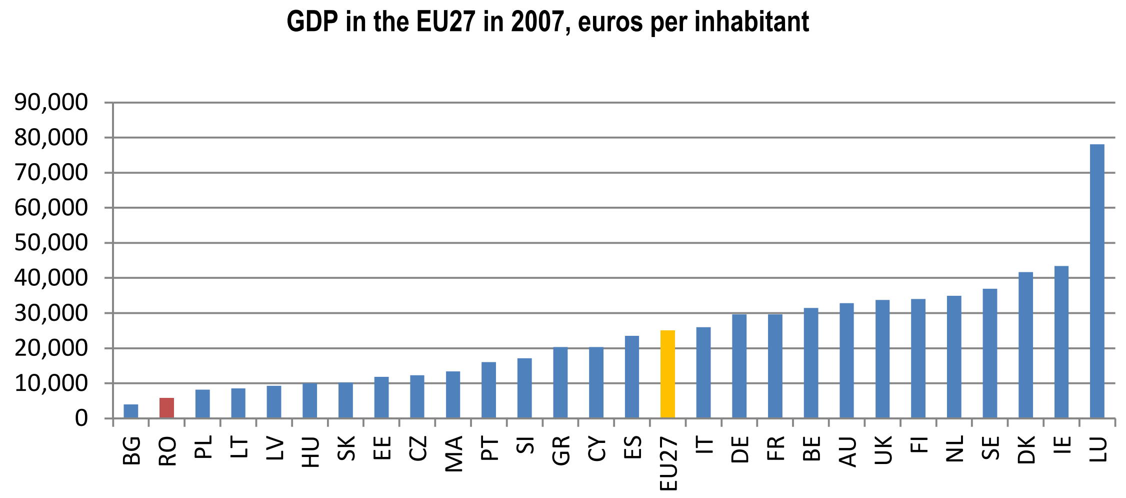
While the population decreased consumption and saw hospitals and schools closing, the manufacturing sector was not as affected by the crisis. Romania saw a one-year drop in industrial production of 6.9 per cent in 2009, which was actually fourth smallest in the EU27, after Poland, Greece and Cyprus. While GDP growth remained negative, the industrial sector saw a modest increase of 1.1 per cent in 2010. The manufacturing industry declined by only 4.3 per cent in 2009 and saw an increase of 5.1 per cent in 2010. The recession was steeper in the services sector (-7.6 per cent in 2009, -2.9 per cent in 2010), a reflection of the drop in private consumption (-8.7 per cent in 2009, -1.6 per cent in 2010).

While the manufacturing sector was recovering quickly and Romania's exports, which had remained competitive, exceeded their pre-crisis levels, the population suffered a drop in real wages, consumption, benefits, and public services that will hamper poverty reduction efforts in the years to come.

3. Poverty in Romania

The impressive growth rates in the early 2000s were actually a reflection of the low starting point for Romania, whose slow institutional reforms and transition to a market economy stalled its entry to the EU until 2007, three years later than most ECE countries. When it joined the EU, Romania became its second poorest member after Bulgaria in terms of GDP per capita (Figure 1).

Figure 1.



Source: Eurostat.

The extent of poverty in Romania cannot be fully grasped by using indicators such as relative poverty or poverty thresholds. Eurostat measures the share of individuals with a disposable income below 60 per cent of the national median income. With 22.4 per cent of Romanians living under this threshold in 2009, Romania was surpassed only by Latvia as Europe's poorest nation - in relative terms. The absolute poverty line - established by the Romanian government in collaboration with World Bank experts - was RON210 in 2006, or, at the average US$/RON exchange rate for 2006, US$75, or roughly US$2.5 per day. Considering that food prices in Romania were 70 per cent of the EU average,[4] the absolute poverty line is particularly low in real terms.

A World Bank (2007) poverty assessment report found a "success story", a significant decrease in absolute poverty, from 35.9 per cent in 2000 to 13.8 per cent in 2006, as the result of sustained economic growth in the early 2000s. The report also noted the staggering differences between urban and rural poverty: in 2000, 47.8 per cent of the rural population had incomes of less than US$2 a day, while that figure was down to 22.3 per cent in 2006. The World Bank (2007, p. 11) attributed the decrease in absolute poverty to economic growth over the period: "The evidence suggests that growth accounts for nearly all the reduction in poverty in the period since 2000". The World Bank analysis overstates the importance of economic growth, considering that the high poverty rate in 2000 was caused by an administrative breakdown of the poverty income support system and a drop in the real value of social benefits. The year 2000 was a turning point for the Romanian economy, which had suffered a severe recession (-6 per cent of GDP in 1997, -4.8 per cent in 1998, -1.15 per cent in 1999). The staggering 35.9 per cent poverty rate had been fuelled by a drop in real wages and in the value of social benefits. In 1997,real wages had decreased by 22.8 per cent. Using a methodology different from the World Bank's, Tesliuc, Pop and Tesliuc (2001) found that the poverty rate had increased from 19.9 per cent in 1996 to 44 per cent in 2000. In 1996, the central government transferred the responsibility for the disbursement of income support – the main poverty alleviation benefit – to local authorities. Faced with an administrative and budget burden, local authorities failed to disburse the benefits. In 2000, only 5 per cent of the families that

[4] Eurostat, Comparative price levels for the Western Balkan region for 2006 - actual individual consumption, available at http://www.eds-destatis.de/de/downloads/sif/sf_08_036.pdf [15 Sep. 2011].

had received the income support benefits were still receiving them, because of the breakdown in the delivery system at the local level.[5] The social protection system had not caught up with the massive increase in poverty until the central government took over the financing of social benefits from local authorities and introduced a Guaranteed Minimum Income (GMI) in 2002.

A clearer picture of poverty in Romania emerges from a look at objective indicators of material deprivation, access to basic services and living conditions. Romania has the highest overcrowding rate in the EU (54 per cent against 17.3 per cent on average in the EU in 2007). Approximately 42 per cent of Romanians live in a dwelling without bath or shower, as against 3.3 per cent on average in the EU27; 44 per cent live in a dwelling without in-door flushing toilet for the sole use of the household, as against 3.6 per cent on average in the EU27 (European Commission, 2010b).

Romania has a significantly higher share of rural population (45.1 per cent) than the EU average and the agricultural sector employs 32 per cent of the population. The picture of Romanian poverty resembles in many ways that of developing countries, despite Romania's EU membership. In this context, the development agenda in Romania should focus on lifting out of poverty the millions making a living in subsistence agriculture, who lack or cannot afford access to healthcare and education. The quality of the infrastructure in rural areas is very low. Only 33 per cent of rural residents are connected to a water supply network, only 10 per cent to a sewerage system and only 10 per cent of rural roads are of adequate standard (European Commission, 2008). Rural areas also have limited access to basic social infrastructure, in health, education, culture, financial services and access to medicine. In 2009, there were about eight times more doctors in urban areas than in rural areas. The European Commission (2008) noted that the low development of health and education systems in rural areas in Romania hampers economic development and increases outmigration. In turn, outmigration due to lack of economic opportunity in rural areas will continue to significantly decrease domestic employment.

The Romanian agricultural sector employs 32 per cent of the population but contributes only 12.1 per cent of GDP. Productivity remains very low (as indicated by the labour to land ratio of 63 annual work units (AWU) per 100 hectares). The land structure in Romanian farming limits rural development and the reduction of poverty. State farms that pooled individual plots under the communist policy of collectivization were restructured after 1990. Former owners - and usually several of their inheritors - regained property over small plots. Productivity on these plots is very low, as farmers have limited resources and use outdated farming methods. Throughout the 2000s, agricultural production was dispersed across about 4 million individual farms. The average plot was only about 2.29 hectares in 2007 and 1.68 million farms were less than 1 hectare. About 3 million of the holdings, covering approximately 30 per cent of agricultural land, are considered as subsistence only (European Commission, 2008). The low productivity can also be explained by the relative age of the rural population in the context of the external migration of young workers. The main source of monetary income for the elderly in rural areas is a state pension for farmers that averaged RON100 in 2005, which, at the time, would have placed the average rural pensioner under the absolute poverty line. It was only in November 2007 that the average farmers' pension surpassed the poverty line. In February 2009, the government actually decided to introduce a guaranteed minimal pension of RON350, acknowledging that many pensioners still had incomes below the subsistence level. With such low monetary income, farmers have few chances of escaping

[5] B.M. Chiritoiu. Poverty Alleviation: Minimum Income Guarantee. Unpublished. Available at: http://www.policy.hu/chiritoiu/fightingpoverty.pdf [16 Aug. 2011].

subsistence agriculture by diversifying their activity and making any capital investments that would improve productivity.

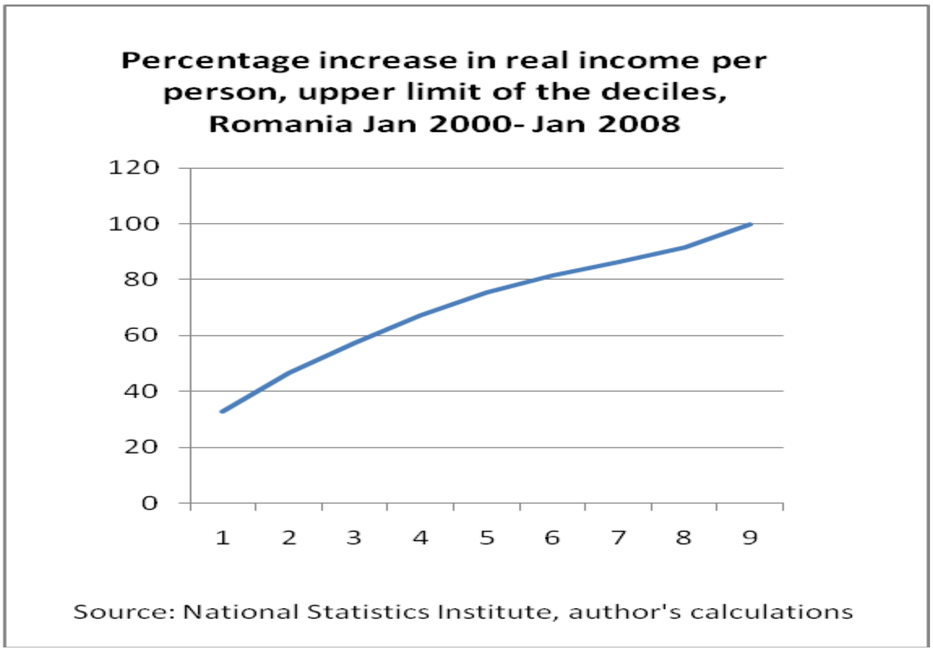
4. Pro-poor growth and economic inequality

The concept of pro-poor growth sprung from the debate between theories of trickle-down growth and policies for redistribution in favour of the poor. Ravallion (2004) defines pro-poor growth as any increase in GDP that reduces poverty. Kakwani, Khandker and Son (2004) expanded the definition by considering economic inequality: growth is pro-poor, relatively speaking, if it benefits the poor proportionally more than the non-poor, i.e. if the incomes of the poor increase relatively more than the average income.

The two definitions do not address what level of GDP growth is actually necessary to achieve poverty reduction. The European Commission (2009, p. 4) found that in the EU, only countries experiencing very high growth rates (above 5 per cent per year) showed improvements in the living standards of the poor in the 2000s. Romania's strong growth rates from 2001 to 2007 should raise our hopes for significant and sustained improvements in the living standards of the poor.

Indeed, the income of the population - as reflected in household budget surveys - increased between 32 and 100 per cent between 2000 and 2008 (Figure 2). However, according to Kakwani's definition, since the income of the poor increased less than the average income, we could not apply the term pro-poor growth. Figure 2 shows that the income of the ninth decile doubled from 2000 to 2008, while the upper limit of the income of the poorest decile only increased by 32 per cent.

Figure 2.

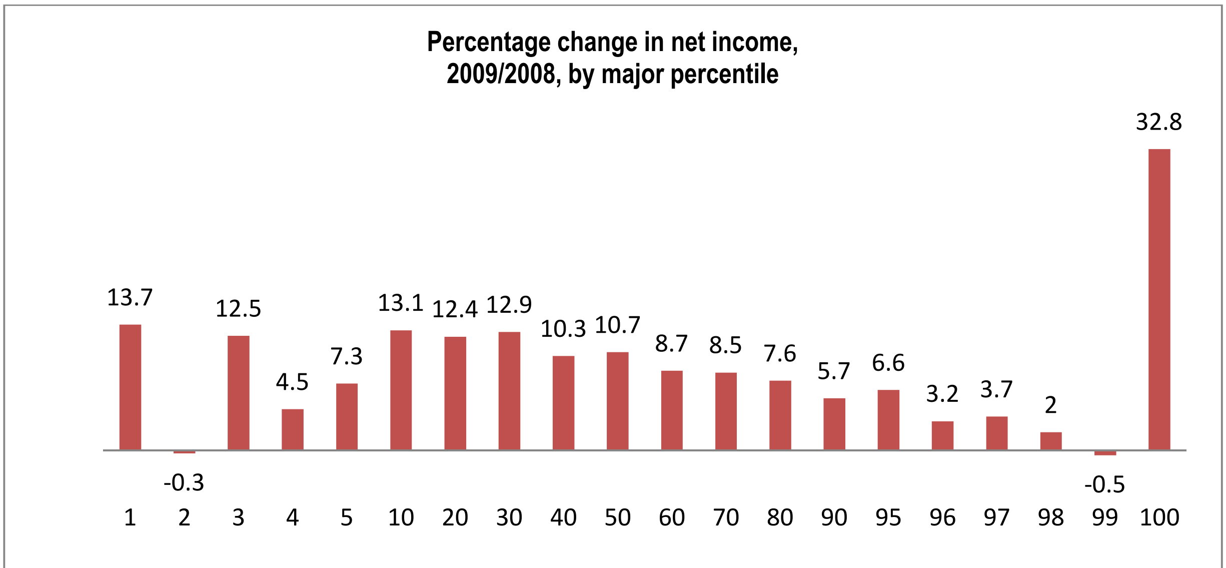


By Ravallion's definition (which considers growth to be pro-poor if the increase in mean income is going along with an increase of the income received by the poor) growth between 2000 and 2008 was pro-poor. However, using Kakwani's definition (growth is pro-poor only if the incomes of the poor are rising more than the mean income), growth in the same period was not pro-poor. Such conflicting results are common when analyzing economic growth in Eastern European countries, which started from a very low level of economic inequality at the end of communist regimes. Sautter (2005, p. 5) notes that “All empirical evidence suggests: economic growth in South-Eastern Europe during the last 10-15 years was not pro-poor, it rather was pro-rich”.

The differences between the rival definitions are more striking in evaluations of the adequacy of social protection. The World Bank (2008b, p. 2) praised Romanian authorities for making efforts to redistribute the benefits of economic growth by keeping constant the share of GDP devoted to social protection benefits. Using Kakwani’s definition, pro-poor growth would actually require an increase in the GDP share of social protection expenditure. This is particularly relevant as Romania has the lowest expenditure per capita on social protection in purchasing parity standards in the EU (Eurostat, 2008). The World Bank (2008b, p. 4) actually commented that the share of GDP allocated to social assistance “reflects low effort compared with the magnitude of poverty”.

A few months before the crisis erupted, the World Bank (2008b) advanced a scenario of 5-6 growth per annum until 2010 that would have reduced absolute poverty to 6-7 per cent. This scenario was brutally invalidated by the recession, and in this context, it is relevant to evaluate whether the poor were shielded in the recession. Figure 2 below shows that for some of the very poor incomes actually decreased one year into the crisis (second percentile), and for the fourth and fifth percentiles the increase in income barely kept up with inflation. The striking aspect of the evolution of income in the first full year of recession in Romania is that it disproportionately benefited the rich. While the income of the 100th percentile increased by 32 per cent from 2008 to 2009, other upper percentiles saw very small increases in income, if any.

