

# Managerial Challenges and the Romanian Labour Dynamics in the European Context

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## *Abstract*

*This paper explores the traits of the labour market in Romania, compared to the general tendencies in the EU. It adopts an institutionalist perspective, contrasting the impact of regulation with the structural problems of the Romanian labour market. By looking at such indicators as the level of public employment, self-employed persons, or percentage of manufacturing employment, this study delineates the managerial challenges embedded within the labour market in Romania, as characteristics of this country, as well as others in Eastern Europe. One of the main findings of this study is that many of the problems of the Romanian labour market remain hidden from general quantitative assessments, and policy-making needs to be informed by in-depth analysis of the underlying structures.*

**Keywords:** *labour market, institutionalism, Romania, European Union.*

**JEL classification:** M10, M16

## **Introduction**

This paper analyses the dynamics of the labour market in Romania, in connection to the institutional influences exerted by national and supra-national agents. Given the integration process, much of the national policy-making is influenced by the European Union. In this context, managerial practices themselves become much more influenced by policy-making constraints, than by inner, organizational pressures. Considering the relationship between institutions and the different sectors of the economy, such as the labour market, the increased coordination of the policy-making process would normally lead to similar trends of the economic indicators in different member states. But, there are salient structural problems embedded in the specificities of each country. This paper attempts to analyse some of these structural particularities in Romania. It also goes further, by linking the Romanian labour market dynamics to those in the EU, or other Eastern and Southern countries.

This article employs a process tracing analysis, looking at how different governmental policies influence the labour market dynamics in Romania, and are

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reflected in the contextualized management culture within EU member states. In the first part of this paper, we consider some theoretical foundations of the relationship between institutions and the labour market. Adopting an institutionalist perspective, we support that poor-quality institutions—be they bodies, or regulation, generate severe economic problems, while ‘good governance’ or an able institutional framework is the main determinant of economic performance (Chang 2011, Acemoglu et al 2005). The second part of this paper deals with empirical data from the case study, and the broader European context. We analyse the progress and persistent challenges embedded in the Romanian labour market by looking at such indicators like general employment level, public employment, or the number of self-employed persons.

## **1. Managerial practices, public policy and employment**

Given the continuous and exponentially growing process of economic integration, we have seen a sharp rise in international transfers of managerial practices or cultures. As such, companies and organizations across the globe, face the simultaneous effects of the homogenization tendency of large scale international business models (Mankiw 1985), while at the same time having to conform to local specificities (DiMaggio 1983, Gooderham et al 1999), starting with the organizational culture, or availability of resources, and leading up to procedural constraints, embedded in the regulatory environment. This paper looks at such specific constraints, from both the regional perspective of the European Union, as well as the national context of an Eastern European case study—Romania.

In order to assess the relationship between institutions and the labour dynamics in Romania, we must firstly establish what the term ‘institutions’ means. This paper adopts an institutionalist approach, looking at the rules and norms, as well as the organized institutional structures that constrain and influence the labour market in the chosen case study. As such, we adopt North understanding of institutions as ‘humanly devised constraints that structure political, economic and social interactions’ (1991). Economic agents are thus seen as being responsive entities that follow and uphold the institutional signals. Following through this understanding of the institutions’ role in the economy, the labour market seems to be particularly responsive to such institutional signals, and their impact is interesting to assess. Equally important to acknowledge is that institutions are the result of economic agents efforts to control their environment and reduce uncertainty (Menard and Shirley 2005). As such, the level of uncertainty, or instability in a given economy is an indication of institutional performance.

With regards to the different institutional levels, we find an interesting situation in the case of the EU member states. According to the multi-level governance theory (Piattoni 2009), interdependent, but politically independent actors make collective decisions that apply to different territorial levels. In the case of the European Union, for which the concept of multi-level governance was

constructed, this means that policy decisions are equally influenced by national governments, and other national actors (ex: pressure groups, civil society), as well as supra-national actors—the institutional bodies of the European Union. Linking this fact to the institutionalist theoretical prescription, we find that the policies applicable to the labour market, as the example discussed in this article, in their quality of institutional instances, have to be supported by agents from within, and outside the polity. To put it more concisely, such institutions as the fiscal policy, that structure the labour market in Romania—our case study, belong both to the national, as well as the supra-national arena.

