

The Impact of EPL on the Flexicurity Policy – Case Study for Romania

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Abstract: In recent years, European countries have faced a number of challenges like, for example, the technological change, the acceleration of globalisation, the considerable ageing of European societies. In this context, a more flexible labour market combined with satisfactory levels of security is necessary to meet the needs of both employers and employees. “Flexicurity” could be the right solution. Flexicurity has to be seen as an integrated strategy that employs political choices between various aspects of flexibility and security. An optimal balance between the two dimensions differs a lot between countries and each country has to choose its best combination. In Romania, the concept of flexicurity was included for the first time in the National Reforms Programme – Lisbon Strategy 2006. In our paper we have calculated the index of EPL strictness using the provisions at the date the new Labour Code came into force and after the successive amendments of the law. Also we have tried to analyse all four of the policy components – flexibility of the labour law, lifelong learning policies, active labour market policies and social security system – in an integrated manner.

Introduction

The globalisation and acceleration of the technological change are exposing national economies to intense competition and bring transformations for both workers and enterprises. On the one hand, enterprises must respond to unforeseeable changes in demand patterns, to adapt to new technologies and organisational methods in order to remain competitive. On the other hand, workers need to improve their skills to create and use new technologies and to adapt to new working practices.

In this context, a more flexible labour market combined with satisfactory levels of security is necessary to meet the needs of both employers and employees.

The Lisbon Strategy for Growth and Jobs [1] in its Integrated Guidelines (IG) calls Member States to promote flexibility combined with employment security – “flexicurity”- and reduce labour market segmentation, having due regard to the role of social partners (IG21).

The Commission and Member States have reached a consensus on a definition of flexicurity which comprises four components:

1. **Flexible contractual arrangement** (both from the perspective of the employer and the employee) through modern labour laws and work organisations;

2. **Effective Active Labour Market Policies (ALMP)** which effectively help people to cope with rapid change, unemployment spells and transitions to new jobs;
3. **Reliable and responsive lifelong learning (LLL) systems** to ensure the continuous adaptability and employability of all workers and to enable firms to keep up productivity levels;
4. **Modern social security systems** which provide adequate income support and facilitate labour market mobility.

Flexicurity has to be seen as **an integrated strategy** that employs political choices between various aspects of flexibility and security. The optimal balance between the two dimensions differs a lot between countries and each country has to choose its best combination. There is not one common or standard pathway to flexicurity and every Member State has to construct its own pathway based on its history and on its political, cultural, institutional and organizational tradition and its particularities [2].

In Romania, the concept of flexicurity was included for the first time in the National Reforms Programme – Lisbon Strategy 2006. Thus, it is hard to talk about a Romanian flexicurity model.

The aim of this paper is to point out the main reforms of the legal and institutional framework that influence the evolution of the Romanian labour market and to characterize all four of the policy components from the flexicurity point of view.

1. The legal and institutional framework reforms

1.1 Employment protection legislation

Romania adopted in 2003 a new Labour Code [3] that sets out an entirely new framework for labour relations. The law provides for a considerable degree of harmonisation with the “*acquis communautaire*”.

Some of the main differences against the old Labour Code that had been in force since 1972 and had been amended many times after December '89, are the followings:

- for the first time, special types of employment contract are regulated by the new law, including temporary agency work, part-time employment, employment on fixed-term contracts and home-based work, while employment performed under a “civil contract” (as a way of avoiding social security contributions) has been abolished;
- employment on probation for a period of more than six months is forbidden; it can be renewed only once and no more than three consecutive probationary employment contracts can be used for the same job;
- the new law regulates special types of vocational training contracts initiated by the employer, which are for professional qualification, professional adaptation and apprenticeship in the workplace;
- employees' information and consultation rights have been greatly improved;
- in the event of a temporary cessations of a company's activity employees are entitled to payments of at least 75% of their basic wage;
- collective redundancies may be made only after previous consultation with trade unions or employees' representatives;
- the employer is required to give notice of the workforce reduction at least 45 days in advance and employees may propose measures to avoid or reduce the redundancies within a period of 20 days after the notification.