Figure 3.



Source: Author's calculations, Eurostat.

Table 1. Monthly net income in €, by percentile/decile, 2007-09

	2007	2008	2009	% Increase 2009-07	% Change 2009-08
100th percentile	2 501	3 978	5 285	111	32.9
99th	696	726	723	4	-0.5
98th	548	598	610	11	2.0
97th	474	522	542	14	3.8
96th	427	482	497	16	3.3
95th	391	443	472	21	6.6
9th decile	300	352	372	24	5.7
8th decile	228	268	289	26	7.6
7th decile	185	225	244	31	8.5
6th decile	161	191	207	29	8.7
5th decile	138	163	180	30	10.7
4th decile	114	139	153	35	10.3
3rd decile	93	114	129	39	12.9
2nd decile	72	89	100	40	12.4
1st decile	49	61	69	42	13.1
5th percentile	34	44	48	42	7.3
4th	30	39	40	36	4.5
3rd	26	31	35	34	12.5
2nd	23	28	28	22	-0.3
1st	17	18	20	21	13.7

Source: Author's calculations, Eurostat data.

Romania experienced rising income inequality since 2000, when its Gini coefficient was 29, equal to the EU27 average that year. The latest Eurostat data show that in 2009 the Gini coefficient had gone up to 34.9, placing Romania fourth after Latvia, Lithuania and Portugal in Europe's most unequal societies ranking. The increase in income inequality can be partially explained by the adoption of a flat income tax rate of 16 per cent, which replaced in 2005 a proportional taxation system which had the highest tax bracket for individuals at 40 per cent. The effect of the introduction of the flat tax was an immediate increase in the income of higher-earning individuals, fuelling economic inequality. The Gini coefficient jumped from 31 in 2005 to 37.8 in 2007.

Table 2. Changes in net earnings following the introduction of the flat tax rate, Dec. 2004 - Jan. 2005

Net earnings in €, progressive tax regime	Net earnings in RON, progressive tax regime	Net earnings in RON, flax tax	% Increase in net earnings
2 100	9 000	12 700	41
1 100	4 600	1 600	35
480	2 030	2 500	23
195 (average wage)	820	844	3
133	560	580	3.8

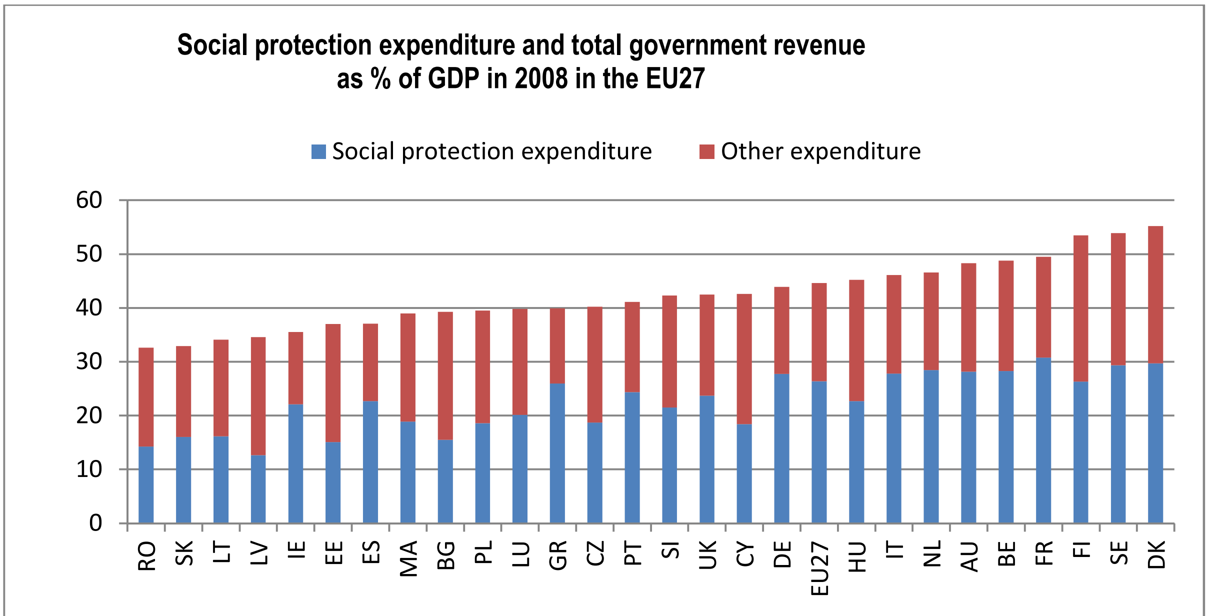
Source: Author's calculations.

During the recession, the initial austerity cuts targeted wages in the public sector. The intention of the Romanian government was to also cut pensions by 15 per cent, but when the Romanian Constitutional Court ruled that pensions were an entitlement, the Romanian government resorted to increasing VAT by five percentage points. This decision likely disproportionately affected the poor, whose share of consumption in the household budget is high. Another austerity measure, cutting unemployment benefits, also increased the number of individuals at risk of poverty. For a worker with few years in the workforce, the unemployment benefit was 75 per cent of the minimum wage until 1 January 2011, or about RON500. Starting 1 January 2011, the unemployment benefit was cut to RON375, closer to the absolute poverty line of RON210.

Another expected cut that will put more individuals at risk of poverty is the reduction of heating subsidies. The Government argued that the heating subsidies do not target the poor. Indeed, the World Bank (2008b) showed that these allowances mostly benefit the urban population, reaching middle-income groups, especially employees and pensioners. Coupled with the reduction in wages and income-earning potential in the economy, the foreseen cut in heating allowances will put many at risk of poverty. The World Bank (2008b) noted that any decrease in funding for the program would expose the poor to hikes in energy prices.

The cuts in social protection benefits during the recent recession run against efforts to reduce poverty. One of the main components of the Europe 2020 strategy is promoting social inclusion through the reduction of poverty. The target is to cut the number of people at risk of poverty by 20 million. With ambitious budget deficit targets of 3 per cent for the coming years and one of the lowest levels of government revenues as percent of GDP in the EU27 (Figure 4), the social inclusion target will be a challenge for Romania. The strict budget deficit target did not allow for an increase in social protection expenditure during the recession, and the Romanian government had no leeway to follow the European Commission (2009, p. 9) recommendation that “increases in social protection expenditure should be seen as part of a recovery package”. The low social protection spending results in a weak effect on poverty reduction (19 per cent), considerably below the EU25 average of 38 per cent.

Figure 4.

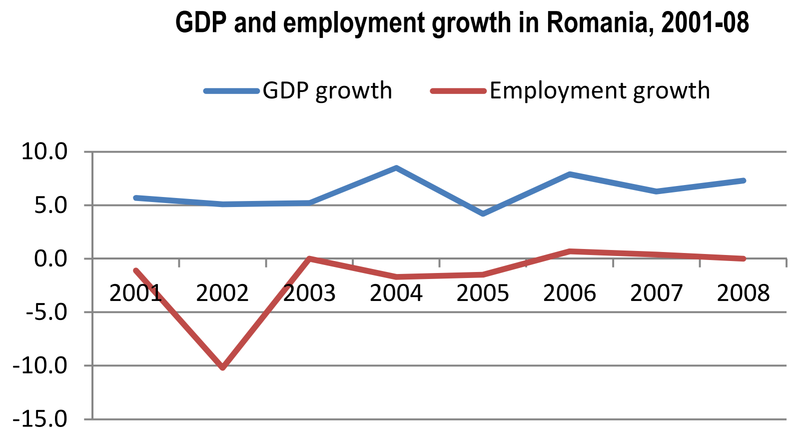


Source: Eurostat.

Moreover, the changes to the Labour Code to promote part-time and fixed term employment could have a long-term impact on income inequality. The European Commission (2009, p. 3) notes the increase in earnings inequality because of the rise in involuntary part-time and temporary contracts since 2000. This is because when the poor find short-term or part-time work, they face a wage penalty beyond any education and experience wage differentials.

Economic growth in itself may not be sufficient for Romania to reach the Europe 2020 targets in employment and poverty reduction. The European Commission (2011) found that “one of the lessons to be drawn from ten years of Lisbon strategy is that despite economic and employment growth, the 2000 original objective of reducing poverty significantly was not met". During the 2000s, employment growth was close to zero, despite the strong GDP growth rates. Figure 5 below shows that employment growth was largely negative between 2001 and 2008, with a significant break in the series in 2002 when Romania adopted the European National System of Accounts. The decrease in employment despite strong growth rates can be explained by the massive workforce migration of an estimated 10 per cent of the population over the period. The Romanian agricultural sector experienced a pronounced drop in employment. According to Eurostat data, the farm labour force was 2.7 million in 2003 but dropped to approximately 2.2 million in 2007. Over the same period, the family farm labour force decreased from 8.7 million to 6.4 million and the full-time regular farm labour force dropped from 338,000 to 78,000 employees. With all EU states required to lift restrictions on the employment of Romanian migrants by 2014, emigration could continue to put pressure on employment growth in Romania, as more agricultural workers leave for higher paying-jobs abroad. Therefore, even if Romania goes back to very high economic growth rates after the recession, domestic growth may not be sufficient to increase net employment if Romania's agricultural workers will continue to emigrate.

Figure 5.



Source: Eurostat.

	2001	2002	2003	2004	2005	2006	2007	2008
Employment elasticity	-0.19	-2.00	0.00	-0.20	-0.36	0.09	0.06	0.00

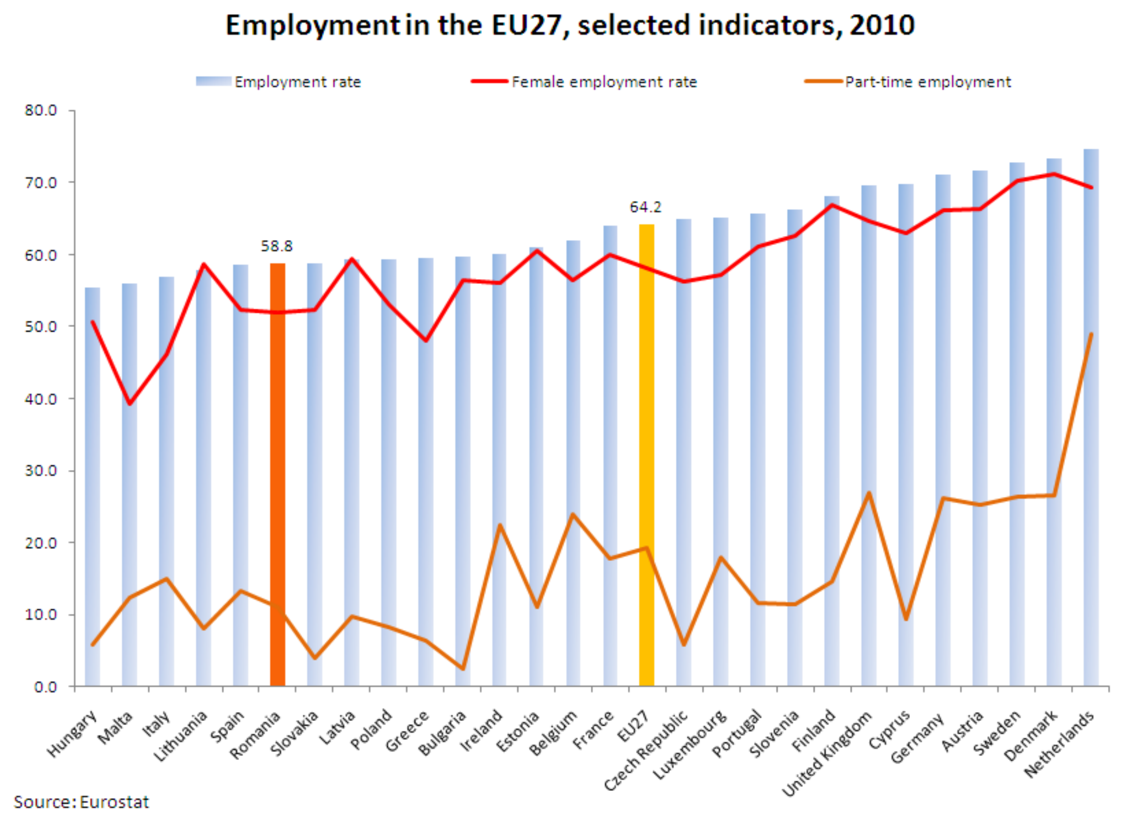
Gini coefficients or income changes cannot fully explain whether growth is pro-poor or not in a broad sense of the term. About two-fifths of the population have an income below the minimal wage of €150 and even for the 99th percentile, average income is about €700 per month (Table 1). Since the striking aspects of Romanian poverty are overcrowding, lack of access to sewage, lack of indoor toilets, poor access to education and healthcare in rural areas and poor working conditions, an analysis of pro-poor growth in strictly monetary terms is insufficient. While economic and employment growth may lift the incomes of the poor more or less than the average income, it is the quality of work and the quality of living conditions that are more relevant for the welfare of the poor.

5. Employment

The employment rate in Romania (58.8 per cent) is low when compared to the EU average (64.2 per cent) (Figure 6). This rate is however a reflection of the high share of the population engaged in informal work (in agriculture or receiving envelope payments), massive external migration of the working age population and of a process of early retirement that eased the restructuring of large state-owned companies. The low employment rate is also a reflection of the long working week and unpaid overtime, one of the most frequent violations of the Romanian labour legislation.

Romania saw a drastic reduction in the economically active population, from 11.2 million in 2000 to 9.94 million in 2008. Over the same period, the activity rate dropped from 68.8 to 62.9 per cent. In 2000, the employment and activity rates in Romania were comparable to the EU average, with a slightly higher employment rate (see Table 4). It was a break in the series in 2002 that placed employment and activity rates considerably below EU averages. The structural break decreased the official activity and employment rates, particularly in the rural sector. When the Romanian statistics office adopted Eurostat definitions of the active population, it began to consider as inactive individuals that had not actively searched for employment. This led the way for individuals working in the informal economy and not declaring their employment to be considered as inactive.

Figure 6.



The female economically active population saw a more pronounced decline, of 15 per cent, since 2000, while the male active population decreased by 9 per cent. The participation rate in education for women has increased substantially since 2000 and consequently reduced the labour market activity rate. In 2000, only 39.1 per cent of women aged 15-24 were participating in education, while this percentage increased to 60.8 per cent in 2009.

Table 3. Labour market indicators for Romania, 2000-10 (selected years)

		2000	2005	2007	2008	2009	2010
Employment rate 15-64*	RO	63	57.6	58.8	59	58.6	58.8
	EU27	62.2	63.5	65.4	65.9	64.6	64.2
Employment rate 15-64 Women	RO	53.7	51.5	52.8	52.5	52	52
	EU27	57.5	56.3	58.3	59.1	58.6	58.2
Employment rate 15-64 Men	RO	68.6	63.7	64.8	65.7	65.2	65.7
	EU27	70.8	70.8	72.5	72.8	70.7	70.1
Unemployment rate	RO	7.3	7.2	6.4	5.8	6.9	7.3
	EU27	8.7	9	7.2	7.1	9.0	9.6
Gender pay gap**	RO	n.a.	n.a.	n.a.	n.a.	8.1	n.a.
	EU27	n.a.	n.a.	n.a.	n.a.	17.1	n.a.
Social protection expenditure as a proportion of GDP	RO	13.03	13.43	13.55	14.25	n.a.	n.a.
	EU27	26.4	27.12	25.74	26.35	n.a.	n.a.
Union membership***	RO	36.1[a]	34.4[b]	n.a.	32.8	n.a.	n.a.
	EU27	37[c]	n.a.	n.a.	31	n.a.	n.a.
Activity rate 15-64	RO	68.4	62.3	63	62.9	63.1	63.6
	EU27	68.6	69.8	70.5	70.9	71	71

n.a.=not available; a 2002 b 2006 c 2000;

Notes: * break in series in 2002, rate dropped from 62.4 to 57.6
** The unadjusted Gender Pay Gap (GPG) computed by Eurostat represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It applies to industry, construction and the services sector (except public administration, defense, compulsory social security)

*** Source: Jelle Visser , Amsterdam Institute for Advanced Labour Studies (AIAS) ICTWSS database, http://www.uva-aias.net/208

5.1 Migration

Most of the decrease in the employment rate comes in fact from rural areas, as the economically active population decreased since 2000 by about 25 per cent in rural areas, while it slightly increased in urban areas (by 2.3 per cent). In rural areas in particular, the considerable decrease in the rate of the economically active population can be explained by massive migration flows after 2001, when Romanians no longer needed Schengen visas to travel to most European countries. Migration is largely driven by a lack of economic opportunities in rural areas and the perspective of average net wages seven times higher in EU15 countries than in Romania.

