Unemployment Evolution and Analysis of Structural Unemployment in Romania in the Period 2014-2015

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Abstract

Unemployment is a state of imbalance in the labour market, manifested by excess of the labour supply compared to the demand for labour; it is a phenomenon of the labour market. Unemployment is characterized by loss of income, loss of confidence, eroding the relations with the community and the emergence of the alienation and exclusion feelings from the normal life, which causes tensions and threatening of the social stability. Through this article I want to highlight the evolution of unemployment in the period 2012-2015 and to analyse the perspective of the structural unemployment in Romania. The scientific approach is based on analysis of documents and statistics from the financial - banking field as those published by the National Bank of Romania and the National Agency for Employment, as well as on studying the literature: Ion Bucur (1999) Constantin Enache and Constantin Mecu (2009), Lucian Liviu Albu (2002).

Key words

Unemployment, structural unemployment, unemployment rate, evolution of the number of the registered unemployed, institutional characteristics of the labour market

1. Introduction

Unemployment is a contemporary, complex and comprehensive phenomenon, which includes in its area, the economic, social, political, psychological and moral aspects.

The concept of unemployment comes from the word "chomage" from the French in turn taken from the Greek "cauma" which means "high heat" because any activity is interrupted. (Enache and Mecu, 2009)

Explanatory Dictionary defines it as an economic phenomenon characteristic of the capitalist society, which is that some employees remain unemployed as a result of the gap between demand and supply of labour.

2. Literature review

The definition of unemployment has been an issue widely debated in the literature; thus, in the Dictionary of Social Policy, unemployment defines situation of the labour market surplus in which the supply exceeds the demand for labour. This means that a part of the population cannot find a job, though they want to work (Pop, 2002).

Karl Marx devoted a special attention to unemployment and reached original conclusions about its causes. For Karl Marx, the unemployment is a voluntary unemployment, but not a result of the will or desire of the unemployed and workers who would prefer unemployment benefit, however small it is, instead of a satisfactory salary, but it results from the will of the employers, of the capitalist owners, who prefer to always have a certain number of unemployed by which to pressure the other workers, that they accept wages as low as possible. Karl Marx calls this part of unemployed *"reserve industrial army of capitalists"*. They stand at the companies' gates or queue daily at the employment agencies, waiting to find a place, however it may be underpaid. Michel Didier (1998) in "Economics: The rules of the game", says "we work to ensure our existence."

Another economist focusing on the causes of unemployment is John Maynard Keynes. In his view, the unemployment is caused by a psychological phenomenon: the inclination of people towards savings/tendency of consumption to remain behind the production due to this inclination or, in a somewhat plastic formula, to accustom of people to raise money for a rainy day (Olah and Florea, 2003).

N. Gregory Mankiw, an American economist, professor at Harvard University, defines the natural rate of unemployment as the average rate of unemployment around which there are manifested the economic fluctuations. To estimate the natural rate of unemployment at different times, some economists have used one or more methods. One of the most known and quoted estimate is that of Robert Gordon from Northwestern University.

The natural rate of unemployment is analysed from the perspective of the unemployment link with inflation: when inflation is stable, constant it is talking by the natural rate of unemployment, called NAIRU ("Non Accelerating Inflation Rate of Unemployment").

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In Romania, unemployment is represented by the law 76/2002 updated in 2014, in which the unemployed is defined as "a person who meets the following conditions: is looking for a job at the minimum age of 16 years and until the conditions for retirement; health and physical and mental abilities make him able to work; has no job, no incomes, or realized lower incomes, from legal activities, than the social indicator of reference value of the unemployment insurance and stimulation of employment in force."

Unemployment is manifested in various ways:

- *Cyclical unemployment* is caused by the evolution of the economic cycle on the period of crisis and the unemployment increases due to diminishing the production and the economic activities, etc. It is an excess of labour supply.

- *Conjectural unemployment* has the effect restricting of the economic activity in some sectors, the economic sectors. The first and second "oil shock" and embargoes imposed by some countries are overflowing with negative effects on the economy of the embargoed states and their collaborators.

- *Structural unemployment* occurs as a result of a narrow structure of branches and sub-branches, specific of a country in emerging. Diversification of branches is more likely to absorb the labour force.

- *Technological unemployment* represents placing on the market of the technology. This involves a reorganization of the production and cutting jobs.