The 1972 Labour Code was very strict regarding the rules provided for flexible working arrangements. Employment under a fixed-term contract was only possible in the case of the replacement of an employee in the event that his contract was suspended or for activities having seasonal or temporary character. The old legislation did not stipulate any limits for the use of the fixed-term contract, like the total maximum duration or the maximum number of renewals. After the current Labour Code was enacted, the number of circumstances in which the conclusion of a fixed-term contract was permitted increased, but the rules regarding the use of fixed-term contracts became more restrictive. As a consequence undeclared work was stimulated. The total duration of fixed-term contracts was limited to 18 months and the maximum number of extensions possible after the expiration of the initial term was two consecutive times, but only within the maximum term provided by the law.

Regarding part-time work, even if this type of work had always been possible under Romanian legislation, the Labour Code that came into force in 2003 provided for the first time the possibility to conclude individual labour contracts for part-time work. Part-time contracts can be concluded for an indefinite term or a fixed term. Employees hired under a part-time contract enjoy the same rights as full-time employees.

Later the practice revealed the necessity to amend the new law because it was imparting a certain rigidity of labour relations that impede on companies' performances and on their capacity to grow and develop through investment. In these circumstances the Labour Code was amended twice: through Emergency Ordinance no. 65/2005 and no. 55/2006. So, labour market flexibility increased along with the relaxation of restrictions on the duration and manner of concluding individual employment contracts. The revised law extends the maximum duration of a fixed-term contract to 24 months. There can be no more than three successive fixed-term contracts within this period, after which the employer must fill the vacancy with an indefinite-duration employment contract. Also, in order to make individual dismissal and collective redundancies more flexible, a number of changes have been made as follows:

- after the trial period has ended both the employer and the employee may terminate the individual employment contract by giving written notice;
- in defining collective redundancies, the minimum number of redundant employees has increased;
- an employer is no longer required to present a programme of social security and training and development measures before resorting to collective redundancies;
- the notification period regarding communication the redundancy decision to trade unions has been shortened from 45 to 30 days.

The new provisions require employers to finance and ensure the participation of all employees in training and development programmes. A new thing is also the fact that both the employer and the employee may take the initiative in terms of the training and development programmes.

Collective agreements at national, sector or company level are now given a decisive role since a large number of the provisions of the new Labour Code refer to the provisions that exist in these agreements.

However, although there seems to be plenty of flexibility with regard to the new regulations, **the authors consider that the labour relations in Romania are still quite rigid. The permanent contracts are the norm and their termination is made extremely difficult.** So, the room to manoeuvre for both employer and employee is restricted.

1.2. Labour Market Policies (LMP)

1.2.1 Passive Labour Market Policies (PLMP)

In Romania, the unemployment phenomenon was recognised for the first time in 1991 through the enactment of the Unemployment Insurance Act no. 1/1991. The law has been changed several times since the beginning of the transition period especially regarding the eligibility criteria, the duration of the unemployment benefits and the amount paid as well as the package of active labour market measures provided.

The unemployment benefit system was reformed in March 2002 within the framework of the new law on the Unemployment Insurance System and Employment Stimulation (Law 76/2002) [4]. According to this law the unemployed persons registered at the local Employment Agency were entitled to unemployment benefits if they had contributed to the unemployment insurance for at least 12 months during the last 24 months prior to their registration. Eligibility for unemployment benefit was conditioned by a monthly visit to the Public Employment Service (PES) and the participation in training or other employment stimulation measures offered by PES. The monthly unemployment benefit was a flat amount fixed at 75% of the gross national minimum wage and was tax-free. This was paid for 6, 9 or 12 months depending on the person's previous insurance records.

The current law has initially severed any link between contributions paid and benefits received, depriving the contributors of their right. As a consequence, in late 2005, the Romanian government introduced new rules (through Emergency Ordinance no. 144) aimed at granting unemployment benefits in a more equitable manner, depending on the length of the contribution period. While keeping the base level of 75% of the minimum statutory wage, the newly enacted change supplements this basic amount with a sum that is differentiated in accordance with the contribution period of the beneficiary. However, it has to be pointed out that the amounts provided as such are not large and the average unemployment benefit does not exceed the minimum salary.

At the beginning the workers laid-off by enterprises under restructuring and/or privatization, were paid severance benefits by the PES from the Unemployment Fund without any requirement for search or take-up work. In 1999 and 2000, Romania adopted restrictive conditions. So, for the persons laid-off by companies other than those under the PHARE-RICOP programme, severance payments had to be supported by the employers.