Estimates of migration after 1990 vary between 2 and 3 million (about 15 per cent of the country's 1990 population) (International Organization for Migration (IOM), 2008). One estimate using Household Budget Survey data from May 2003 to May 2006 showed that about 10 per cent of household members were working abroad at the moment of the interview (IOM, 2008) and the NBR (2010) estimated that 2.2 million Romanians (also about 10 per cent of the population) were working abroad in 2009.

The massive workforce migration brought significant inflows of remittances, which amounted to 4.4 per cent of GDP in 2009. If an estimated 1 million families received remittances, the monthly remittance income of €550 in 2008 would have been higher than the average wage, which stood at about €420. Migration thus has the direct effect of lowering the domestic workforce and the indirect effect of raising the reservation wage for family members receiving remittances and not in the labour force.

5.2 The informal economy

The real participation rate in the Romanian economy could be much higher, if we consider estimates of the size of the informal economy in Romania. Based on an analysis of household budget surveys, Albu and Nicolae (2003) estimated that income from the informal economy amounted to 25 per cent of the total household income. In the 2007 Eurobarometer, 23 per cent of Romanian workers admitted to receiving some form of envelope payment. This was the highest percentage in the EU27. Moreover, 31 per cent of respondents refused to answer the question, again the highest percentage of non-responses in the EU27.

Informal work in Romania has two major dimensions:

1. Informal work in agriculture, in households and non-registered firms,
2. Off the books ("envelope") wage payments by registered or non-registered firms, with or without a labour contract. Such payments benefit employers as they avoid paying social contributions and employees as they increase their income by avoiding income taxes.

Prior to 2003, Romanian employers could sign civil contracts of provision of services with their employees, instead of individual employment contracts. Employers were thus able to avoid paying social contributions. In 2002, approximately 1.5 million people were employed through civil contracts (Eurofound, 2007a). The new Labour Code enacted in 2003 abolished this form of employment except for certain liberal professions. However, employers' drive to circumvent paying social contributions was not easily tempered and informal employment and envelope payments persisted.

5.3 Early retirement

The decrease in employment was also caused by a process of early retirement from the restructured state enterprises. To ease social tensions, successive governments preferred to allow early retirement of workers instead of mass layoffs. Older employees laid off in the restructuring process often moved to rural areas and started making a living off subsistence agriculture. These internal migration flows that increased employment in agriculture led to the surprising result that after 10 years of market reforms that involved massive layoffs in industry, the net employment loss in 2000 compared to 1990 was only -0.7 per cent (United Nations Economic Commission for Europe (UNECE), 2003, p. 115). The share of agriculture in overall employment had increased from 29 to 46.3 per cent over the period, with industry down from 35.7 to 24.5 per cent and services from 35.3 to 29.2 per cent. In 2007, the share of employment in agriculture in Romania was back to 1989 levels (29.8 per cent), while services had seen the highest increase, up to 39.5 per cent (with industry at 30.6 per cent).

5.4 Demographic changes

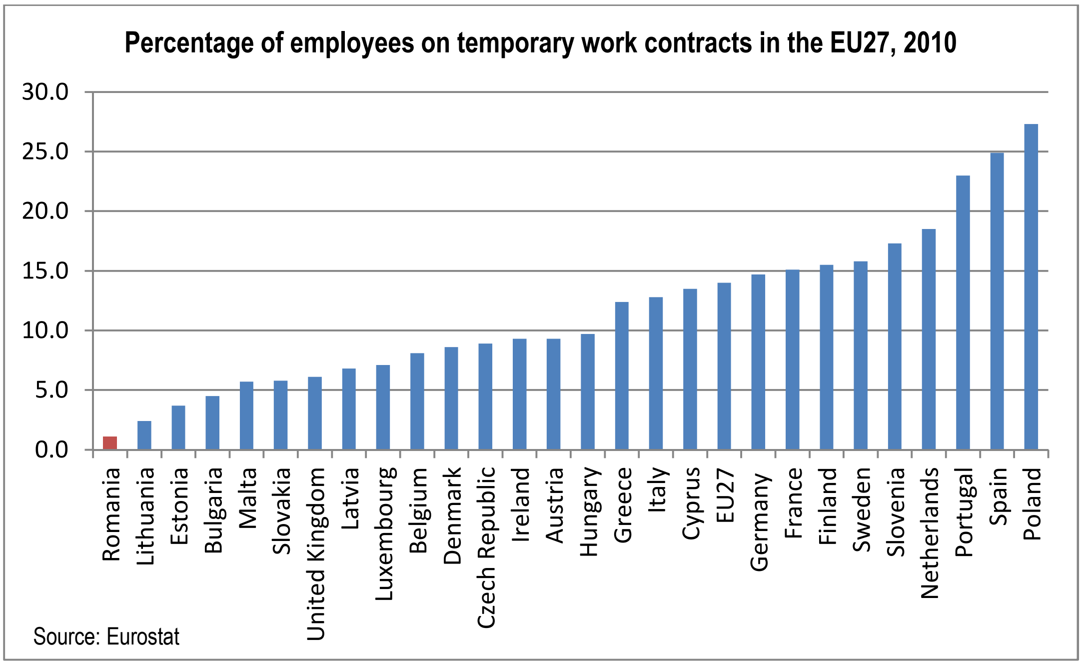
The low fertility rates and massive workforce migration caused a pronounced increase in the median age of the population. In 2000, the Romanian population was fourth youngest in relative terms in the EU27, with a median age of 34.4. The increase in the median age in Romania from 2000 to 2010 was 11.33 per cent, up to 38.3 years, higher than the EU27 increase of 7.63 per cent.

5.5 The push for temporary and part-time work

The World Bank (2008a) argued that the low prevalence of part-time work in Romania was lowering the employment rate and was linked to rigid regulations on part-time employment that channelled individuals into (full time) informal work instead.

Figure 7 below shows that Romania had the lowest rate of temporary employment in the EU27. While the World Bank attributed this low rate to rigid labour legislation, in 2000, under a stricter legislation dating back to communist times (1972), the temporary employment rate in Romania had been almost three times higher (2.9 per cent in 2000 compared to 1 per cent in 2009 and 1.1 per cent in 2010). In 2001, the communist 1972 Labour Code was still in force. Part-time work was not even explicitly mentioned in the 1972 code but the part-time work rate was 9.7 per cent in 2001. Seven years later, after part-time work had been acknowledged and regulated in the 2003 Labour Code, the rate was still 9.7 per cent. Moreover, the relation between the temporary and overall employment rate is not clear-cut: Spain and Poland, countries with the highest percentages of temporary work contracts in the EU27, had employment rates very similar to Romania's (Spain 58.6 per cent and Poland 59.3 per cent compared to Romania's 58.8 per cent - see Figure 6 above).

Figure 7.



In analyzing the reasons for the low temporary and part-time work rates, it is relevant to understand the motivations of workers engaged in such work. In a Eurostat 2008 survey, only 8.8 per cent of Romanian workers with a temporary contract stated that the reason for their work status was that they did not want a permanent contract. By contrast, 43 per cent of Slovenes and 31 per cent of Czechs preferred a temporary contract. Regarding part-time work, the main motivation of Romanians engaged in such work was they could not find a full-time job (see Table 4). The low rates of part-time employment may thus be explained by the inability of workers to live off a part-time wage. A minimum wage employee working 20 hours per week would make €80, a little over the absolute poverty line of €50.

Table 4. Motivation for part-time employment

	Romania (%)	EU27 (%)
In education or training	1.6	10.6
Could not find a full-time job	51.8	25.2
Personal disability or health problems	3.5	4.5
Family or personal responsibilities	6	15.5
Looking after children or incapacitated adults	3	22.6

Source: Eurostat.

The part-time and temporary employment rates for women are not much higher in Romania than the overall rates. For example, the part-time employment rate for women was 9.9 per cent in 2010 while the overall rate was 9.7 per cent. Part-time workers are considerably more likely to work in rural areas. The part-time work rate for urban workers was 2.3 per cent in the fourth quarter of 2010 while that of rural workers was 20.9 per cent (Romanian National Institute of Statistics, 2011). With 87.7 per cent of part-time workers living in the rural area and 58.7 per cent of part-time workers being self-employed, part-time work in Romania is concentrated in agriculture and crafts.

The World Bank (2008a) also decried the low prevalence of fixed term contracts. In 2004, the sectors with the highest rates of fixed-term employment in Romania were agriculture (11.5 per cent), hotels and restaurants (12.6 per cent) and construction (7.3 per cent) (Eurofound, 2007b). Considering that these sectors experienced labour shortages due to workforce migration, the relatively low rates of fixed term contracts may be due to employers' preference for indefinite contracts that would ensure lower turnover and higher returns to workforce training. A Romanian recruitment director explained: "private employers do not prefer part-time employment, because they fail to ensure continuity in customer relations or in collaborations within the company".[6]

5.6 Calls for more labour market flexibility

As Romania's fiscal deficit loomed larger and exports had been affected by the recession, the Romanian government became more concerned with competitiveness and economic performance. The diagnosis of the World Bank and the IMF was that one of the problems of the Romanian economy was the rigidity of the labour market. These institutions had decried the low labour force participation rate and attributed it to high taxation and labour market rigidity that leads to informal employment and low rates of part-time and temporary employment. The policy prescription adopted by the Romanian government was increasing labour market flexibility. The new Labour Code and Social Dialogue Law, both enacted in 2011, introduced many new ways for firms to reduce their wage bills, through more flexibility in setting the maximum number of working hours, shifting from permanent to part-time or temporary contracts or putting workers on administrative leave.

The IMF (2008) analysed Romanian labour market flexibility using the World Bank's Doing Business Indicators for employment, noting that Romania's index is "quite low", and compared it to "the best performers among new member states (NMS)" arguing "Poor labor flexibility may exacerbate the already tight labor market conditions in Romania as

[6] Ziarul Financiar, 14 June 2011, Over a million Romanians have part-time contracts, http://www.zf.ro/eveniment/peste-un-milion-de-romani-au-joburi-part-time-cel-mai-ridicat-nivel-din-ultimii-5-ani-8342196.

firms cannot efficiently achieve the desired level of workers". The IMF (2006) had previously argued: "labor market rigidities are impediments to a business-friendly environment and Romania stands out compared with other countries, particularly on costs of hiring and firing workers". When the Romanian government amended the Labour Code in 2006, the IMF (2006) pushed for further deregulation: "Staff expressed reservations about the adequacy of these measures and urged the authorities to further amend labor market legislation".

The World Bank analyses calling for more labour market flexibility were fundamentally affected by the lack of reliable data on migration and the size of the informal economy. The World Bank (2008a) decried the lack of available information on migration but acknowledged that the low labour force participation rate – particularly that of women – could be actually caused by the inflow of remittances that drive up the reservation wage. The report also considered whether the low labour force participation rate of Romanians who had not emigrated was a reflection of a selection bias, as migrants have characteristics that make them more likely to participate in the labour force. With an estimated 10 per cent of the population working abroad, selection bias might indeed be a major issue for any assessment of labour force participation in Romania. Despite the data limitations on migration and informal employment as well as selection bias concerns, The World Bank (2008a) considered that some policy changes were warranted, such as increasing the prevalence of part-time employment in Romania to encourage the engagement of women in the formal labour market and "continual gradual reduction of payroll taxes jointly with easing of labour regulations".

The push for market flexibility was based on weak assumptions about the needs of employers and about the impact of migration, remittances and the informal economy on the labour force participation rate. Moreover, the low unemployment rate over the 2000s, the increase in employment in urban areas and the increases in productivity since 2000 occurred under a Labour Code considered inflexible, but which had changed in 2003 and subsequently to accommodate calls for flexibility. For example, in 2005, the maximum duration of the temporary work contract had increased from 18 to 24 months. In 2006, the Labour Code had been amended to facilitate collective dismissals.[7] In addition, in 2006, the definition of part-time work was modified to eliminate a minimum duration requirement of two hours per day and ten hours per week.

Increasing labour market flexibility in Romania can have negative consequences for job security. Temporary or part-time employment limits access to union representation and the protection of collective labour agreements. The European Commission (2010a, p. 9) noted that declining unionisation in the EU is a consequence of the difficulty of recruiting and retaining members in flexible and fixed term employment contracts. Workers on temporary contracts are more exposed to job loss than workers on open-ended contracts (European Commission, 2010a, p. 10). During the recession, in Lithuania and Latvia, countries considered to have flexible labour markets, not only did unemployment increase substantially, but part-time employment also increased by 25 and 34 per cent respectively from 2008 and 2009 (World Bank, 2011b). While the steep economic decline in the Baltic countries during the recession may explain the large drop in employment, other economies with flexible labour markets saw similar developments. The number of employees with temporary employment contracts increased in Latvia by 49 per cent and in Hungary and the Czech Republic by 13 per cent from 2008 to 2009 (World Bank, 2011b).

[7] Before 2006, employers had to initiate a collective dismissal procedure if they planned to lay off at least five employees (for companies with fewer than 100 employees). Under the 2006 changes, this number had been raised to ten employees.

Although the 2011 labour reforms came after Romania exited the recession, authorities presented the labour market flexibility changes as a driver of employment growth: "Making the labour market more flexible would lead to a one percentage point drop in unemployment" (President Traian Băsescu).[8] In reality, promoting labour market legislation to counter the effects of the recession was a post-factum and prospective policy decision to increase labour market flexibility. The Romanian manufacturing sector remained competitive throughout the crisis and actually led the recovery, despite any labour market rigidities. Romanian exports at the end of 2010 were actually 11 per cent above their maximum pre-crisis levels (Romanian Fiscal Council, 2011), and industrial production increased by 5.1 per cent in 2010. It is also quite likely that Romanian authorities overestimated the rise in unemployment and hence the need for flexibility reforms to counter job loss. The 2010 official projections for unemployment stood at 8 per cent while the actual rate in 2010 was 7.3 per cent (Romanian Fiscal Council, 2011).

Moreover, in 2010, the Romanian government had already offered employers temporary facilities for "technical unemployment" to counter lay-offs. Employers who reduced or shut down their activity were allowed to pay employees 75 per cent of their regular pay check and the government agreed to pay the mandatory social contributions for the employer and exempted the employees whose wages had been cut from paying the 16 per cent income tax. A PricewaterhouseCoopers report[9] showed that in 2009 profits per employee increased in Romania by 20 per cent compared to 2008, because of layoffs and because labour costs were 50 per cent less than the EU average. The same study - based on a survey of 76 large Romanian companies - found that wages and benefits represent only 9 per cent of the costs for multinational companies in Romania, compared with 22 per cent of costs in the Western offices of the respective companies. As shown in the PwC study, large employers had no trouble in cutting labour costs and even increasing profitability in 2009, under a labour legislation considered rigid by the World Bank and the IMF.