The labour market throughout Europe has suffered successive destabilizing threats, with the current economic crisis being only the tip of the iceberg. As such, many debates in the literature have covered the topic of the labour market dynamics and changes. For example, two decades ago, the major preoccupation was with the shift away from the manufacturing jobs to service jobs (Iversen and Wren 1998). Ideological considerations informed how governments reacted to the labour market challenges. Left wing political parties often sided with labour unions, and tried their best to prevent rising unemployment, and inequalities of income. Consequently, ‘the government can assume the responsibility for employing workers at relatively high wages by expanding public sector consumption’ (Esping-Andersen 1993). Right wing political parties have been traditionally much more preoccupied with keeping the labour costs down, as well as controlling the inflation, and keeping the economy competitive.

Looking at the choices of public policy with regards to the labour market, we find an interesting Trilemma (Iversen and Wren 1998, Wren 2008)—governments can choose only two out of three desirable outcomes: employment growth, income equality, and fiscal discipline. For a long time, the reality of politics, especially in Western Europe, concurred with the theoretical prescription of the connection between the ideological background of the ruling political party, and implicitly the supporting electorate, and the policy mix that party will pursue. Unsurprisingly, this expectation no longer holds truth. In the face of rising economic and political instability, the governing parties, usually constituting across the spectrum coalition governments, have been increasingly pragmatic in their policy choices, attempting to improve the policy mix, or the institutional performance, by responding to concerns from across the board. As such, social democrats are well concerned with fiscal balance, as much as conservatives or liberal parties are trying to support employment growth, or prevent the spread of inequalities. The main reason right-wing governments have become concerned with inequality is that it inevitably leads to costly redistributive policies (Alesina and Rodrik 1994), demanded by the electorate sooner or later. When the structure of income distribution is skewed, whether it is inadvertently so, or as a result of deliberate public policies, other imbalances follow, straining the budgetary equilibrium.

This newfound openness to wide-ranging solutions is not only based on necessity—with increasingly more stringent problems affecting EU economies, but

also by the recorded success of such endeavors. Interestingly enough, evidence of performance of Lisbon objectives, across EU member states, shows that 'equity and efficiency, or liberalization and the welfare state, are not mutually exclusive but may actually support one another' (Hopkin and Wincott 2006). Furthermore, many policy choices at the national level are now the result of concerted decision-making at the EU-level. A pronounced tendency towards coordinated fiscal policy emerged from the wreckage of the financial crisis. Institutional solutions, among which the newly established fiscal coordination mechanism "European Semester", make the EU decision-makers and national governments equally responsible for the institutional impact on the economy.

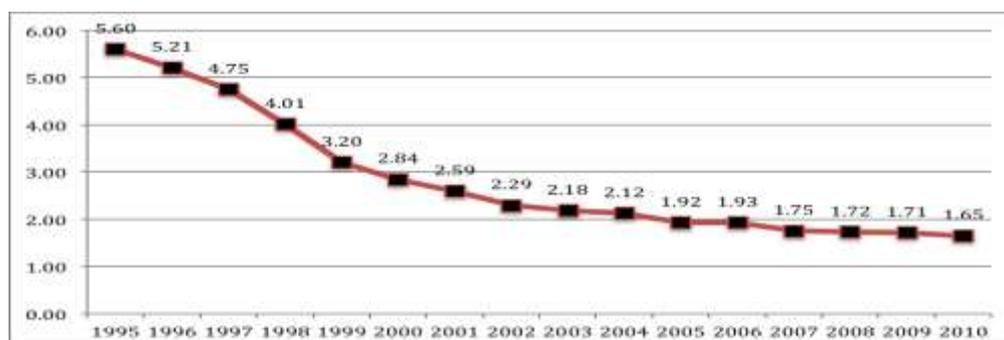
## **2. Romanian labour market dynamics in the European context**