1.2.2 Active Labour Market Policies (ALMP)

Training and retraining measures for the unemployed were the first active measures put into place at the beginning of the transition from Planned to Market Economy. The need for other measures emerged progressively and the Romanian legislation followed suit. So, ALMP have been successively modified to cope with changing market conditions.

The new legal framework (Law 76/2002) provided a broader range of ALMP that comprise training programmes, employment subsidies aiming at encouraging employers to hire individuals from various weak groups considered as marginalised or disadvantaged on the labour market, temporary employment for community work, counselling, job fairs and job exchanges, incentives for territorial mobility of the labour force, subsidized credits for employment generation.

The reform aimed to raise the expenditure for ALMP which indeed occurred. However the intake rate of participants was not as high as expected.

Later, the law was deeply changed by the Law no 107/2004 and then by the Emergency Ordinance no. 144/2005. However, a large number of ALMP currently employed will most probably be phased out, especially as some of them clearly classify as state aid under EU

rules [5]. Vocational training is still at a low level which places our country at the bottom of the EU hierarchy. We consider that the whole ALMP system has to be revamped to focus more on counselling and vocational training.

1.3 System of labour taxation

High levels of taxation on labour (including the impact of social contributions) can depress the labour demand in the formal economy while encouraging the informal economy and the subsistence activities. The overall impact of taxes and contributions can be summarised in terms of tax-wedge (the average share of taxes and social security payments as a proportion of total labour costs).

The tendency is to reduce the tax-wedge on labour. Starting with 2002 and continuing onwards the contribution rates for all social protection schemes were constantly cut. In 2005 the Romanian government abandoned the progressive income taxation system for a flat-rate of 16% income tax that was first applied to salaries and then was progressively extended to all types of income. The introduction of this tax system has resulted in the surfacing of undeclared work and increased the job-generation capacity of the enterprises. The combination between lower contribution rates and a flat-rate income tax reduced the costs of hiring and had a positive effect on security.

1.4 Minimum wage setting

The minimum wage is a highly controversial instrument of the labour market policies. The minimum wage decreases poverty, reduces income disparities, protects and motivates the low productive workers and makes work pay. However, the introduction and increase of the minimum wage might represent a large burden to employers who might decide to fire those workers whose productivity would not reach the minimum wage.

Romania has a system for setting up the national minimum wage as well as the possibility to establish/negotiate financial compensation for the loss of employment. Periodically, the reference basis for the calculation of the national minimum wage is resized, as a basis for negotiating collective employment agreements.

1.5 The social dialogue

The role of the social dialogue is very important to ensure that flexicurity delivers benefits for all. The social partners are best placed to address the needs of employers and workers and to detect synergies between them.

In Romania, apart from the Social and Economic Council which is the main social dialogue body, all other labour market institutions, the National Employment Agency, the National Pension House and the Adult Training Board have a tripartite structure and enabling social partners to take part in the current decision making process.

2. Some figures relevant for the elements of flexicurity

2.1 Employment protection legislation dynamics

The employment protection legislation (EPL) was introduced with the aim of improving workers' employment conditions and enhancing their welfare. The scientific literature highlights a wide range of effects, both positive and negative, of EPL on labour market performance. On the one hand EPL stabilizes the employee-employer relationship and stimulates the investments in training with consequences in higher productivity, but on the other hand it raises the costs incurred by firms while adjusting the stock of employment diminishing the firms' ability to cope with challenges like globalisation, technological

change and innovation. A stricter EPL favours insiders and is detrimental to the employment opportunities of outsiders contributing to labour market rigidity and higher unemployment especially the long-term unemployment.

Based on the OECD 2004 [6] methodology we have calculated a summary indicator of the overall stance of EPL. This is a weighted average of three sub-indicators on dismissal regulations covering 1) regular employee; 2) temporary employee; and 3) collective dismissals.

In the list of the 23 countries analysed by the authors the overall index calculated for Romania based on 2003 Labour Code ranked our country in the 22nd place with one of the most stringent dismissal regulations (see table 1). The changes made to the law in 2005 and 2006 have increased the external numerical flexibility placing Romania in the 18th place. The relaxation of the rules was made especially in terms of regular employment and collective dismissals keeping the rules for temporary employment quite rigid.