- *Seasonal unemployment* occurs when certain economic activities are restricted because of the season or the weather conditions, natural: agriculture, housing, public works etc.

- *Total unemployment* represents the job loss and total cessation of activity (bankruptcy, restructuring or closure of the unprofitable units).

- *Partial unemployment* consists in reducing the duration of work, subnormal or salary reduction.

- *Disguised unemployment* includes all the persons registered at Employment Agencies in the unemployed category. They work without an employment contract but have all rights provided by law for the unemployed. The rural people are the most affected who have a low occupancy job and approach the social-economic condition of the unemployed, they are not registered at the Employment Agencies, but in reality they are in a hidden unemployment. Disguised unemployment is one of large-scale in the developing countries where people have precarious occupation with low productivity which leads to vacancy (Bucur, 1999).

Other forms of unemployment are voluntary unemployment and involuntary unemployment. Unemployment benefits are believed to influence the speed at which unemployed workers search and find new jobs. Yet most workers do not quit their jobs and go into unemployment for the sake of drawing the corresponding benefits. Even though some may view transitory unemployment as a way of looking for a new and better employment opportunity, most workers go into unemployment after involuntary separations (Burda and Wyplosz, 2002).

3. Statistics regarding the unemployment at the end of August 2015

At the end of August 2015, the national unemployment rate was 4.91%, with 0.08 percentage points lower than in July 2015 and with 0.22 percentage points lower than in August 2014.

The total number of unemployed at the end of August, of 444,356 persons decreased by 6,812 persons compared to the end of previous month.

The highest levels of unemployment have been achieved in the counties: Teleorman (11.05%), Vaslui (10.53%), Buzau (9.71%), Mehedinti (9.69%), Galati (9.58 %), and Dolj (8.85%).

Of the total registered unemployed, 99,303 were paid unemployed and 345,053 unpaid; the number of paid unemployed increased by 15,285 persons and the number of unpaid unemployed people decreased by 22,285 from the previous month.

Share of unpaid unemployed in the total number of unemployed (77.65%) decreased by 3.73 percentage points compared to July.

Regarding of the unemployment by gender, in August 2015 compared to the previous month, the male unemployment rate decreased from 5.33% to 5.23% and the female unemployment rate decreased from 4.60% to 4.56%.

The number of unemployed women was 192,349 persons, on August 31, 2015, while the number of unemployed men was 252,007 persons.

By areas of residence the number of unemployed at the end of August 2015 is as follows: 143,587 unemployed from urban areas and 300,769 unemployed from rural areas (Statistics regarding the unemployment registered at August 31, 2015)

In the following chart I presented the evolution of unemployed registered in the period 2012-2015:

Chart no. 1. Evolution of the number of unemployed in the period 2012-2015
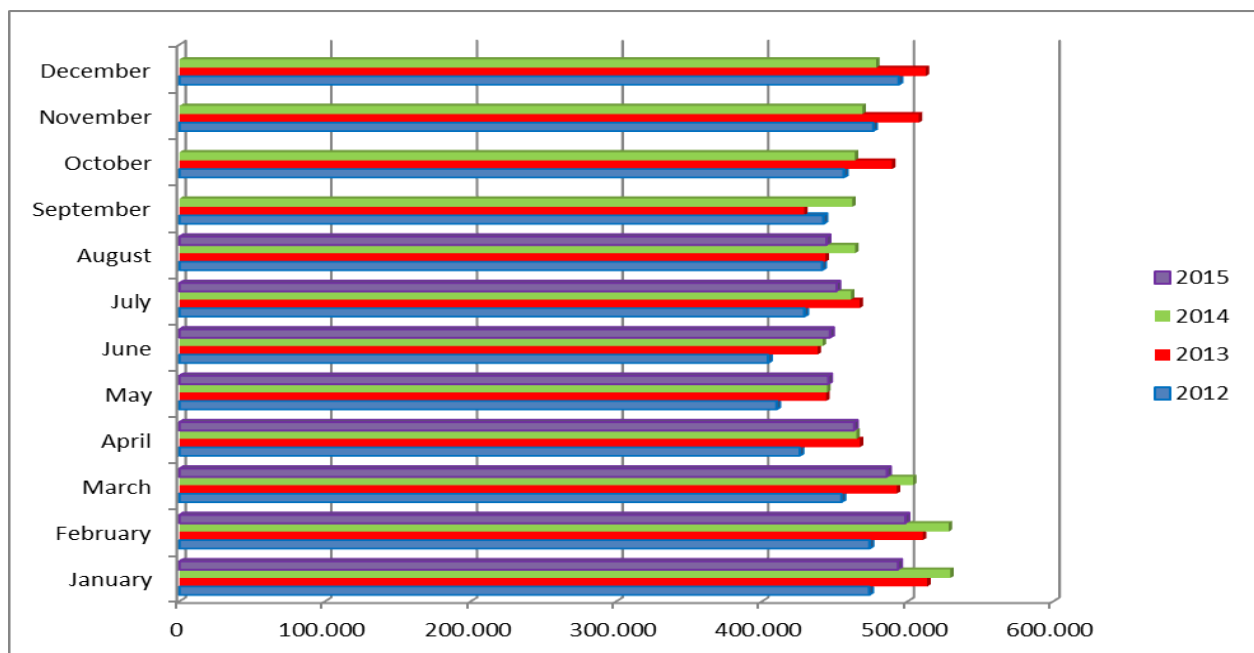