As opposed to other member states in the EU, Romania has a poor performance of both quantitative and qualitative evaluation of its labour market. But, on the positive side, it has recorded a steady improvement. In terms of general employment, Romania registered a figure of 63.8% in 2012, which is below the EU average of 68.5%, but is above other periphery countries such as Bulgaria, Hungary, Italy, Spain, or Greece. In terms of qualitative indicators, we can turn to the Lisbon strategy aims evaluation, conducted by the World Economic Forum. From the seven Lisbon strategy aims, two are most connected to the labour market: improving the enterprise environment and increasing social inclusion. Improving the enterprise environment deals with business start-ups and the regulatory framework, thus aiming to 'reduce the administrative impediments to doing business in the EU and reducing distortionary or burdensome taxes' and to make it 'cheaper and easier to start a business and ensuring access to capital for new businesses' (WEF 2010). On the other hand, the chapter on increasing social inclusion aims at bringing people to the workforce, upgrading skills and modernizing social protection. Romania scores consistently low on both these categories of concerted efforts. According to the World Economic Forum evaluations in 2004, Romania registered the third lowest score in the European Union on Improving the Enterprise Environment—3.65, and the fourth lowest score on Social Inclusion—3.74. There is a nevertheless a slow improvement along these lines, as in 2010, it moved four places up in the first evaluation, and two places up in the latter.

In terms of the institutional framework, Romania has done its best to provide employment stimuli. The Implicit Tax Rate (ITR) is the ratio of taxes and social security contribution on employed labour income to total compensation of employees. Across the EU, the policy target is to decrease taxes on labour, so as to lower the costs, and thus stimulate general employment. Still, despite the member states best efforts, the high ITR levels confirm the widespread difficulty in achieving this goal (Eurostat 2012). Romania however is one of the few member states with marked decreases of the ITR in the period 2000-2012. The decrease of 6.2 percentage points of Romanian ITR is comparable to the levels registered in

such Nordic countries as Denmark or Sweden. Still, it falls shorter than half of the efforts of Bulgaria, which manages to stir its fiscal policies so as to decrease its ITR by an impressive double-digit figure (the only one in the European Union)—13.7 percent. Still, from the implicit taxes point of view, Romania managed to provide one of the most fiscally attractive economic environments for labour in the European Union. Still, problems related to the labour market persist, and this is often the result of structural imbalances, rather than institutional problems of regulation.

As mentioned above, another subject of concern, and heated debate is the transition from manufacturing jobs, to service jobs. As framed in the public spending trilemma's (see Fig. 1) theoretical model, left-wing political parties have generally supported corrective policies for the imbalances generated by this transition—unemployment, increasing wage inequality etc. Consequently, 'protecting existing manufacturing jobs, bringing back lost ones, and creating new ones is a perennial aim of the left' (Kenworthy 2013). Still, across the developed world, manufacturing's share of general employment has been steadily decreasing, from an average of 23% in 1979 to an average of only 15% in 2007 (OECD data in Kenworthy 2013). Reversely, services share of total employment has grown substantially. The EU has an average level of employment in services, in 2013 of 70% (Eurostat 2012). But, Romania hasn't adhered to this trend. Here we find only 42.6% of general employment in services. This wouldn't necessarily be a wrong thing, if the biggest share of the manufacturing employment wouldn't be in agriculture—a sector marked by numerous problems, and poor reform progress. If the employment in agriculture at the EU level is around 5%, Romania registers a figure much bigger—28.6% of general employment is in agricultural activities.