5.7 Tax wedge on labour

The World Bank and the IMF called for a gradual reduction in payroll taxes to fight informal employment. Eurostat computes the implicit tax rate on employed labour,[10] a summary measure of the average effective tax burden on labour income. While the Romanian tax wedge stood at 44.7 per cent in 2000, the sixth largest in Europe, it decreased until 2008, when, at 40.9 per cent, it was eighth largest and close to the EU27 average of 39.5 per cent. Breaking their commitment to cut labour taxes, the Romanian government resorted to increasing employers' mandatory social contributions in 2009 to balance the budget. Although the rationale for reducing social contributions was mainly to reduce the informal economy,[11] the evidence for this link is weak. The World Bank

[8] President Traian Băsescu addressing the Romanian Parliament, 21 Sep. 2010, http://www.click.ro/actualitate/bucuresti/Basescu-Romania-milioane-asistati_0_1034296685.html.

[9] Ziarul Fianciar, 1 Feb. 2011. Romanian employees in multinationals, more profitable than Westerners, http://www.zf.ro/profesii/angajatii-romani-din-multinationale-mai-profitabili-decat-vesticii-7941207.

[10] The implicit tax rate on employed labour is defined as the sum of all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory increased by taxes on wage bill and payroll.

[11] "Taxes are at the heart of the informal sector employment debate" (World Bank, 2008a).

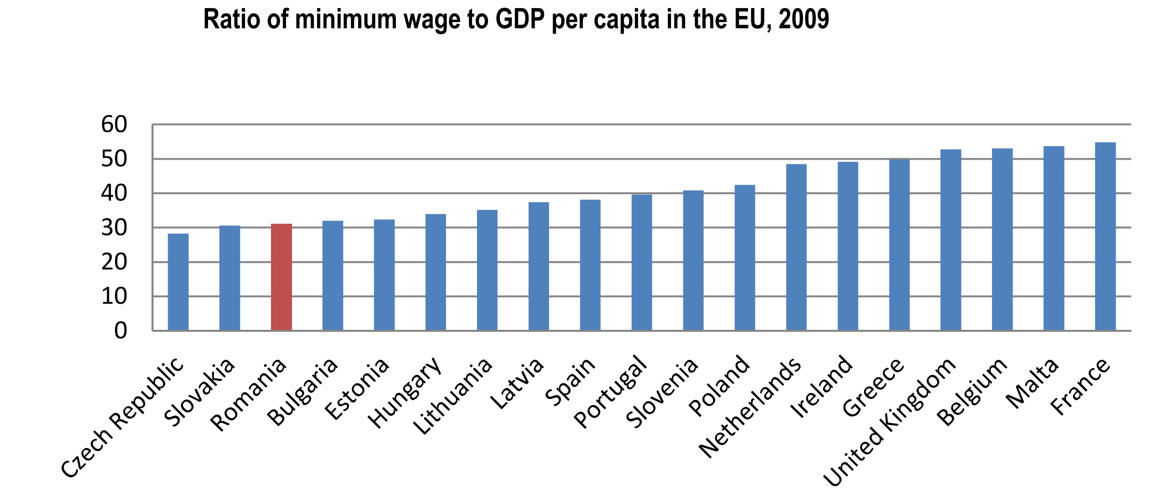
(2008a) noted that small variations in payroll taxes could not give a clear sense of the elasticity of informal sector employment to changes in payroll taxes. Yet Romanian payroll taxes decreased from 60 per cent in 1999 to 40.9 per cent in 2008 but there is no indication that the size of the informal economy decreased. Actually, the number of employers sanctioned for hiring workers without the proper legal forms increased as the capacity of labour inspectorates developed (see Table 5).

5.8 Low (minimum wages) and employment

Reducing the tax wedge and increasing labour market flexibility may be weak instruments to increase employment in Romania, as the underlying reasons that fuel migration and the informal economy are poverty, particularly working poverty and low wages. Parlevliet and Xenogiani (2008, p. 17) noted that the wage bill in the Romanian economy had failed to keep up with the growth in GDP between 2000 and 2006 and suggested that as labour benefits less from economic growth than capital, individuals resort to informal employment to supplement their revenue.

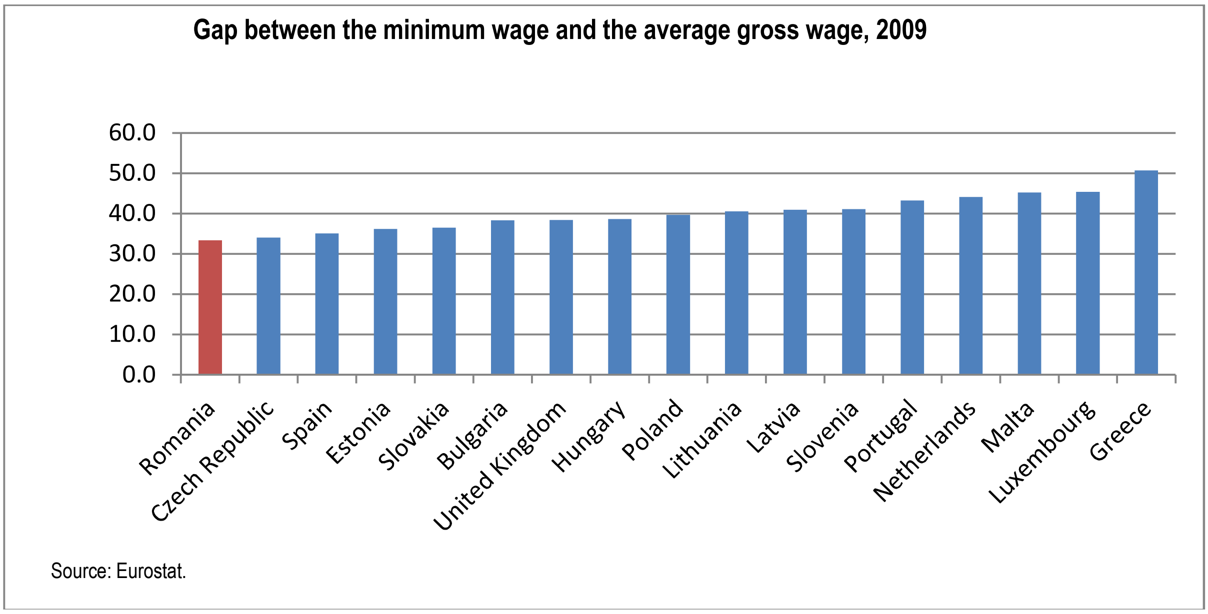
Employment growth is thus a question not just of the number of jobs created but also of the quality of these jobs. In the absence of adequate remuneration, Romanians will continue to mass migrate in search of better wages. As Figures 7 and 8 show, Romania has one of the lowest ratios of minimum wage to GDP per capita and the largest gap between minimum and average wages among the EU countries with a statutory minimum wage. Such a low remuneration offers little incentive for workers to formalize their employment. Rather than pay taxes on the low minimum salary, some employees may prefer envelope payments offering higher net earnings, although at the cost of sacrificing pension contributions. In this context, increasing the minimum wage could actually stimulate employment, as workers in the informal sector would prefer to formalize their employment given fair remuneration and the perspective of a pension.

Figure 8.



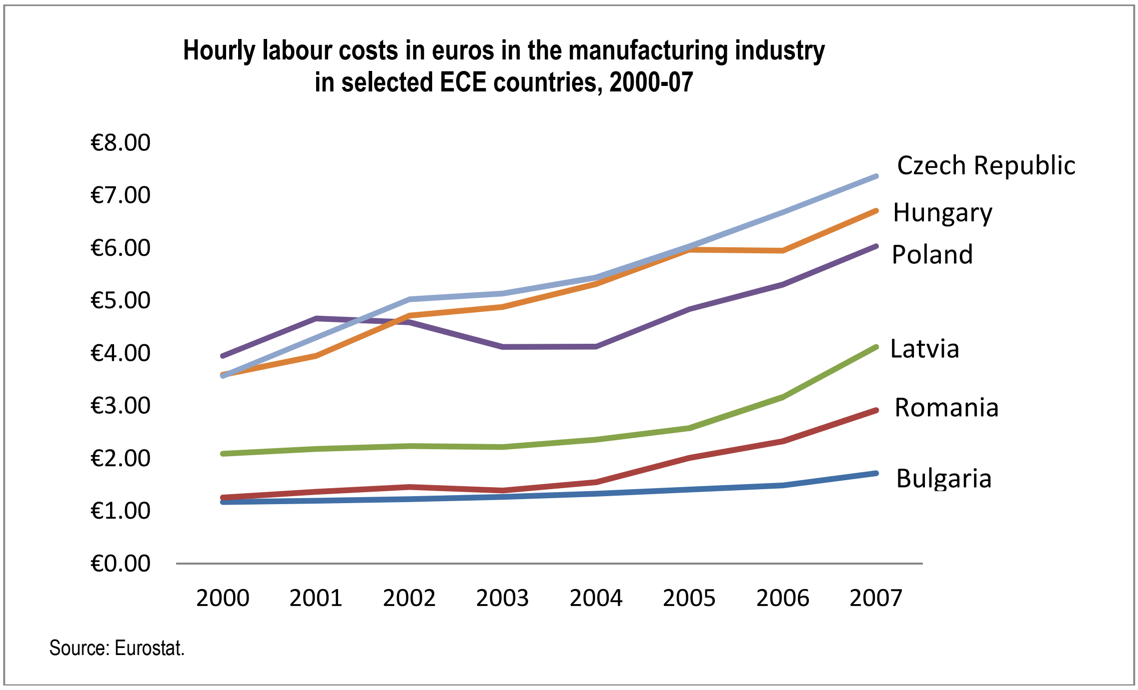
Source: Eurostat.

Figure 9.



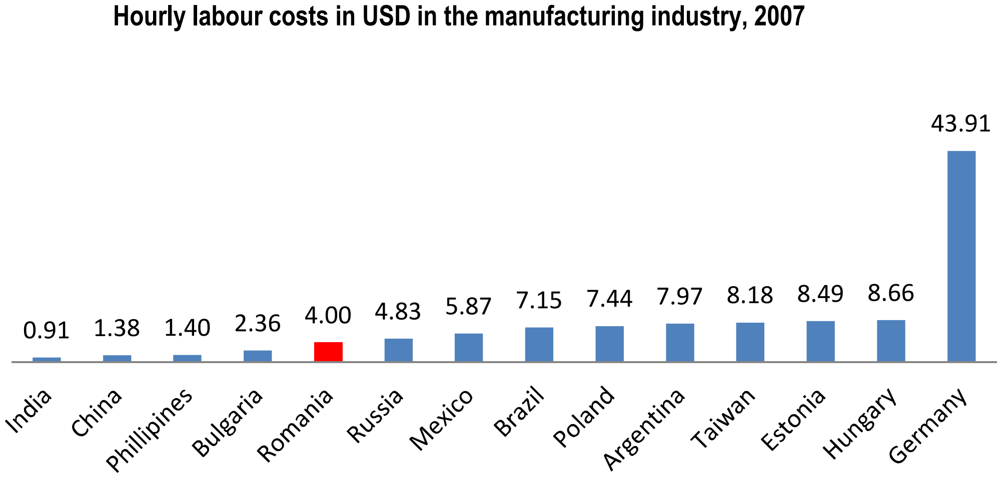
Nevertheless, can Romania increase the minimum wage, considering export market competitive pressures and IMF advice on wage moderation? While real wage growth had surpassed productivity growth since 2003, all ECE countries saw significant increases in wages as they joined the EU, received more direct investment and increased exports (Figure 10). The IMF (2008) noted that despite the increase in real wages in Romania since 2004, "Romania's export market shares have steadily increased, and profitability in the tradables sector remains intact. Also, Romania's euro-denominated wages are still among the lowest in the EU, and foreign-investor interest in locating production facilities in Romania also remains strong."

Figure 10.



Despite being a member of the EU27, Romania had lower average wages in 2009 than Serbia, Turkey or Bosnia and Herzegovina and the average hourly labour costs in manufacturing were lower in Romania than in Russia, Mexico or Brazil (see Figure 11).

Figure 11.



Sursa: Bureau of Labour Statistics for Germany, China, Mexico, Brazil, Poland, Argentina, Taiwan, Estonia, Hungary, Phillipines; ILO for Russia, author's calculations, India-2005 data, http://www.bls.gov/opub/mlr/2010/05/art1full.pdf; Eurostat for Romania and Bulgaria, author's calculations.

5.9 Overtime and labour utilization

A survey by online recruitment website BestJobs found that 90 per cent of Romanians reported working overtime hours every day but only 17 per cent said they are paid for overtime and 66 per cent declared they were never paid for such work. Commenting on the results of the survey, a labour inspector argued that such cases are hard to identity as employees rarely petition labour inspectorates to complain about unpaid overtime.[12] Faced with more inspections on the illegal use of unpaid overtime, employers may prefer to hire more workers rather than pay overtime hours, thus increasing the employment rate.

6. The working poor

Romania has the highest rate of in-work poverty in the EU27[13] at 17.9 per cent, 4.1 percentage points above second-ranked Greece. The high rate of in work-poverty can be partly explained by the high share of employment in agriculture and self-employment. The European Foundation for the Improvement of Living and Working Conditions (Eurofound, 2004) noted that the self-employed are at an increased risk of being working poor. In 2010, Romania has the highest share of employment in agriculture in the EU27 (19.1 per cent) and the third largest share of self-employment (after Greece and Bulgaria).

Different definitions of poverty lead to strikingly different results in estimating the number of working poor: using the absolute poverty line, the World Bank estimated (2008a) that only 3.5 per cent of the wage-employed were poor in Romania.

[12] Bestjobs poll: 90 per cent of employees work overtime every day, http://www.hotnews.ro/stiri-ultima_ora-4407848-sondaj-bestjobs-90-din-salariatii-romani-efectueaza-zilnic-ore-suplimentare.htm [16 Aug. 2011].

[13] Eurostat measures in-work poverty as “The share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 per cent of the national median equivalised disposable income (after social transfers)”.

While not directly a good measure of in-work poverty, it is relevant to look at the share of employees earning the minimum wage, which has increased from 3.5 per cent in 1994 to 6.1 per cent in 1998 and jumped to 37.1 per cent in 2004 (Stănculescu, 2009). Not only does Romania have the second lowest minimum wage in the EU27[14] but also its ratio to the average wage in industry and services is very low, at 29 per cent, actually the largest gap between minimum and average wage among EU countries with a statutory minimum wage (Figure 9).

Considering the high in-work poverty rate, it is relevant to analyse the extent to which Romania has adhered to and implemented the Decent Work Agenda. Targeting the Decent Work policy objectives is a path to reducing in-work poverty. In Romania's case, the large size of the informal economy also makes increasing the quality of work a particularly salient policy objective that would reduce in-work poverty. Achieving the Decent Work policy objectives implies reducing the extent of informal work, which is characterized by low income, insecurity and a lack of rights, representation and social protection. Reducing in work poverty is also in line with the Lisbon and Europe 2020 strategies, as the European Commission has introduced the question of the quality of work in EU employment policy and is targeting the working poor in its efforts to reduce poverty and social exclusion (Eurofound, 2004).