Source: www.anofm.ro/ Statistics regarding the unemployment recorded at August 31, 2015

4. The perspective of structural unemployment in Romania

Structural unemployment is that kind of unemployment which is not resulting from the fluctuations in the economic cycle, but it is determined by the mismatch between the employers' requirements and the characteristics of available workers (e.g. preparation or geographical placement). Such a mismatch is generated by the fundamental changes in the economy (demographic or technological level, for instance) so that the structural unemployment is considered the permanent type, its improvement is possible only in the long term.

The outbreak of the global financial and economic crisis led to a strong contraction in economic activity (about 8% in 2009 and 2010) in Romania, which triggered a substantial decline in the number of employees that were initially reflected by increasing in the short term unemployment (lasting not more than one year). Some unemployed failed to re-employ even after the economy returned to the positive growth rates, the share of long-term unemployment doubled between 2010 - the 1st quarter 2015 *(Chart no. 2)*. The phenomenon, called in the literature „hysteresis effect" represents a first indication of increasing the structural unemployment and due to the fact that as extending the period during which a person is looking for a job, the probability of success decreases due both to damage of his skills and competencies and to change the requirements of the companies regarding the candidates training (Statistical data, August, 2015).

Chart no. 2. Unemployment rate
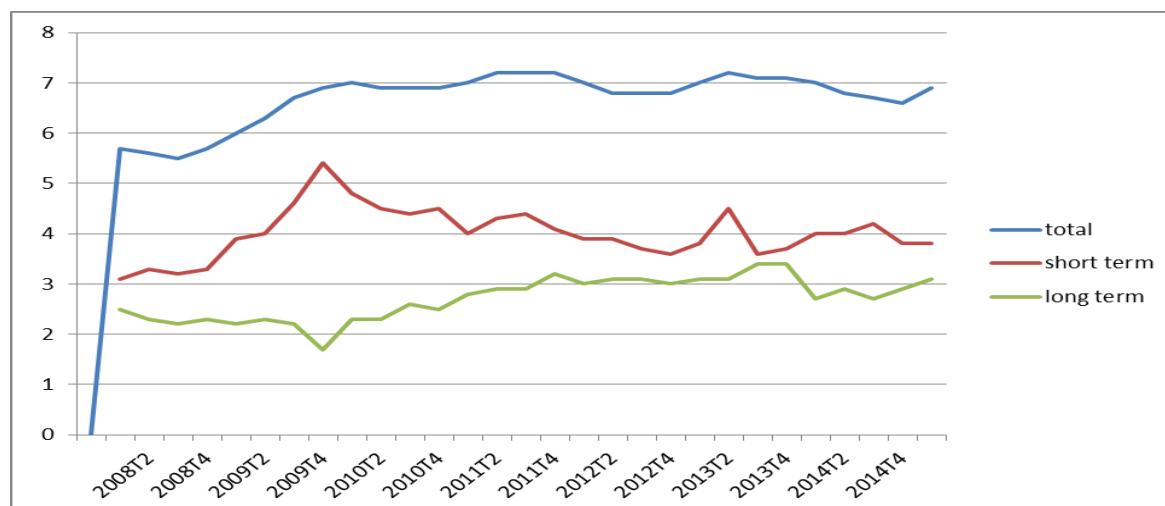
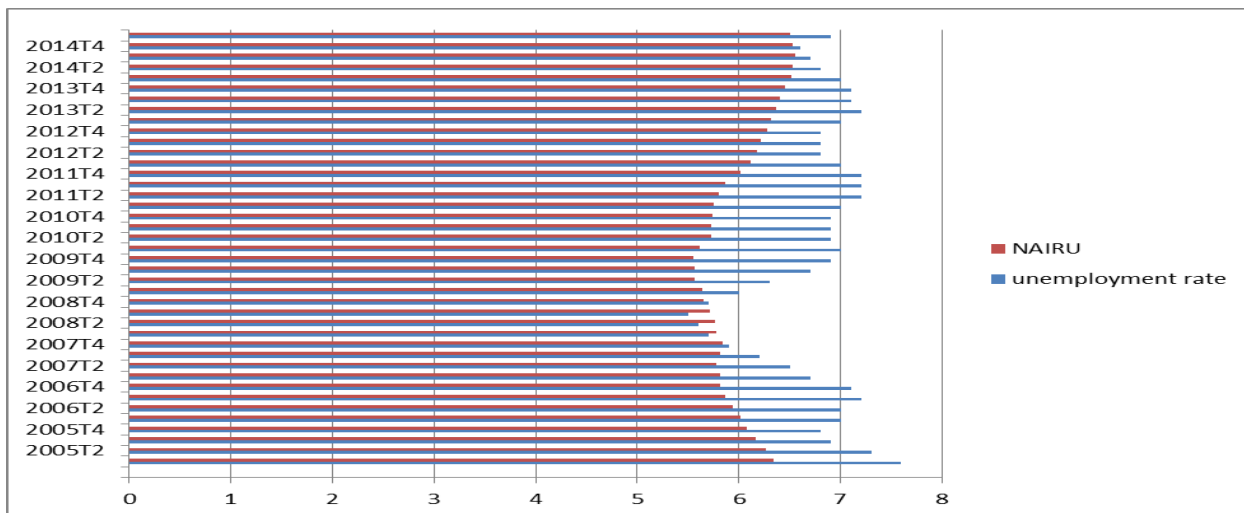*Source:* www.bnr.ro/ Statistical data for August 2015