Table 1: Summary indicators of the strictness of employment protection

Rank	Country	Regular employment	Temporary employment	Collective dismissals	Overall EPL (Version 2)
1	United Kingdom	1.1	0.4	2.9	1.1
2	Ireland	1.6	0.6	2.4	1.3
3	Slovak Republic	2.3	0.4	3.8	1.7
4	Hungary	1.9	1.1	2.9	1.7
5	Denmark	1.5	1.4	3.9	1.8
6	Czech Republic	3.3	0.5	2.1	1.9
7	Bulgaria**	2.1	0.9	4.1	2.0
8	Finland	2.2	1.9	2.6	2.1
9	Poland	2.2	1.3	4.1	2.1
10	Austria	2.4	1.5	3.3	2.2
11	Netherlands	3.1	1.2	3.0	2.3
12	Estonia**	2.7	1.3	4.0	2.3
13	Italy	1.8	2.1	4.9	2.4
14	Germany	2.7	1.8	3.8	2.5
15	Belgium	1.7	2.6	4.1	2.5
16	Slovenia**	2.7	2.3	3.3	2.6
17	Sweden	2.9	1.6	4.5	2.6
18	Romania* (2006)	2.0	2.9	4.4	2.8
18	Lithuania**	2.9	2.4	3.6	2.8
19	France	2.5	3.6	2.1	2.9
20	Greece	2.4	3.3	3.3	2.9
21	Spain	2.6	3.5	3.1	3.1
22	Romania* (2003)	2.7	3.0	5.3	3.2
23	Portugal	4.2	2.8	3.6	3.5

Sources: OECD Employment Outlook 2004; *authors calculations using the OECD methodology; **Tonin (2005)

The least regulated countries are United Kingdom, Ireland and Denmark while stricter employment protection is a feature of the Mediterranean countries like Greece, Spain or Portugal. As can be seen, the new member states do not constitute a homogeneous group in terms of EPL strictness. Slovakia and Hungary are placed at the top of the list having a very relaxed legislation. So, one could say that there is no pattern specific to the Central and Eastern European countries.

Figure 1 emphasizes the evolution of the EPL for Romania after December'89. In 1992 the law was deeply relaxed in order to allow the large wave of dismissals during the restructuring phase of the economy.

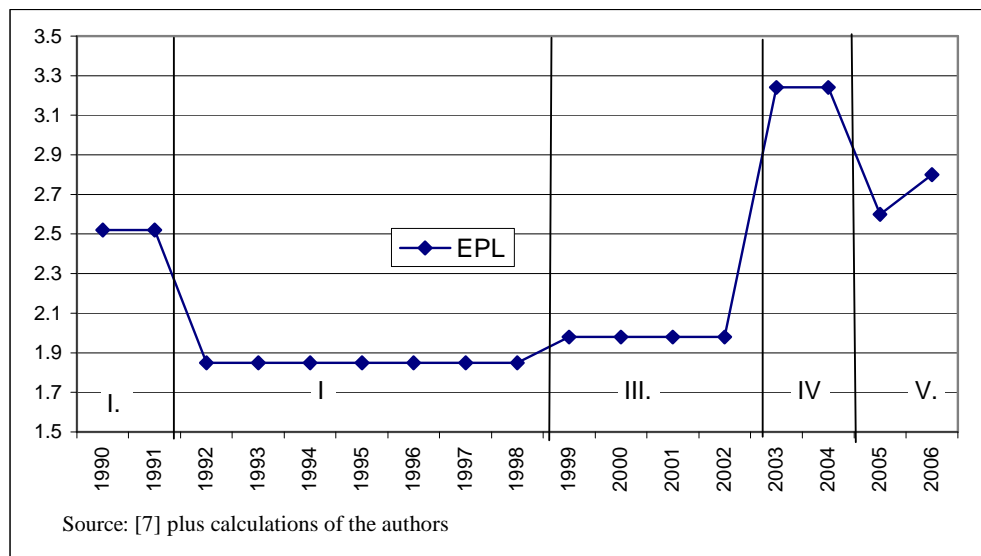


Figure 1: The index of the strictness of employment protection legislation for Romania, 1990-2006

In 2003 a new Labour Code was enacted because the old law didn't suit the economic and social realities at that moment. The aim was to discourage the undeclared work and to take into account the principle of workers' protection. Thus, although in line with European directives, the new Romanian legislation was generally more protective for the employees. After a short while, both employers and employees voiced their disapprovals related to the restrictions imposed. As a consequence, the law was amended twice, in 2005 and 2006, in order to make the labour relations more flexible.