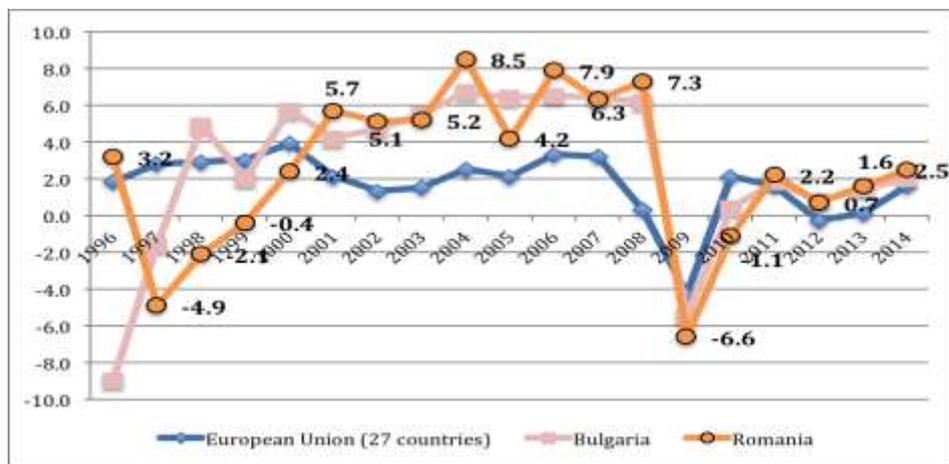
**Figure 1. Number of public sector employees in Romania (millions)**

*Source: ILOSTAT and LABORSTA*

In what concerns the service jobs sector, it is itself split between market-oriented services—in the financial sector, the trade sector, information, or accommodation services, and non-market services, comprising mostly jobs in the public sector, but also other fields. In general terms, Romania has a percentage

figure of employment in non-market oriented services, which is half the EU average—16.3% as opposed to 30.4% (Eurostat 2012). Within the public jobs category, one of the most intensely analyzed sections is that of the public administration, or state apparatus, because the various forms of state exploitation occur through this category of public jobs (Volintiru 2013). Despite a relatively smaller size than other EU countries, Romania's public administration is generally perceived to be oversized, wasteful, corrupt, as well as discretionary (WEF 2007-2011). Coming back to the broad category of public sector employees in Romania, the actual numbers are also constantly decreasing over the past decade, from over 5 millions in 1995, to 1.6 millions in 2010 (see Figure 1).

The downsizing of the public sector in Romania is not necessarily connected to the economic trends. As showed in Figure 2, the dynamics of the GDP in Romania have been relatively healthy. While the Romanian economy has been underperforming, by this indicator, in the period 1997-2000, when it had much poorer performance than the EU average, or its neighbor, Bulgaria. In the period 2000-2009, the economic growth in Romania has been rather sinuous, with sharp increases, and decreases, but remained constantly over the EU average. Since the marked decline in 2009, with -6.6 percentage points from the previous year, Romania remained within the general European tendency, registering a slow, but steady improvement. Thus, returning to the employment levels in the public sector, we see that public policies have played a significant role in shaping the dynamics of this sector, given that the trends aren't connected to the expansion or contraction of the Romanian economy.

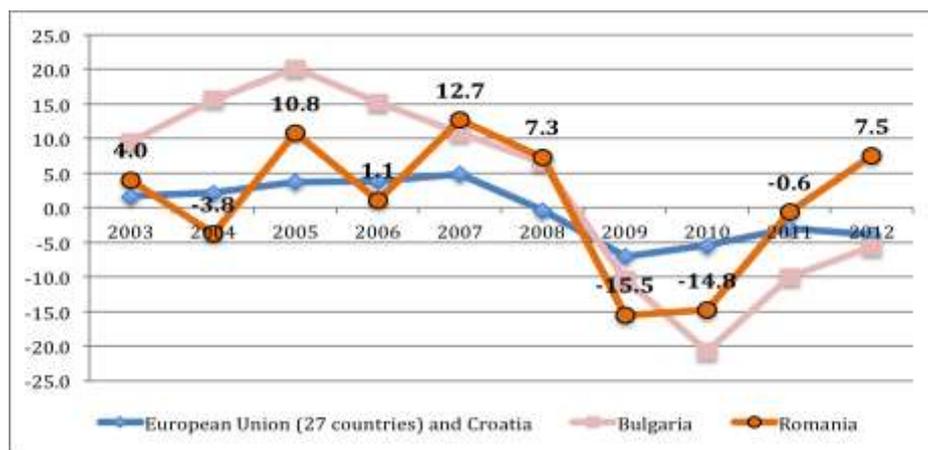


**Figure 2. GDP dynamics (1996-2013)**

*Source: Eurostat*

Another area of particular interest for the Romanian labour market is the construction sector. Many Romanians activate in this field, whether at home, or abroad. According to Eurostat data from February 2013, Romania is one of the few