In literature there are multiple attempts to quantify the structural unemployment. A measure frequently used for this purpose is the NAIRU, defined as that unemployment rate which does not generate inflation pressures. As NAIRU is not directly observable size, the economists have applied during the time, the different estimation methods, the most commonly that is used today is based on various forms of the Phillips curve (with adaptive expectations or forward-looking of inflation). For Romania estimation, it has started from the Phillips curve proposed by Gordon, which expresses the inflation evolution depending on the demand deficit (approximated by the deviation of unemployment from NAIRU), inflation adaptive anticipations and offer explicit shocks (Albu 2002). Based on this methodology results, there is suggested that the structural unemployment rate fluctuated in the period 2005-2010 around 5.8%, but then it embarked on an upward trajectory, reaching the beginning of 2015 to about 6.5% (Chart no. 3).

A similar trend was identified in the euro area. The estimates made by the Organisation for Economic Cooperation and Development, International Monetary Fund and the European Commission highlight increasing the structural unemployment in the period 2008-2013. According to ECB analysis, the evolution can be explained, at least in part, through the extent of destruction of the employment in some Member States, which resulted in reducing the hiring and doubling the share of long-term unemployed compared with the period before the crisis (Boeri and Brucker, 2000).

Increasing the structural unemployment in Romania, during 2011-2015, revealed by increasing the long-term unemployment, by changing the slope outward of the Beveridge curve, and by NAIRU increasing, essentially reflects a deterioration of the degree of correlation between the demand and the labour supply characteristics (skill mismatch).

In addition, the capacity of the Romanian economy to create jobs decreased from the onset of the crisis. On the one hand, this reality shows repositioning the economy on a more competitive structure oriented through the branches with superior technological endowment, but, on the other part, reflects inhibitory influence of some institutional features of the labour market (coverage of collective agreements, the level of labour taxation, minimum wage policy).