The European Commission has drawn attention to the risk of an increase in employment not coupled with an increase in the quality of employment. While the part-time work rate in Romania is relatively low compared to other EU countries, it could still be a contributing factor to the high in-work poverty rate, as the EC acknowledged that part-time work in the EU pays less on an hourly basis than full-time work and can contribute significantly to individuals becoming working poor (Eurofound, 2004). The goal of Romanian authorities to increase part-time work could run contrary to the general poverty reduction objectives if employees currently employed full-time will experience a decrease in the quality of their employment because of reduced working time. While attracting the economically inactive in the labour market will increase their monetary income, the legislation that facilitates reduced working hours schedules for employers in times of economic difficulty puts many more full-time workers at risk of earnings losses. The 2011 changes to the Romanian labour legislation already decreased the quality of employment for temporary employees. Although the EU adopted a directive to regulate part-time and temporary employment that advocated for the equal treatment of temporary workers, Romanian authorities decided to change the legislation for temporary employment by no longer guaranteeing the right of a temporary worker to receive a wage equal to that of full-time workers performing the same tasks.

7. The Decent Work Agenda

In 2008, the ILO unanimously adopted the Declaration on Social Justice for a Fair Globalization, institutionalizing the Decent Work Agenda. The decent work concept[15] was formulated as a set of strategic objectives guiding the activity of the ILO: employment, social protection, social dialogue, and rights at work. Decent work and pro-poor growth are related concepts, as the policies inspired by the Decent Work Agenda target poverty reduction through job creation, guaranteeing rights at work and social protection.

[14] The equivalent of €157 in January 2011. Bulgaria has the lowest minimum wage in the EU27, at €123.

[15] The concept of decent work describes "opportunities for men and women to obtain decent and productive work in conditions of freedom, equity, security and human dignity" (ILO, 2006).

Moreover, one important aspect of decent work is that employees should benefit from "remunerative" employment.

Creating Jobs, the first core objective of the Decent Work Agenda, involves "an economy that generates opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods" (ILO, 2006). The analysis below considers the ways in which Romanian economic policy targeted job creation since 2000, with special attention to poor rural areas.

The second decent work agenda objective is **Guaranteeing rights at work -** "All workers, and in particular disadvantaged or poor workers, need representation, participation, and good laws that are enforced and work for, not against, their interests" (ILO, 2006). The analysis below looks at the representation of poor workers, the representation of Romanian migrant workers, the enforcement of labour legislation in Romania and the activity of labour inspectorates.

Analyzing the third objective, **Extending social protection**,[16] I will look at the evolution of working conditions in Romania, work-life balance, hours of work, compensation in case of lost income and access to healthcare.

The fourth objective of the Agenda is **Promoting social dialogue** – "Social dialogue, involving strong and independent workers' and employers' organizations, is central to increasing productivity and avoiding disputes at work, and to building cohesive societies" (ILO, 2006). The analysis will look at unionism rates, union activity and the evolution of work conflicts and incidents over the past ten years in Romania and will include a discussion of the recent changes to labour legislation.

By signing the ILO Declaration on Social Justice for a Fair Globalization, Romania committed itself to contribute, through its social and economic policy, to the realization of a global and integrated strategy for the implementation of the strategic objectives of the Decent Work Agenda (ILO, 2008, p. 13). The analysis will focus on how the decent work objectives were reflected in national labour policy, specific legislation and the activity of labour inspectorates. The analysis will also highlight the policies inspired from the Decent Work Agenda that could promote an increase in quality employment and the reduction of poverty.

7.1 Creating jobs

As the economy was chugging at 7 per cent per year but the economically active population was shrinking, Romania began to experience labour shortages, particularly in the construction, textile and hospitality industries (IOM, 2008).

The considerable increase in foreign direct investment over the 2000-08 period, more favourable taxation and some improvements in the ease of doing business generally opened up the way for many opportunities for entrepreneurship and job creation. In 2006, the World Bank's Doing Business report ranked Romania 78th. Its best position since then has been 49th and Romania was considered a top reformer in the 2007 report. Job creation

[16] "To promote both inclusion and productivity by ensuring that men and women enjoy working conditions which are safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income and permit access to adequate healthcare" (ILO, 2006).

was however concentrated in urban areas, and there have been few policies to encourage job creation in poor rural areas, which became sources for the massive migration flows.

Job creation policies in Romania therefore operate in the context of a large informal economy, workforce skills mismatch - particularly for employees laid off from state companies - and a large unskilled workforce in rural areas. Policymakers also need to acknowledge a lack of economic diversification in rural areas that restricts job creation as well as continuing migration flows that will lead to renewed labour shortages, particularly as more EU states open their labour markets to Romanians.

I proceed to analyse five sets of policies:
1. Reducing the size of the informal economy,
2. Increasing spending on active labour market policies,
3. Workforce education and training in rural areas,
4. Policies to address labour market shortages and brain drain,
5. Policies to promote the employment of women.

In the context of the EU and Romanian rural development strategy, these policies target lifting out of poverty rural areas by developing opportunities for entrepreneurship, skills development and job creation. The policy goal is for early retirees, rural poor and the working poor in the informal economy to become economically active in the formal sector and have more sustainable livelihoods.

7.1.1 Reducing the size of the informal economy

While a gradual contraction of the informal economy can be expected as the share of employment in agriculture decreases and formal (minimum) wages increase, the Romanian government can promote active measures to reduce the informal economy by supporting the activity of labour inspectorates. Envelope payments and informal employment are offences punishable under Romanian labour law and verified by labour inspectorates. The Romanian labour inspection system does not have the authority or the capacity to verify what are long established cash or in-kind payments for agricultural work in Romanian villages. It can however check employers that might be using undeclared work and, in joint controls with tax authorities, verify whether employers resort to envelope payments. Table 5 shows that in 2005, one in five visits resulted in a fine for undeclared work. With such high "returns" to labour inspections, reducing the size of the informal economy may be achieved by strengthening the capacity of the Romanian labour inspectorates.

Table 5. Number of employers found using undeclared work and their share in the total number of employers verified by Romanian labour inspectorates

	2004	2005	2006	2007	2008	2009
Number of employers found using undeclared work	3 442	3 525	7 840	7 701	7 963	8 500
Share in the total number of employers verified	37.2	20.2	24.6	16.7	14.2	14.9

Source: Romanian National Institute of Statistics, Statistical Bulletin on Labour and Social Protection, 2009.

The recent changes to the Romanian Labour Code targeted the reduction of the informal sector by introducing higher fines[17] and making the hiring of more than five illegal employees a criminal offence, punishable by a jail sentence of up to two years and other complementary sanctions.[18] The new Code also sanctions individuals with fines up to RON1,000 (about €240) for working without a contract.

Higher fines and more and better-trained staff in labour inspectorates could prove more effective in reducing the number of employers using illegal employment. A tighter control of the informal economy will however not address one of the main reasons individuals go into informal employment. Although they will be liable together with employers for fines, some individuals may still proceed to look for informal employment to supplement their low wages.

Lastly, if the higher fines and stricter inspections lead to a rise in the number of formal work contracts, some categories of workers may find themselves more exposed to discrimination in the formal labour market. The Roma, a major ethnic group in Romania[19] are more likely to be found in informal employment (Parlevliet and Xenogiani, 2008) and more likely to be discriminated in the formal labour market.

7.1.2 Increasing spending for active labour market policies

As employers in the construction, textiles and hospitality industries had difficulties finding skilled labour in Romania at the peak of the economic growth period (IOM, 2008), while activity rates in rural areas and youth employment rates remained low, there is sufficient scope for active labour market policies, particularly training schemes to increase employability in sectors that face a labour shortage. Such policies would require, however, an increase in the public budget allocation for training in Romania, which was 77 times smaller than the EU27 average in 2008 (Figure 12).

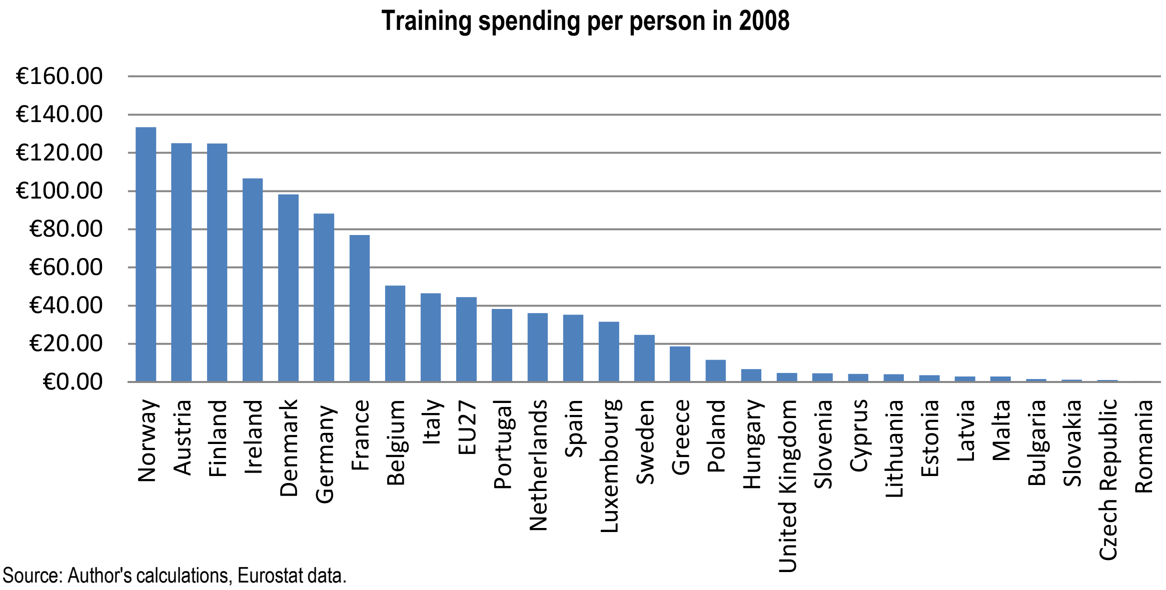
At the peak of economic growth (and of labour shortages), in 2008, Romanian overall spending on active labour market policies was considerably smaller than that of other EU states. For example, direct job creation spending per capita was only €0.93 in 2008 in Romania, while the European average was 16 times higher. Total Active Labour Market Programme (ALMP) spending as a percentage of GDP decreased from 0.67 per cent in 2003 to 0.26 per cent in 2008 and 0.46 per cent in 2009. In 2008, Romania was spending the least out of EU27 nations on ALMP.

[17] For employers hiring up to five workers without legal forms, a fivefold increase of the maximum fine of RON20,000 or US$6,600 for each employee without a work contract, up to a maximum fine of RON100,000.

[18] Loss of the right to benefit from state subsidies or aid, to participate in public tenders, temporary or permanent shut down of the facility where the Labour Inspection visit found cases of illegal employment.

[19] Official Census data recorded 535,140 Roma out of the total population of 21,680,974 but unofficial estimates place the number of Roma closer to 1 million.

Figure 12.



Source: Author's calculations, Eurostat data.

In 2009, spending on labour market policies did increase because of higher unemployment benefits spending, but at the expense of ALMP spending, which reached a minimum 0.044 per cent of GDP (the lowest figure since 2003).Given two developments that would have called for increased ALMP spending - the labour market shortages at the peak of the economic growth period and the increase in unemployment during the recession, it is hard to understand why the Romanian government actually allocated fewer funds to finance such policies. Moreover, faced with fiscal pressures, Romanian authorities, much like other ECE governments,[20] attempted to reduce unemployment insurance expenditure - in Romania's case, by cutting benefits by 15 per cent in June 2010 and subsequently by about 25 per cent on 1 January 2011 for new recipients. However, despite increasing unemployment and cuts in benefits, Romanian authorities also decreased active labour market spending. Eurostat estimates that Romanian active labour market measure spending (excluding out-of-work income maintenance) was €47.7 million in 2008 and €37 million in 2009.

The under financing of ALMP could be explained by a displacement of governmental spending by the significant inflow of structural funds disbursed through the European Social Fund. The EU allocation for 2007-13 for Romania through this sector operational program is approximately €3.47 billion, with the Romanian government contributing an additional €613 million. The actual allocation through this program for active employment measures is disbursed through the allocations for lifelong learning, strengthening the capacity of the public employment agencies and promoting active employment measures, particularly in rural areas. Romania has, however, a very low absorption rate[21] of EU funds (only 7 per cent effective payments out of the allocation for 2007-10, 12.4 per cent at the end of May 2011). While the absorption rate of human resource development funds is higher (19.19 per cent at the end of May 2011), inflows since 2007 amounted to €444 million at the end of May 2011, or about €4.8 per inhabitant per year since 2007.

[20] Hungary and Ukraine tightened unemployment insurance eligibility criteria, Ukraine tightened eligibility criteria to register as unemployed, the Czech Republic reduced benefit periods, and Estonia raised contribution rates (World Bank, 2011b).

[21] The ratio of actual payments disbursed to the EU budgeted contribution.

These inflows are five times higher than the Romanian government budget allocation for ALMP in the late 2000s, but still considerably lower than the EU27 average spending of €40 per inhabitant. If we consider that the direct active employment component of the human resource development structural funds is only €198 million for seven years, Romanian ALMP spending remains one of the lowest in Europe, despite the European Social Fund inflows.

7.1.3 Workforce education and training in rural areas

One of the reasons Romanian employers were facing labour shortages in the recession was that a large share of the rural population is unskilled. A large unskilled rural workforce is also an obstacle to economic diversification in rural areas, as investors may be dismayed by the low education levels. The financing of education in Romania has been very low by EU standards and the recent austerity cuts push back efforts to increase educational attainment in rural areas, as the government plans to close down 1,000 schools, particularly small schools in remote rural areas.

The links between education and employment are strong in Romania. While the International Standard Classification of Education (ISCED) level 5-6 workforce has an employment rate of 85.8 per cent, that of the ISCED level 0-2 workforce was only 40.3 per cent (IOM, 2008).

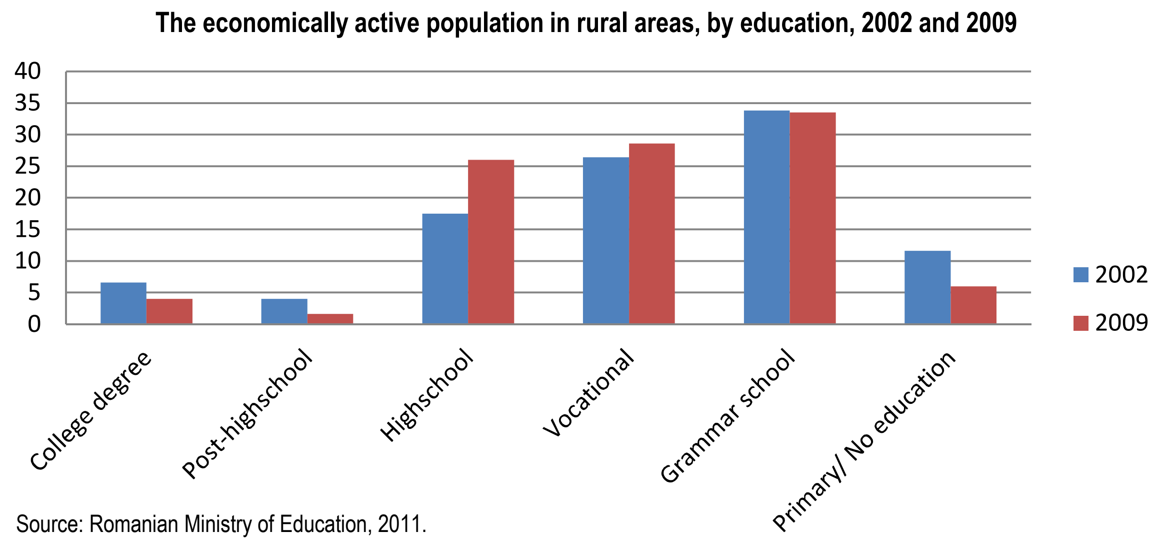
In 2000, Romanian spending on education as a percentage of GDP was lowest among the current EU27, at only 2.86 per cent. Until 2007, spending on education in Romania remained the lowest in the EU in terms of percentages of GDP. In March 2008, leaders of all major political parties signed a national Pact for Education, which provided a generous 6 per cent of GDP for education and an additional 1 per cent allocated to research. The pact allocation was never respected in practice, and in 2008, the allocation was up to 4 per cent of GDP and back to 3 per cent in 2009. Austerity measures led to staff cuts, 2.3 per cent staff decrease in 2009 and a further planned 4.65 per cent cut in 2010 (Romanian Ministry of Education, 2011).