countries registering an increase in terms of construction works (Eurostat News release 61/2013). Thus 5 percent increase from the previous month is in stark contrast to the 0.4 percent decline at the EU level. Still, such intermediary data—monthly assessments, is only telling of momentary peaks, as in terms of year-to-year evolution, Romania registers a decrease of 4.3 percentage points (Eurostat News release 61/2013). But, in terms of persons employed in construction, we see a sharp increase between 2011 and 2012, of 7.5 percentage points (see Figure 3). This means that construction works contribute to a positive trend in the general employment. With bigger fluctuations than both the EU average dynamics, and the Bulgarian dynamics of employment in construction, Romania has managed to register good performance of this indicator over the past couple of years. While not strictly mirroring the general economic trends, the employment in construction is much more closely correlated to the GDP evolution (see Figure 2), suggesting it is a rather autonomous sector, that doesn't need special policy provisions, as long as the construction market is healthy.



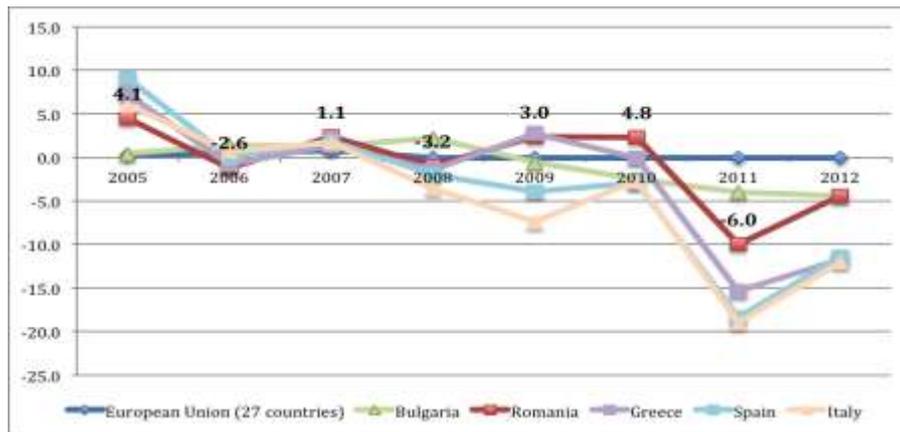
**Figure 3. Persons Employed in Construction (percentage increase from previous period)**

*Source: Eurostat*

The European Employment Strategy (EES)—defined as ‘a mechanism designed to coordinate the employment policies of the EU Member States’, is built around four pillars of employability, entrepreneurship, adaptability and equal opportunities (Eurofound). Of particular interest for Romania is the pillar of entrepreneurship, which aims to increase the number of self-employed persons in the EU, by reducing tax and social security obstacles to this form of economic activity (Eurofound). This is interesting from Romania’s point of view because it consistently had a high percentage of self-employed persons out of the total employment. In 2012, for example, it registered one of the highest figures in the European Union—18.2% self-employed of total employment, securing the fourth

rank amongst member states, well above the EU average of 14.6%. As showed by the 2012 ranking, Romania is more similar to the Mediterranean states in this regard, only Poland being another post-communist country with high levels of self-employed. If we turn to the evolution of the number of self-employed persons over the period 2005-2012 (see Fig 4), we see that Romanian dynamics are indeed more similar to those of other Southern European countries, such as Greece, Spain or Italy, than from its neighbor, Bulgaria. This means that, despite consistently high levels of self-employed, with figures exceeding the EU average in 2009, and 2010, Romania has registered a sharp decrease from 2010 to 2011, of 6 percentage points.