Chart no. 3. Structural unemployment

An influence for increasing the structural unemployment is exercised by the demographic characteristics of the country; migration and aging population reducing the chances to identify the suitable candidates by the companies. Meeting the basic needs of a person and his family is usually a stronger motivation than the motivation to accumulate, which wins a certain importance only when a certain comfort is achieved (Ortansa, 2014). During 2009-2011, the recession has destroyed the whole economy, about 700,000 jobs; the losses were located mainly in industry (about half) and in construction, these sectors having the highest rates of unskilled workers in the employees' structure. Resizing of some excessive developed sectors in the pre-crisis period (construction) and changing the structure of production to more competitive sectors, such as automotive and IT&C services, amplified the mismatch between the skills required by companies and those offered by the potential candidates, making it difficult the process of recovery of jobs lost (only half of them were regained by April 2015).

Mismatch between the demand and the labour supply is illustrated by the large share of low-skilled unemployed in the all people looking for a job, compared with the share of employees with the same level of education in the total number of employees, the gap is growing in last years. The situation is opposite for the people with medium and high level training, the labour supply deficit is more pronounced for highly skilled staff (Chart no. 4). The same picture results from microeconomic data, more than half of the private companies consider that one of the major barriers to achieving the employment is the shortage of qualified personnel (Tudose *et al*., 2013).

Chart no. 4. Insufficient qualified staff
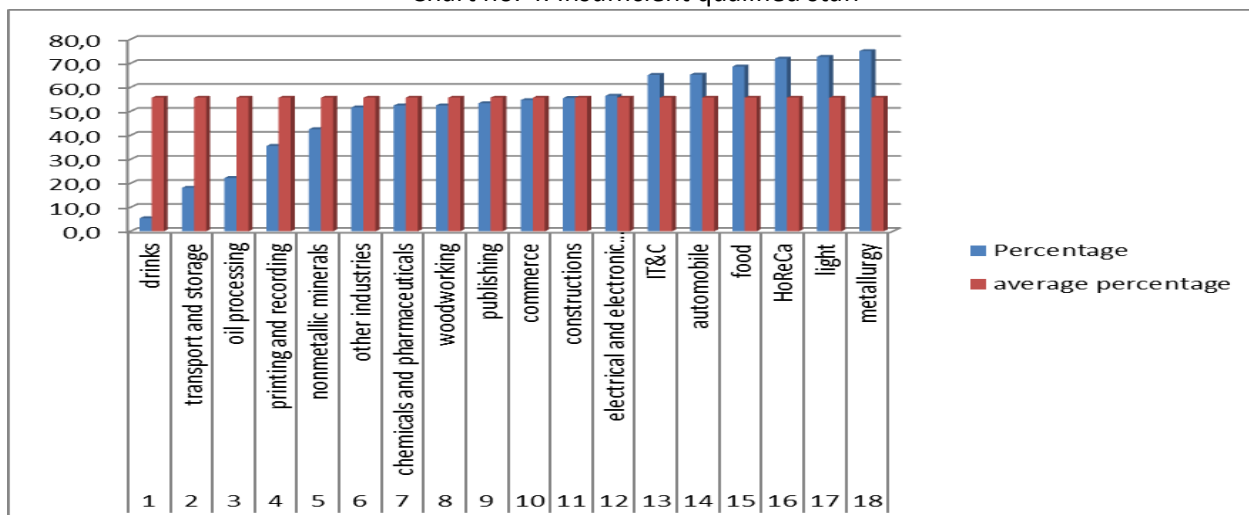
From the perspective of the educational system capacity to generate adequate qualified personnel, several indicators suggest major deficiencies. First, the overall level of training remains very low, the results from PISA (Programme for International Student Assessment) placing significantly the Romanian students below the OECD average.

Among the determinants factors, the top positions are shortages of teachers in the disadvantaged socio-economic backgrounds (only 2% of graduates following a career in education, compared with 10% in the EU) and the high school dropout.

Secondly, the excessive specialization of Romanian students in the social sciences, business and law (more than half, with 18 percentage points above the EU-27), the graduates deficit in the exact sciences (Chart no. 5), and the severe restriction of the vocational education (to extinction in the some specialties) indicate the need for the active policies targeting the young people into areas of interest to the economy. Against this background, the unemployment rate among the young people is very high (over 23%), regardless of the education level.