The austerity cuts in education threaten the achievement of the Romanian Europe 2020 target to reduce the percentage of early school leavers to 11.3 per cent. In 2000, Romania had one of the highest rates of early school leavers in the EU27, at 22.9 per cent. This rate gradually decreased throughout the 2000s, reaching a minimum of 15.9 per cent in 2008, only to increase to 16.6 per cent in 2009 and 18.4 per cent in 2010, when Romania had the fifth highest early school leavers rate, after Italy, Spain, Portugal and Malta. Romania also has one the lowest gross enrolment rates in the European Union. The ISCED 0-6 participation rate for students aged 3-29 was 56.1 per cent in Romania, below the EU average of 63.9 per cent (Eurostat, 2009). Since most rural students have to commute to high school, transportation costs are relevant in the context of the participation (or dropout) rate. The World Bank crisis response assessment (July 2009) found that the access of students from rural areas to high schools became more difficult during the recession and the number of children not attending school increased. The government covers 50 per cent of transportation costs and families have to supply 50 per cent, but as state financing was often delayed during the recession, access to high schools worsened. Another factor contributing to the decline in the school attendance of rural students has been the work migration of parents, who left their children in the care of relatives. UNICEF estimated in 2007 that 350,000 children (or 7 per cent of the school age population) had been left behind by a parent working abroad. An estimated 130,000 have both parents working abroad. While a number of public investments in computers (vouchers for poor families) and new facilities have improved the situation in rural education, many schools still lack running water, sewage or proper heating.

Romanian authorities have made little effort to boost the participation rate in adult education. Only 1.3 per cent of the 25-64 age group took part in any education and training (Eurostat), placing Romania last on this indicator in the EU27. Moreover, only 15 per cent of the trainees come from rural areas (Romanian Ministry of Education, 2011), while the rural population represents half of the total population.

Despite the poor financing of education, the composition of the workforce in rural areas by level of education has improved since 2000 in the sense that we see fewer individuals with no education or only primary education. On the other hand, the share of college-educated individuals also decreased. Migration of the high skilled and of the very low skilled seems a plausible explanation for these demographic shifts.

Figure 13.



Source: Romanian Ministry of Education, 2011.

7.1.4 Policies to curb the brain drain

While active labour market policies target increasing the skills of the labour pool in Romania, authorities can directly target skilled emigrant workers by attempting to connect them with quality jobs offered by Romanian employers facing labour shortages. Despite the massive workforce outflows since 2001, it was only in 2007 that Romanian authorities established an Office for Migration. In the context of labour shortages in a booming economy, a special inter-ministerial committee was established in 2007 under the supervision of the Prime Minister to draft a set of measures to encourage Romanian migrant workers to return and find employment in Romania. The measures included efforts to collect statistical information, carry out information campaigns, actively recruit Romanians working abroad and promote circular migration. The concrete results of these measures were the first job fairs organized by Romanian authorities abroad, in Italy and Spain, to encourage Romanian workers to return.

The most serious form of brain drain occurred in healthcare. After Romania joined the EU in 2007, Romanian doctors started negotiating contracts in other EU member states for salaries up to ten times higher than their Romanian ones. The number of doctors who emigrated in 2008 and 2009 alone is estimated at 3,600 (Vasilcu, 2010), or 7.2 per cent of the total number of doctors in 2009, which was 50,386 (Romanian National Institute of Statistics, 2010a). The Romanian government failed to offer any incentives for doctors to stay in Romania and in fact cut doctors' wages by 25 per cent, when all other public sector wages were cut in June 2010. Moreover, doctors who had worked in the hospitals closed by the government had to relocate, often at large distances, as most of the rural hospitals were in remote rural areas.

7.1.5 Policies to promote the employment of women

The employment rate for women in Romania was 52 per cent in 2010, fifth smallest in the EU27, after Malta, Italy, Greece and Hungary. However, Romania had the fourth lowest gender pay gap in the EU, after Italy, Malta and Slovenia and the percentage of respondents in the European Working Conditions Survey whose immediate boss is a woman was similar to the EU27 average in 2005 and 2010. These facts indicate that discrimination or pay inequities cannot fully explain the low employment rate of women.

While flexible working arrangements are sometimes seen as creating a gender imbalance and negatively impacting women's position in the workplace, Romania actually has a lower rate of part-time employment and temporary work contracts for women than for men. Far fewer women in Romania (10.6 per cent) work part-time than in the EU27 (31.5 per cent). Nor are Romanian mothers more likely to benefit from flexible work schedules - parents and non-parents are equally likely to have flexible work schedules (9.4 and 9.5 per cent respectively) (Romanian National Institute of Statistics, 2010b).

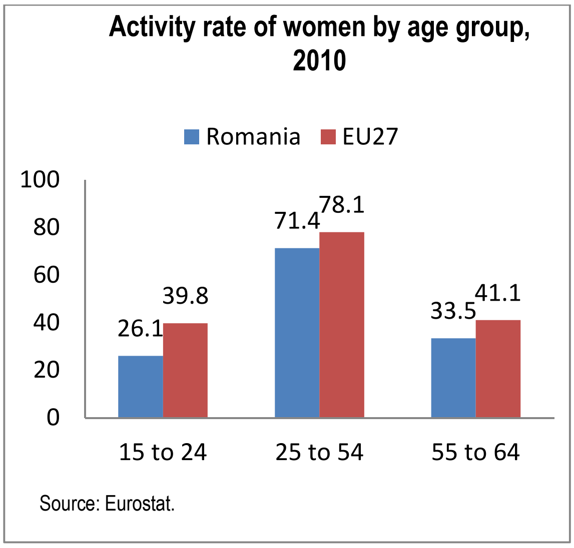
Romanian mothers with children under six have an employment rate comparable to the EU27 average. 60.9 per cent of Romanian mothers of children under 6 are in employment, compared to 59.7 per cent of mothers of children under 6 in the EU27. The relatively high employment rate of mothers with children under 6 (compared to other categories of women) is puzzling if we consider that formal childcare is available to only 8 per cent of children under the age of 3 and 61 per cent of children between the ages of 3 and 6.[22] Considering that one in five inactive individuals with family responsibilities attributed their inactivity to the absence of professional care for their children or adults/elderly (Romanian National Institute of Statistics, 2010b), increasing state funding for crèches, retirement homes and kindergartens could increase the employment rate for women. In 2000, there were more than 10,000 kindergartens in Romania, but their number dropped to 1,718 in 2008. This was largely due to buildings being reclaimed by their owners before the communist nationalization, the merging of schools and kindergartens and the closing of kindergartens not up to standards. While the government has plans for building more crèches and kindergartens, its cost cutting plans led to new regulations providing that in order to receive funding, kindergartens must enrol a minimum number of children (150). Considering the drive of the government to close small rural schools and the new regulations on the minimal number of children, the outlook for professional childcare services in rural communities is bleak. The Romanian National Institute of Statistics (2010b) found that the total absence of professional care services is the main concern for women in rural areas, as 90 per cent report that their low labour force participation is due to their childcare responsibilities.

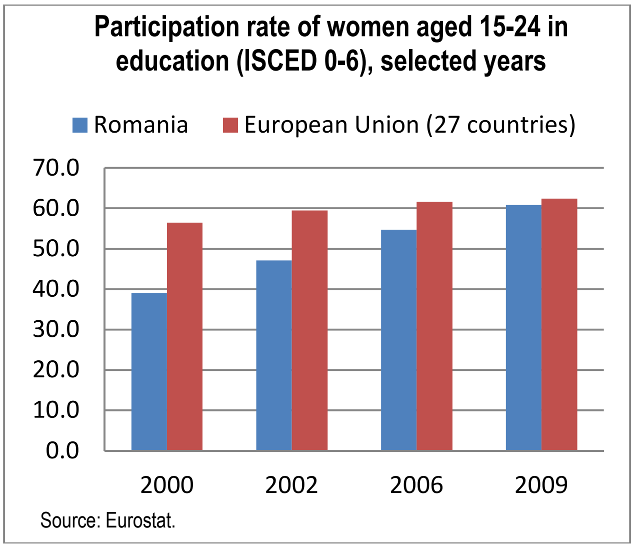
Looking at the age structure of the female population, we notice that the largest gap in the inactive population corresponds to the 15 to 24 age group (Figures 14-15). While workforce migration may explain this large gap (as the relative age of migrants is low), the participation rate in education for women has increased substantially since 2000 and consequently reduced the labour market activity rate. Early retirement, a consequence of restructuring and privatization that led to a significant decrease in the active population does not seem to explain the activity rate gap. Women's average labour force exit age from the labour force was similar or higher than the EU27 average throughout the 2000s:

[22] European Alliance for Families. Country profiles - Romania: "Many mothers employed but little childcare available", http://ec.europa.eu/employment_social/emplweb/families/index.cfm?id=4&policyId=54&langId=en&countryId=26.

59.2 per cent in Romania compared to 59.4 per cent in the EU27 in 2000, 63.5 in 2006 compared to 60.5 in the EU27.

Figures 14-15.





The increase in school enrolment and the lack of available childcare services are strong explanatory factors for the low overall activity rate of women. However, in recent years governmental policies have targeted women with children, in an attempt to increase their labour force participation rate by facilitating part-time and temporary employment. However, facilitating part-time employment may be ineffective, as the part-time income may not cover professional childcare or elderly care expenses. Furthermore, Romanian employers may continue to display a preference for indefinite term contracts due to the labour shortages.

7.2 Guaranteeing rights at work

The large size of the informal economy is a cause of concern for the quality of work in the Romanian labour market. Lack of rights and representation exposes Romanian workers to risks, abuses, improper working conditions and lack of access to formal credit. The same issues affect the quality of work for the millions of Romanians that migrated to Western European countries.

In this context, strengthening the capacity of labour inspectorates – which verify cases of illegal work – can promote quality employment. The percentage of employers found hiring workers without legal documents varied between 3 and 13 per cent between 2000 and 2009. The actual number of employees found working illegally is however small: 16,162 in 2008 and 17,464 in 2009. Considering estimates of the size of the informal economy at 25 per cent of GDP, we could expect as many as 1.2-1.5 million Romanians working without the proper employment contracts.

The Romanian labour inspection system has been undergoing a process of modernization as Romania joined the EU. There has also been a steady increase in the number of labour inspectors, but this process was halted by the austerity cuts. While there were about 1,600 inspectors in 2005, their number increased to almost 2,000 in 2009. In recent years, the labour inspection system has achieved coverage of about 25 per cent of enterprises in the economy. For example, 101,000 out of the 440,000 registered employers received a visit from labour inspectors in 2009.

The recession brought an increase in the number of complaints received by labour inspectorates: 68,000 petitions in 2009, 20 per cent more than in 2008. Despite this increase in reported violations of labour legislation and work health and safety regulations, the total number of visits did not increase compared to 2008. The lack of an increase in the number of visits during the recession raises the question of whether labour inspectorates can manage an increased workload with the existing personnel. The institution was actually going through internal changes, as it absorbed the institution of Social Inspection at the end of 2008 and was affected by staff cuts in the recession.

The number of petitions received by labour inspectorates may not fully reflect workers' satisfaction with working conditions. In a visit to a construction site where 30 men were working illegally, inspectors found that some of them did not know how to write and did not even know the name of the company that had hired them.[23] Considering workers' low literacy skills and their lack of information about their rights, many labour legislation violations may go unreported. In this context, labour inspectorates should launch media campaigns to raise workers' awareness of their rights, responsibilities and rights of recourse over employers.

The flexibility reforms that will facilitate part-time employment will also put further pressure on the capacity of labour inspectorates. Envelope payments are sometimes used when employees are hired part-time and receive additional pay informally for a full work schedule. One example of such practices was reported by a Romanian news website:[24] a full time employee earning €250 per month was legally hired to work one hour a week for an official €25 per month.

A large share of the Romanian workforce is employed illegally abroad. The percentage of Romanians working abroad illegally increased after 2002, when Romanians no longer required visas to travel to Western EU states. The Romanian Agency for Governmental strategies published a report in December 2007 on the Romanian migrants to Italy. About 60 per cent of migrants did have a job before they left Romania. Their average wage before leaving the country had been €140. In Italy, nine out of ten Romanians work, for an average wage of €1,030, mostly in the construction, housekeeping, retail, industry and social care sectors. While 23 per cent of the respondents declared they were working without a labour contract or authorization, the percentage of unauthorized migrants may be much higher. Another study (Soros Foundation Romania, 2006) reported that there are 300,000 legal migrants but that estimates of the total number of migrants are between 1 and 1.5 million.

Temporary work in agriculture abroad is often fraught with illegalities, poor working and living conditions for Romanians and even shocking cases of modern slavery. Romanian workers end up as slaves after being recruited by individuals or (illegal) placement agencies, asked to pay a substantial placement commission, not paid the amount agreed upon in Romania, have their travel documents confiscated and may be even imprisoned in a labour camp under armed supervision or death threats. Cases of imprisonment at work

[23] Mediafax, 12 Aug. 2010, Informal work, increased by the crisis and workers' availability to work in any conditions, http://www.mediafax.ro/social/munca-la-negru-extinsa-de-criza-si-de-disponibilitatea-oamenilor-de-a-lucra-in-orice-conditii-6864968 [20 Aug. 2011].

[24] Manager.ro, 9 Mar. 2011, Romanian employees break the silence. Available at: http://www.manager.ro/articole/ultima-ora/sclavia-cu-acte:-desi-lucreaza-8-ore-pe-zi-si-primeste-1000-de-lei-pe-luna-in-contractul-unui-salariat-apare-un-program-de-o-ora-pe-zi-si-un-salariu-de-90-de-lei-5214.html [20 Aug. 2011].

affecting hundreds of Romanians were reported in the past years in Belgium,[25] Germany,[26] Italy, Netherlands,[27] Cyprus, the United Kingdom, the Czech Republic. Some cases involve physical abuse, armed guards on plantations, death threats, 12 to 16 hour workdays, child labour in the United Kingdom,[28] forced prostitution. While Romanian labour inspectorates could better prevent such cases by an exhaustive control of all placement agencies, it is the responsibility of Romanian and foreign human trafficking police inspectors to identify cases of modern slavery.

In protecting the rights of Romanian migrant workers, labour inspectorates can only operate based on their authority over employment placement agencies registered in Romania. Romanian legislation provides that employment agencies must draw up contracts for migrant workers in Romanian and that these contracts should contain a minimal set of provisions. However, labour inspectors find in practice that employment agencies do not always translate work contracts in Romanian, that some companies place Romanian workers abroad without having an authorization as an employment placement agency and that the placement process is sometimes conducted by individuals and not registered companies. Labour inspectorates registered 1,183 placement agencies in 2008 and 1,614 in 2009. In 2008, the visit coverage ratio for employment placement agencies was 24 per cent but it dropped in 2009 to 12 per cent. However, 60 out of the 206 visited placement agencies were sanctioned in 2009. It is surprising that in the context of the dire problems of Romanian workers abroad the labour inspectorates did not launch a full-scale control of all employment agencies that place Romanians abroad. Given the high number of placement agencies where irregularities were found during visits, increasing the number of controls is a clear intervention mechanism to address the problems of Romanian workers abroad. However, as the numbers of Romanians abroad increased, family and community networks surpassed placement agencies as facilitators of work migration. Therefore, labour inspectorates can only verify the employment contracts of a small segment of the migrant workforce.