The detailed situation of the self-employed category, in Europe, and Romania, raises nevertheless certain questions. Mainly, it is a subject of in-depth research, far beyond the limited coverage of this paper, to what degree this group of people represents entrepreneurship, and as such can be seen as a vector for economic development, or merely a refuge category for those who no longer fit into the mainstream employment system. A worrisome aspect is the fact that the biggest category of self-employed, at the EU level, is constituted by the over 65-age group—49.9%. In Romania, this figure is much higher, reaching 66.8% of total self-employed persons. This situation is partly due to the fact that this category tends to postpone retirement, being in charge of its own professional evolution. The stimulus for postponing retirement is, among other things, that active life incomes are usually bigger than normal pension schemes. Two sets of implications emerge from this fact. On one hand, on the positive side, which is captured in the objectives of the Lisbon aim for Social Inclusion discussed above, continuing one's practice over the retirement age relaxes to some extent the generalized pressure on the public pension system, and contributes to an fulfilling life, when this is possible. On the other hand, on the negative side, this prolonged professional activity cannot be equated with entrepreneurship and innovation, and as such is hard to link it to actual economic development.



**Figure 4. Self-Employed Persons (percentage increase from previous period)**  
*Source: Eurostat*

Another problematic aspect of this employment category is that in the case of Romania, a high-percentage of self-employed belongs to the agricultural sector—over 71%. Once again, this raises questions about the actual contribution to entrepreneurship of the self-employed category. While the political sphere tends to elaborate policies for this group that target them as innovators, founders of start-ups, and drivers of progress, the situation tends to be slightly different in certain countries. As the data reveals, the self-employed category in Romania is not predominantly constructed around activities of entrepreneurship, but rather around activities that had to reconvert themselves. In the case of the agricultural sector, with the transition from the centrally planned economy of the communist period, to the market economy, many employment structures of the agricultural sector, such as cooperatives, disappeared. As a result, people continuing to work in the agricultural sector have become self-employed. With a poor reform record, this field remains largely atomized and based on production that often only slightly exceeds own consumption. The challenge of reforming the agricultural sector, without generating poverty for those currently employed in this field, is as stringent to Romania, as the other post-communist countries in the region.

Finally, there is another category of the labour market that brings forward the need for closer consideration: the group that is generally referred to as not-in-employment-education-or-training (NEETs). This category refers to young people, for the European studies considered to be those under 30, which fall outside the usual employment or unemployment indicators. This category has been sharply increasing over the past years, demonstrating the disproportionate impact of the economic crisis on young people. While the NEET's percentage of the total population has increased by an average of 17.6% in the European Union, in the period 2008-2012, it has increased by over 44% in Romania (Eurofound data). This is of particular concern, because on the one hand, there are significant costs resulted from the economy's failure to fruitfully employ young people in the labour market. On the other hand, these are persons usually referred to as 'a lost generation', who by missing the start on a professional career will have even more pronounced tendencies to earn income within a shadow economy.

## CONCLUSIONS

This paper aimed to open up the discussion about some of the most relevant aspects of relationship between governance and the labour market in a EU member state. As the managerial practices and organizational cultures are informed, and constraints by the regulatory environment, they are equally affected by the availability of resources, such as a qualified, labour force. It is merely a stepping stone for further study on the actual structure of this relationship—how and why they are connected, and how do certain policies influence the dynamics of the labour market. Still, it is important to acknowledge that there is a connection, and that in this time of increasing economic instability, the governments have increased responsibilities with regard their citizen's well-being. The theoretical

prescriptions discussed in this paper tend to link different ideological platforms to certain policy choices in regulating the labour market. While this model explains some of the differences across time and countries, it loses ground in the face of increasingly integrated decision-making within the European Union.

As a result, as this paper argues, some of the national dynamics in the labour indicators are generated by structural specificities. We looked at the levels of public sector employment, or the self-employed category and found that Romania's transition from the centrally planned economy to the market economy has left persistent marks, such as the big proportion of employment in the agriculture, or the low percentage of services employment. These imbalances can be corrected by institutional means, and the recent fiscal policy approach has been consistent with this target—Romania having one of the lowest ITR's in the EU. Another route of action is to support and actively encourage managerial approaches that empower specific categories of workers (e.g. self-employed, young entrepreneurs, farmers). Still, many of the problems of the Romanian labour market remain hidden from general quantitative assessments, and policy-making needs to be informed by in-depth analysis of the underlying structures.

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