Chart no. 5. Higher education graduates
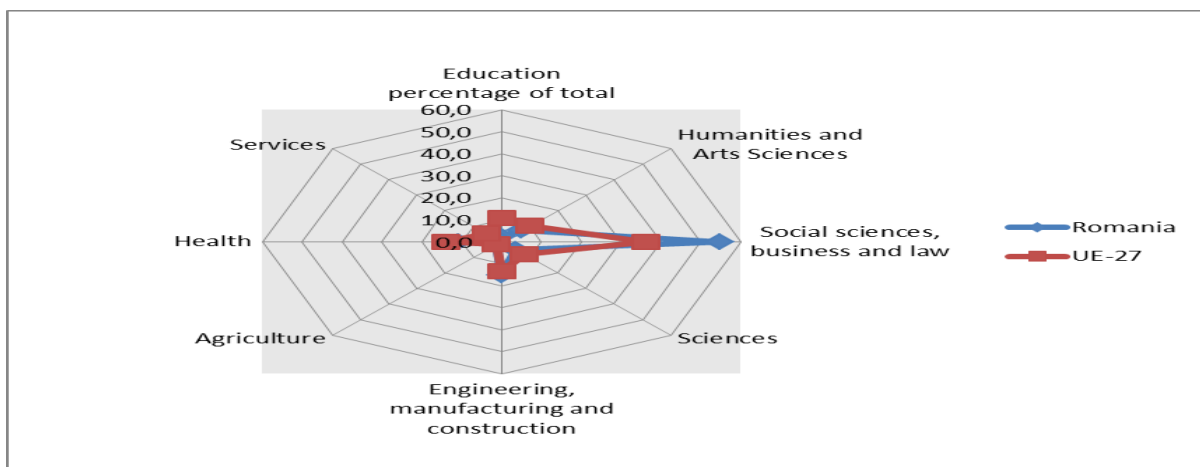
Source: www.bnr.ro/ Statistical data for August 2015

5. Institutional characteristics of the labour market

How the economy creates new jobs depends on a number of the institutional factors such as the level of taxation of labour, minimum wage policy or usability in economy of the collective agreements. In Romania, according to a survey conducted by the NBR among the non-financial companies at the end of 2014, 75% of companies consider the high taxes of the labour as the most important obstacle to achieving the new employment. Also, nearly half of companies consider that the minimum wage affect negatively the future employment, the inhibitory effect of this factor becomes even more relevant in the context of accelerated rise of the minimum wage in the period 2014-2016 (Inflation Report in August 2015).

In the same sense, the real rigidity of the wages acting induced by the widely using of the collective labour agreements, providing to the current employees a greater power of negotiation. According to the survey mentioned above, 60% of the companies apply such an agreement, this being the main cause of wage indexation to inflation of the past; according to the internal estimates, such a practice wage increased by about 3 percentage points the probability that a firm to limit the future recruitment.

6. Demographic factors

Beyond the qualitative aspects of the labour supply, the degree of mismatch with the demand is exacerbated by quantitative factors arising from demographic changes (migration, aging). Thus, Romania has faced in last years with a continuous deterioration in the share of people under 40 years of age in the total of population (of more than half before 2008 to about 45% in 2014), concomitant with a decrease in the birth rates.

7. Conclusions

The national unemployment rate was 4.91%, lower with 0.22 percentage points than in August 2014. The total number of unemployed at the end of August, of 444,356 persons decreased by 6.812 people compared to the end of July. The outbreak of the global financial and economic crisis led to a strong contraction in economic activity, in Romania, which triggered a substantial decline in the number of employees that were initially reflected by increasing in the short term unemployment (lasting not more than one year). An influence for increasing the structural unemployment is exercised by the demographic characteristics of the country; migration and aging population reducing the chances to identify the suitable candidates by the companies.

During 2009-2011, the recession has destroyed the whole economy, about 700,000 jobs; the losses were located mainly in industry (about half) and in construction, these sectors having the highest rates of unskilled workers in the employees' structure. Resizing of some excessive developed sectors in the pre-crisis period (construction) and changing the structure of production to more competitive sectors, such as automotive and IT&C services, amplified the mismatch between the skills required by companies and those offered by the potential candidates.

More than half of the private companies in 2015 consider that one of the major barriers to achieving the employment is the shortage of qualified personnel. From the perspective of the educational system capacity to generate adequate qualified personnel, several indicators suggest major deficiencies, on the first positions there are shortages of teachers in the disadvantaged socio-economic backgrounds and the high rate of the school dropout. At these indicators are added the severe restriction of the vocational education and specialization of the young people in the exact sciences. Against this background, the unemployment rate among the young people is very high (over 23%), regardless the level of education. An obstacle for companies to perform hiring in 2015 is represented by the high taxation of labour and followed by increasing the national minimum wage, becoming an inhibitor factor.

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