The massive migration flows of Romanians abroad created labour shortages on the Romanian labour market, particularly in the construction, agriculture and hospitality industries. In this context, the number of foreign workers increased, albeit from very low levels. Labour inspectorates check the working conditions of migrant workers in Romania. At the height of the economic growth period in 2007, labour inspectorates registered 11,242 foreign workers but informal employment is also prevalent among foreign workers in Romania so their number could be much higher. One year into the recession, their number had gone down to 3,712. In their visits in the year 2009, labour inspectors covered firms hiring about 25 per cent of the foreign workers (873), a ratio comparable to the general coverage ratio for all companies. It is surprising that the working conditions of immigrant workers are not targeted more in labour inspections, especially as in 2008

[25] Evenimentul Zilei, 19 May 2009. 40 Romanians, slaves in Belgium. Available at: http://www.evz.ro/detalii/stiri/40-de-romani-sclavi-in-belgia-851543.html [20 Aug. 2011].

[26] Spiegel Online International, 16 May 2011. Illegal Romanian Workers Paid Slave Wages by Policeman. Available at: http://www.spiegel.de/international/germany/0,1518,488875,00.html [20 Aug. 2011].

[27] BNDeStem, 19 May 2009. 'Roemenen zijn ook mishandeld' [Romanians are abused]. Available at: http://www.bndestem.nl/algemeen/binnenland/4987302/Roemenen-zijn-ook-mishandeld.ece [20 Aug. 2011].

[28] The Independent, 24 Oct. 2010. The new slaves: children forced to work as farm labourers. Available at: http://www.independent.co.uk/news/uk/home-news/the-new-slaves-children-forced-to-work-as-farm-labourers-2115115.html [20 Aug. 2011].

and 2009 the Romanian Immigration Office and the Labour Inspectorate had set up a Joint Operational Cooperation Plan against Illegal Immigration and Illegal Work. In 3,630 visits, labour inspectors sanctioned 142 employers for irregularities regarding the employment of foreign workers - mostly illegal hiring of workers without work authorizations.

Eurofound (2007c) noted that besides the statistics on the number of working permits there were no studies or analyses covering the working conditions of migrant workers to Romania. The ILO Office for China and Mongolia later published a study on Chinese migration to Romania (Chen, 2010). The study revealed the flagrant violations of Romanian labour legislation, including working time violations (60 hours workweeks were frequent among Chinese migrants), pay violations (salaries lower than those promised in the origin country, random salary cuts) and lack of access to healthcare. Following strikes in front of the Chinese Embassy in Bucharest, Romanian Labour Inspection and Chinese officials investigated the reported labour code violations.

Considering that the labour inspection visits cover only about 25 per cent of the companies hiring foreign workers every year, many more violations may go unchecked: the language barrier prevents foreign workers from reading contracts, understanding their rights and making complaints. Labour inspectorates acknowledge (Romanian Labour Inspection, 2010) that the major impediment to the protection of immigrant workers is the language barrier. It is surprising that labour inspectorates do not target this problem by hiring translators, seeing how the ethnic breakdown is not too diverse (75 per cent of registered foreign workers in 2009 were Chinese or Turkish).

7.3 Extending social protection

In the spirit of the ILO Declaration on Social Justice for a Fair Globalization (ILO, 2008, p. 9), social protection encompasses both social security and labour protection. I will analyse four policies pertaining to social protection: improving working conditions, improving work/life balance, compensation in case of lost or reduced income and access to healthcare.

The budget allocations for these policies have been particularly unfavourable: despite being Europe's poorest country, Romania has one of the lowest levels of social protection expenditure as percentage of GDP in the EU27 (see Figure 4, p. 11). While it is true in general that Europe's richest nations allocate a higher share of GDP on social spending, despite almost doubling its GDP from 2000 to 2007, Romania actually decreased the GDP allocation to social benefits from 9.7 per cent in 2000 to 9.2 per cent in 2007. Throughout the 2000s, Romania was a contender for the smallest share of GDP allocated to social spending in the EU27 with the Baltic countries and Bulgaria. The low budget allocation results in a weak effect of social spending on poverty reduction of about 19 per cent (European Commission, 2009), considerably below the EU25 average of 38 per cent.

7.3.1 Working conditions and work/life balance

The European Working Conditions Survey data for Romania show that Romanian workers have long working hours and see their working environment as very likely to damage their health (see Table 6). In the 2000 and 2005 surveys, more than half of Romanians reported working more than 40 hours per week. They were twice as likely as the average European to be working in their free time to meet work demands. Romanians are considerably more dissatisfied than the average European with pay. They are also less likely to be satisfied with working conditions.

Despite their long working hours, Romanians do not see their work quotas as too burdening, as they are more likely than the average European to respond that they have enough time to get the job done. The number of work pace determinants is slightly higher than the EU average. Surprisingly, Romanians also do not see their long working hours as impacting negatively on their family or social commitments.

Romanian workers had the longest workweek in the EU27 in 2010 and, despite being more exposed to a hazardous work environment and complaining about health risks, are much less likely than the average European to take medical leave. A majority of Romanian workers report performing unpaid overtime but very few report such issues. While strengthening the capacity of labour inspectorates may lead to more employers being sanctioned for using unpaid overtime, Romanian workers need in fact to be educated about health and safety risks and rights, including medical leave, about the possibility to report employers' use of unpaid overtime and their right to ask for flexible working time schedules for a better work/life balance.

Table 6. European Working Conditions Survey Selected Data, 2000, 2005 and 2010

	EU27 -2000	RO-2000	EU27-2005	RO-2005	EU27-2010	RO-2010
Number of determinants of work pace (index) - 3 or more	30.2	37.1	34.7	36.5	32.8	38.3
Can take break when wishes	-	-	44.6	54.2	47.7	56.4
Has enough time to get the job done - rarely or never	-	-	11.9	9.2	9	4.0
Immediate boss is a woman	23.7	19.9	24.8	25.1	28.5	26.2
Has undergone paid-for training in previous 12 months	29.3	10.6	26.1	11.1	33.7	18.3
Consider health or safety at risk because of work	31.1	50.5	28.6	49.2	24.2	36
Absent for health problems in previous year - No	62.6	84.1	77.7	89.3	56.8	84.2
Average days health-related absence in previous year			4.6	2.0		
Working hours fit family/social commitments well or very well	80.4	78.6	79.4	73.8	81.5	85.8
Satisfied or very satisfied with working conditions	82.3	57	82.4	58.7	84.3	75.4
I am well paid for the work I do	-	-	43.3	24.0	41	25.9
Worked more than 40 hours per week	28.7	50.1	26.3	51.4	24	40.4
Worked in free time to meet work demands in the past year - once a week or more	-	-	-	-	15.7	23.6

Source: Eurofound, http://www.eurofound.europa.eu/ewco/.

Considering the labour shortages, it is very likely that Romanian workers were under pressure to increase their workload at the height of the economic growth period. As the economy was booming and export orders increased, employers were rushing to increase production. The 2005 data from Eurofound show that the percentage of Romanians working more than 40 hours per week was double that of the European average. In 2010, Romanian full-time employees worked the maximum number of weekly hours in the EU27, 41.3 hours (Eurofound, 2011). Romania also has one of the shortest periods of collectively agreed paid annual leave, at 21 days, and overall, the highest collectively agreed annual working time, at 1,864 hours, compared to the EU27 average of 1,714 hours.

In the recession, the World Bank crisis response survey (June 2009) found that in some enterprises the working conditions worsened, as in the context of increased labour supply, employers increased the work target without raising compensation accordingly. A study by payroll company Paylogic found that overtime use increased by 82 per cent in August compared to January 2009, as employees had taken over the work tasks of the colleagues that had been laid off.[29]

Despite being aware of the health and safety risks in their work environment, Romanians are less likely to address these problems. Table 6 shows that Romanians are less likely to take medical leave and when they do, they spend fewer days on leave. Employers' attitudes towards medical leave may explain why so few Romanians take medical leave despite working in hazardous environments. The director of a human resources company, BDO Romania, explained: "when companies faced labour shortages they would immediately contest the medical leave, requiring an official confirmation from health insurers".[30] The recession changed employers' attitudes and medical leave became beneficial, as they began to encourage employees to take medical leave to avoid paying social insurance contributions and any firing costs. In fact, at the peak of the recession, when industrial production and manufacturing output were decreasing, Romanian took 24 million days of medical leave. In 2010, when manufacturing saw an increase and Romanian exports surpassed pre-crisis levels, the number of medical leave days was down to 20.3 million. In fact, the actual number of employees taking medical leave decreased by 25 per cent in 2010 compared to 2009 (2.93 million compared to 4 million in 2009).

Flexible working time schedules are not very common in Romania. Even for employees that may vary the start or the end of their workday for family reasons, the Romanian National Institute of Statistics (2010b) found that only 8.4 per cent benefit from such flexible work hours regularly, whenever needed, without any restrictions from their employer.

While strengthening the capacity of labour inspectorates may lead to more employers being sanctioned for using unpaid overtime, Romanian workers need in fact to be educated about health and safety risks and rights, including medical leave, the possibility to report employers' use of unpaid overtime and their right to ask for flexible working time schedules.

7.3.2 Compensation in case of lost income

Romanian unemployment benefits are among the lowest in Europe, and, after the recession austerity cuts, offer a replacement rate of about 30 per cent of previous earnings, one of the lowest in Europe. While unemployment was low at the peak of the economic growth period, the government reduced the contributions from 3.5 per cent (2.5 per cent paid by employers and 1 per cent by employees) to 1 per cent (0.5 per cent by employers and 0.5 per cent by employees), as the unemployment insurance budget recorded surpluses. The surpluses accruing in the growth period would have acted as countercyclical resources to allow the government to maintain or even extend benefit periods in the recession. However, as the contribution rates were cut in the overall effort to reduce the tax wedge on labour, and the recession put pressure on the unemployment insurance budget, the government resorted to cutting unemployment benefits in the recession, further deepening the consumption decrease and putting the unemployed at risk of poverty. For an employee

[29] Realitatea.net, 22 Oct. 2009. Romanii fac tot mai multe ore suplimentare neplatite la locul de munca [Romanians put in more unpaid overtime at their workplace]. Available at: http://www.realitatea.net/romanii-fac-tot-mai-multe-ore-suplimentare-neplatite-la-locul-de-munca_646201.html [21 Aug. 2011].

[30] Saptamana Financiara, 27 Sep. 2009. Criza a bagat Romania in concediu medical [The crisis put Romania on medical leave].
Available at: http://www.sfin.ro/articol_17713/criza_a_bagat_romania_in_concediu_medical.html [21 Aug. 2011].

earning the average wage, with 15 years of experience, the net replacement rate is 30.4 per cent after benefits were cut in 2011, down from 36.7 per cent. The current contribution rate of 1 per cent is also one of the lowest in the EU27. For example, the contribution rate is 2 per cent in Slovakia, 2.45 per cent in Poland, 2.5 per cent in Hungary and 4.2 per cent in Estonia. Moreover, while in most EU countries previous earnings are the major determinant of the benefit, the Romanian system starts from a lump allowance currently at RON375 (or €90), and employees receive between 3 and 10 per cent of their previous earnings based on their seniority.

In the recession, while most ECE countries expanded Last-Resort Social Assistance (LRSA) programs as a crisis response, in Romania there was no appreciable increase in the number of social assistance beneficiaries (World Bank, 2011b). Last-resort social assistance operates in Romania since 2001, under the form of a Guaranteed Minimum Income (GMI). The GMI is a non-contributory income supplement paid by the state. It guarantees a minimum income of RON125 (€30) for a single person or RON225 (€50) for a two-person household. The Romanian GMI is among the lowest guaranteed minimum resources payment in the EU27. For example, a family with two children is entitled to €90 in Romania, €104 in Bulgaria, €568 in Portugal, €966 in France or €1,671 in Ireland. For families and individuals receiving the minimum guaranteed income, the monetary allowance is supplemented by an Allowance for Heating of Dwelling by Central Heating. However, the government does not offer a rent support scheme. In June 2011, 182,000 Romanians benefitted from the GMI, at a total expense of €40 per beneficiary (household or person).

The coverage of the GMI is, however, very low. The World Bank (2011b) computed that the coverage ratio of the poorest quintile was about 13 per cent in Romania. Moreover, the government made the eligibility conditions more stringent by including a list of goods that disqualify applicants. Some of the goods on the list: cars, motorcycles, scooters or laptops may disqualify most of the long-term unemployed who stopped receiving unemployment benefits but had accumulated some material goods that are actually useful in finding a job. The GMI thus has a low capacity to act as income support for the long-term unemployed and has a narrow action frame as a poverty alleviation benefit. President Traian Băsescu actually commented: “I want you to know I am an adversary of the minimum guaranteed income. It is the program that guarantees money for no work and I ask the Government to cut down this program strictly to those in need”.[31] In fact, since its creation in 2001, the program required one member of the beneficiary household to perform community work assigned by local authorities. For a single person the workload to receive the benefit amounted to about four days. In practice, however, local authorities could not always find community work to assign; therefore, the work requirement was not strictly enforced. Following the president’s advice, the Government launched a full-fledged campaign to verify all the recipients of the minimum guaranteed income. 288,657 cases were verified and 13.15 per cent of recipients lost or had their GMI suspended. While the campaign targeted fraudulent cases, some recipients lost their income support for failure to present the proper medical certificate, because their incomes had not been calculated based on the proper formula, or because the mayors of the villages or cities had not carried out a social inspection every six months. Another campaign targeted 170,966 disabled individuals receiving a state allowance. For 3.5 per cent of the verified individuals inspectors set a lower level of handicap leading to a lower state allowance, while for 1.2 per cent of individuals the allowance was discontinued for fraud.

[31] Antena 3, 11 May 2010. Băsescu: sunt un adversar al venitului minim garantat [Băsescu: I am an adversary of the minimal guaranteed income]. Available at: http://ziarero.antena3.ro/1273529283-Basescu_Sunt_un_adversar_al_venitului_minim_garantat [22 Aug. 2011].

In order to promote employment, authorities have cut unemployment benefits and reduced coverage of last-resort social assistance, further deepening the consumption decrease, especially for the country's poorest. In a drive to cut social insurance contributions, authorities reduced the unemployment social insurance budget, whose surplus would have acted as an automatic stabilizer in the recession. Moreover, unemployment benefits (starting at €90) and the minimum guaranteed income (starting at €30 per month) are so low that can barely allow recipients to afford food and pay for any job search expenses such as travel, computer or internet access.

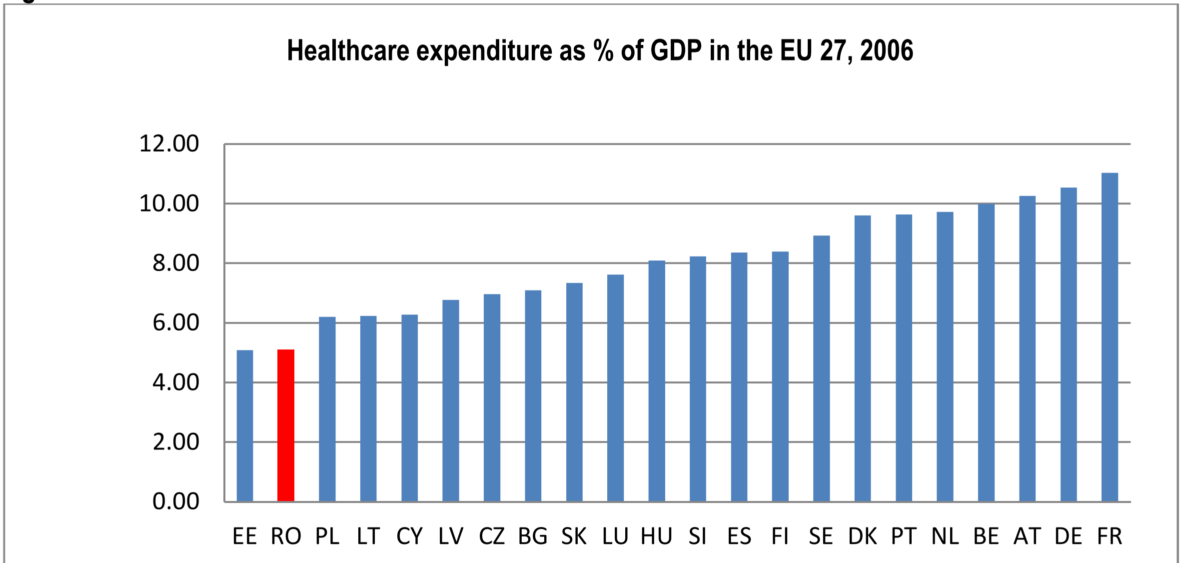
7.3.3 Access to healthcare

Better access to healthcare and more (occupational) preventative medicine education would increase the productivity of the Romanian workforce, reduce the incidence of occupational diseases and the number of days of medical leave. Such policy goals cannot be achieved under the current level of healthcare financing in Romania, one of the lowest in Europe. According to Eurostat data, Romania and Estonia have spent the least on healthcare as a percentage of GDP in the 2000s.

As the share of industry and agriculture in the Romanian economy are well above EU averages, Romanian workers are more exposed to health risks and hazardous working environments. The fourth European Working Conditions Survey (2005) showed that Romanian workers were more exposed to back pain (42.4 per cent / 23.8 per cent in the EU25), fatigue (44.6 per cent / 21.3 per cent (EU25)) and stress (35 per cent / 21.7 per cent (EU25)).

The Romanian Ministry of Labour (2007) acknowledged that the condition of the medical system had affected the health of the population, particularly in rural areas, and led to a low rate of labour force participation. Despite the government's awareness of the problem, healthcare has been underfinanced in Romania (Figure 16).

Figure 16.



Source: Eurostat.

The austerity cuts in the recent recession led to the closing of 60 hospitals, mostly in rural areas and to 30,000 lay-offs in the health sector. Coupled with workforce migration of Romanian doctors, these measures worsened the access to healthcare, particularly in rural areas. The government has also been trying to introduce a copayment system. Even without the copayment, the share of out-of-pocket expenditure on healthcare in Romania is high (25.3 per cent), therefore, although Romania has a universal healthcare system, access to healthcare depends on income.

7.4 Promoting social dialogue and conflict resolution

During negotiations with the IMF during the recession, the Romanian government decided to change the fundamental labour legislation: the Labour Code and most of the laws regarding collective bargaining. The goals of these changes were far-reaching: besides the labour market flexibility policies and more drastic measures against informal employment, the changes to the collective bargaining legislation soon turned into outright measures against unionism - Prime Minister Emil Boc stated that “now, we have a right-wing Labour Code, we need to have a right-wing social dialogue legislation”.[32]

The Social Dialogue Law (62/2011), enacted on 10 May was voted through an unusual procedure where the ruling coalition attached it to a confidence vote in parliament (“assuming responsibility”). Debates on the law were swift and union representatives protested by leaving talks. At one point, trade unions and employers’ organizations had actually reached common ground and contested some of the changes proposed by the government. Cezar Coraci, President of the UGIR-1903 employers’ association actually stated: “Surprisingly, the only person that does not understand that we shouldn’t give up the collective labour agreement is Minister Ioan Botis”.[33] The Social Dialogue Law bundles and replaced the Unions Law, Employers Unions Law, the legislation concerning collective labour agreements, that concerning work conflicts and the law on the functioning of the Romanian Economic and Social council. While Romanian government representatives claim that the changes were implemented “following long consultations with the social partners”, union representatives argue the reforms “had not been discussed with the social partners or been the subject of democratic debate”.[34]

At a joint ILO-IMF meeting in Oslo, social dialogue was accepted as the basis for developing responses to the unemployment and social challenges brought by the late 2000s recession. But just a few months after the meeting, changes to the social dialogue law in Romania limited social dialogue by considerably hindering union activity (see Box 2). IMF representatives in Romania welcomed the changes to the labour legislation, confirming Burrow’s (in Coats, 2011, p. 112) view that “IMF officials in many countries in Europe are pushing the old agenda of labour market flexibility”.

The new legislation elimitated national collective bargaining. Previously, all employees in both the public and private sectors were covered by a single national collective agreement that set basic conditions that could be improved upon at industry and enterprise levels. But

[32] Romanian Government, 7 Apr. 2011. Press statement of Prime Minister Emil Boc. Available at: http://www.gov.ro/transcrierea-declaratiilor-sustinute-de-primul-ministru-emil-boc-si-de-purtatorul-de-cuvant-al-guvernului-ioana-muntean-la-finalul-sedintei-de__l1a112925.html [22 Aug. 2011].

[33] Ziare.com, 11 Feb. 2011. Codul Muncii: Sindicatele, patronatele si Boc s-au pus de acord- Botis e contra [Unions, employers associations and Boc have reached an agreement - Botis is against it]. Available at: http://www.ziare.com/social/codul-muncii/codul-muncii-sindicatele-patronatele-si-boc-s-au-pus-de-acord-botis-e-contra-1074821 [22 Aug. 2011].

[34] International Labour Conference, 100th Session, Geneva, June 2011, Provisional Record 18 Part Two, Report of the Committee on the Application of Standards, http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_157818.pdf

the new legislation excludes public sector workers from being covered by national collective agreements. Trade union representatives have strongly criticised this provision pointing out that under Article 4 of the Right to Organise and Collective Bargaining Convention (No. 98), the determination of the bargaining level is a matter to be left to the discretion of the parties.

When the new Labour Code and Social Dialogue Law eliminated national collective bargaining over the minimum wage, the IMF (2011b, p. 13) welcomed the changes, seeing them as making the wage-setting process more flexible and allowing "for a better orientation of wage growth on productivity developments". The IMF (2008) had noted that "in some countries collective bargaining at the national level may set by law the minimum conditions for all of the economy, therefore generating a wage-push effect originating from the public sector." The IMF (2008) remarked that "Romania stands out from the other NMS for the highest union density" and that "national level agreements cover all employees – implying collective bargaining coverage of 100 per cent".

Much like in other ECE countries, Romania's high union density is "inherited" from the communist period. Union membership was virtually universal in communism but we can hardly speak of social dialogue considering the strict control of the communist party. After the Revolution, social dialogue was gradually organized under a tripartite system under the guidance of the EU, which financed the Tripartite Secretariat for Social Dialogue in 1993 under the Phare program, and later the Economic and Social Council (ESC) in 1997.

After the fall of communism, although union membership declined because of unemployment, workforce migration and the setting up of new businesses, particularly SMEs, the unionism rate in Romania was still as high as 70 per cent in 1997 (Muntean, 2003). Following large scale restructuring and privatization that picked up in the late 1990s and early 2000s, it was to fall to about 35 per cent in 2001. The latest Industrial Relations in Europe report (European Commission, 2010a) noted a drop in membership of 420,000 in Romania from 2000 to 2008, but the union density rate was still above EU27 average and second largest in the ECE after Slovenia. The relatively high rate can be explained considering the prolonged process of restructuring of state enterprises. Union membership was particularly important for employees in state-owned companies, as it ensured protection from (unfair) dismissal, better severance packages and access to mutual support schemes such as low-interest loans and reimbursement of expenses in case of special medical problems (Trif, 2005).

Union activity was particularly high during the restructuring reforms in 1999: the number of work conflicts peaked at 653. Since 2000 to 2008 there have been about 100 work conflicts per year. The number of employees involved in a work conflict also peaked in 1999 to 1.62 million, but immediately decreased to 369,000 in 2000 and has been on a downward trend until 2007, when only 103,000 employees had been involved in a work conflict. The number of strikes also peaked in 1999 at 85 to drop to about ten per year in the next ten years.

One of the weaknesses of the Romanian social dialogue system is the low concentration. There are five major confederations in Romania and while the first two concentrate 77.7 per cent of the market,[35] by EU standards this is still a fragmented landscape for trade unions. Fragmentation is even more evident for employers' associations, with 13 confederations, the largest number in the EU. The recent social dialogue law changes will weaken the capacity of trade unions even further, as they will no longer conduct

[35] Cartel Alfa, 52 per cent and CNSLR Fratia, 25.7 per cent (European Commission, 2010a).

national-level collective bargaining but sector-level negotiations. In this context, we could see further sector-level fragmentation of trade unions.

The decentralization of collective bargaining goes even further and some of the 2011 legislative changes bypass the union movement altogether. Not only will there no longer be a collective national labour agreement, but also there will no longer be a possibility to extend the collective agreement at sector level and the agreements will only apply to employees having signed the agreement. For individual companies where unions do not cover 50 per cent + 1 of employees, collective bargaining will be carried out by elected workers' representatives, whose roles and powers are not established clearly in the legislation.

Union density may also decrease, as the new legislation limits the right of association. Employees from different companies cannot set up a professional union. The old legislation provided a minimum number of 15 employees, be they from different employers. The limitation of the right of association for employees working for different companies will mostly affect those working for SMEs, who lack company-level union representation.

Union activity is also hindered by a number of provisions (see Box 2): less protection for union leaders, fewer obligations for employers to inform and consult trade unions, fewer rights and more restrictions for strikers.

The legislative changes run contrary to the Decent Work policy objective of promoting social dialogue and conflict resolution, as union activity, collective bargaining and social dialogue are actually hindered under the new legislation. Taking note of the legislative changes, the ILO Committee on the Application of Standards recommended that the Romanian government review the legislation on collective bargaining.[36]

[36] International Labour Conference, 100th Session, Geneva, June 2011, Provisional Record 18 Part Two, Report on the Committee on the Application of Standards. Available at: http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_157818.pdf [22 Aug. 2011].

Box 1

Main changes targeting labour market flexibility in the 2011 Romanian Labour Code

- ART 31. The probationary period was extended from 30 to 90 days for employees and from 90 to 120 days for management. In the previous legislation, employers could hire unskilled employees for a probationary period only in exceptional cases and the probationary period could not exceed five days. In the new Code, unskilled employees are treated as regular employees and may be subjected to the same probationary period.
- ART 31. The new legislation provides that employers may discontinue a contract during the probationary period by simply notifying the employee in writing, without the burden of any motivation for the decision.
- ART 33. While the previous legislation provided that employers had to fill a vacancy after having evaluated three different employees under probationary periods, the new legislation provides that employers have to fill a vacancy in 12 months, but no limit is specified on the number of successive probationary periods.
- ART 52. When employers reduce their activity for more than 30 days for economic, technological or structural reasons, they may reduce the working week from five to four days and cut wages accordingly.
- ART 72. While the previous legislation provided that employers could not hire new staff for the positions downsized through the collective dismissal procedure for nine months (or had to rehire the previous employees in case they opened up the positions), the new legislation reduced this period to 45 days.
- ART 82. The maximum duration of the temporary work contract was extended from 24 to 36 months.
- ART 89. Temporary work agencies could not place workers for contracts longer than 12 months, or a total of 18 months under a one-time renewal of the contract. These periods were extended to 24 and 36 months, respectively.
- ART 95. The previous legislation protected employees placed by temporary work agencies specifying that their wages could not be smaller than those of employees performing the same work or similar work. The new legislation provides that temporary work agencies can negotiate wages with employers and that these wages cannot be smaller than the minimum wage.
- ART 111. Work weeks over 48 hours were allowed as long as the average work week calculated over three months did not exceed 48 hours (for some sectors, the reference period could be extended to 12 months). This period was increased to four months.
- ART 129. Employers had to obtain approval from the trade union for work norms. In the new legislation, employers only need to consult trade unions about the work norms.
- ART 223. Employees elected in trade union leadership positions were protected from dismissal for reasons beyond their conduct for two years after their mandate ended. The new legislation eliminated this protection.
- ART 238-241. Collective labour agreements are no longer extended to all the employees at firm/group/sector/national level. The Social Dialogue Law, enacted shortly after the Labour Code, eliminated the national collective labour agreement and specifies that collective labour agreements apply only to employees who sign them.

Box 2

Provisions in the 2011 Social Dialogue Law that hinder union activity

- The national collective labour agreement (whose main outcome was the national minimal wage) was abolished and will be replaced by sector-level agreements. The government will set the minimum wage.
- Employees from different companies cannot set up a professional union. The old legislation provided a minimum number of 15 employees, be they from different employers. In the current legislation, union activity across employers can only function under confederations.
- The new law provides that unions may have offices on the employers' premises, while the old law mandated employers to provide adequate offices at no cost to the trade union.
- After their mandate ends, union leaders are no longer protected from termination of employment "for reasons beyond their fault" for two years, as the old legislation provided.
- Employers are no longer obliged to invite union representatives to board meetings - the new legislation provides that they may do so.
- Employers no longer have to inform unions about corporate spending for work place improvement, work safety, social insurance and protection, cultural and sports activities.
- Employers no longer have to pay wages for the time spent by employees working in their capacity as union leaders.
- Unions can no longer be created under a professional or territorial criterion, but only within sectors of activity listed by the government.
- To be considered representative (i.e. to take part in collective bargaining), union confederations must have territorial structures in 21 out of Romania's counties and their membership must amount to 5 per cent of the total number of employees in the overall economy. At firm level, unions are considered representative if their membership is greater or equal to 50 per cent +1 of the number of employees.
- The new law provides that employers cannot start a work conflict if the collective labour agreements are in force. The previous legislation provided they could do so if employers did not respect their obligation to start annual mandatory bargaining for wages, work time and working conditions.
- Article 182 of the new law introduced the requirements that strikes can start only if preceded by a warning strike.
- Employees lose the rights stipulated by their individual labour contract during the strike – including pay – and retain only their health insurance rights.

8. Conclusions

As an ambitious new entrant to the EU, Romania's economic policy has been directed at fast growth, driven by low taxes and low wages to promote export competitiveness and investor interest. As the population resisted the cheap labour force status and massively emigrated in search of wages up to seven times higher in the EU15, GDP growth did not bring employment growth.

In recent years, The IMF and the World Bank have continued to recommend that Romania reduce taxes, make labour legislation more flexible and control wage growth by changing collective bargaining legislation, a continuation of the business-friendly policies of the 2000s.

Irrespective of what little tax rebate the revenue-strapped Romanian government could still offer, or of any changes favourable to part-time and temporary employment, work migration will remain the best choice for Romanians for years to come. Low government spending on rural education, training and healthcare and the draconic austerity cuts during the recession have impoverished even further the landscape of Romanian villages that offered little economic opportunity to begin with.

At the peak of the economic growth period, employers faced labour shortages because of workforce migration and the lack of skills of the rural population. When economic growth picks up, employers will face the same reality: a large, unskilled labour force eager to migrate in search of better quality employment.

Decent Work policies can provide a development path leading to quality employment, through active labour market policies, social protection, rural education, better access to healthcare and better protection of the rights of employees. These policies would ensure that Romania's workforce would acquire the skills that would attract higher value added investment. It would also put Romania on a path to reducing in-work poverty and increasing quality employment.

Wage moderation and export competitiveness policies can coexist with Decent Work policies, but the coherence of such a policy mix can only be ensured through social dialogue. Yet when the Romanian government changed labour legislation in 2011 to reduce the costs of firing and hiring and the collective bargaining power of trade unions, it struck a blow to social dialogue, prompting the recommendation of the ILO Committee on the Application on Standards that the legislation on collective bargaining be reviewed.

In the absence of social dialogue and long-term policies to increase quality employment, the labour pool will continue to decrease as more Romanians look for work abroad, leaving investors otherwise happy with the tax and legislative environment to deal with a dearth of skilled labour.

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