In the authors' opinion, the current Romanian law is still rigid continuing to cause a wide distance between the labour market "insiders" and "outsiders". It is a stringent need to increase the employment opportunities of the young people, the persons who are benefits dependant and those who are working in the informal sector.

The analyses based on the EUROSTAT statistical figures show that in 2006 14.4% of EU 27 employees had fixed-term contracts and that represents a continuation of the rise in prevalence of this more flexible form of contract (figure 2). By contrast, in Romania only 1.8% of employees worked on a temporary basis. The figures show a decrease in the last six years of around 1.1 percentage points. Also, it may be noticed that in 2006 2% of males and 1.6% of females held fixed-term contracts while the share of fixed-term employment in EU 27 was 15% for women compared to 13.9% for men.

The strictness of EPL for temporary employment may be an important element in explaining the incidence of temporary work. In Romania, the summary score regarding this area jumped from 2.25 in 1992 to 3.0 at the date the new Labour Code came into force. That represents a relatively stricter regulation compared with most of the EU countries.

The national labour force survey's figures show that in Romania 78.7% of individuals in temporary employment want to work on a permanent basis but are unable to find such a job.

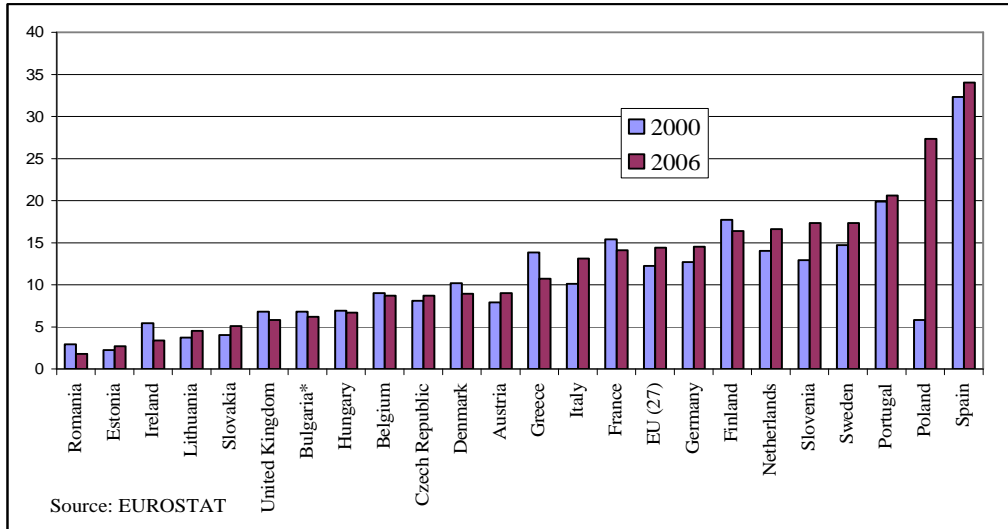


Figure 2: Temporary employees as a percentage of the total number of employees (%), 2000 and 2006

The EUROSTAT statistical figures show that from 2000 to 2006, in Romania, the share of part-time employment declined from 16.4% to 9.7% (figure 3). At the same time, at the overall EU level, in 2006, 18.1% of workers were in part-time employment, with 1.7 percentage points more than in the year 2000. In Romania, we notice that there is a balance between the female part-time employment rate (9.5%) and the male rate (9.8%). Meanwhile in EU 27 part-time employment continues to be predominantly a feature of female employment: for instance, in 2006 the female rate (31.2%) was significantly higher than the male rate (7.7%).

60.4% of men indicate that they work part-time only because they could not find a full-time job. Also, figures from the Romanian national labour force survey AMIGO indicate that “other reasons” are responsible for part-time employment in the case of 42.9% of females and other 33.6% declare that they want a full-time job but they can not find one.

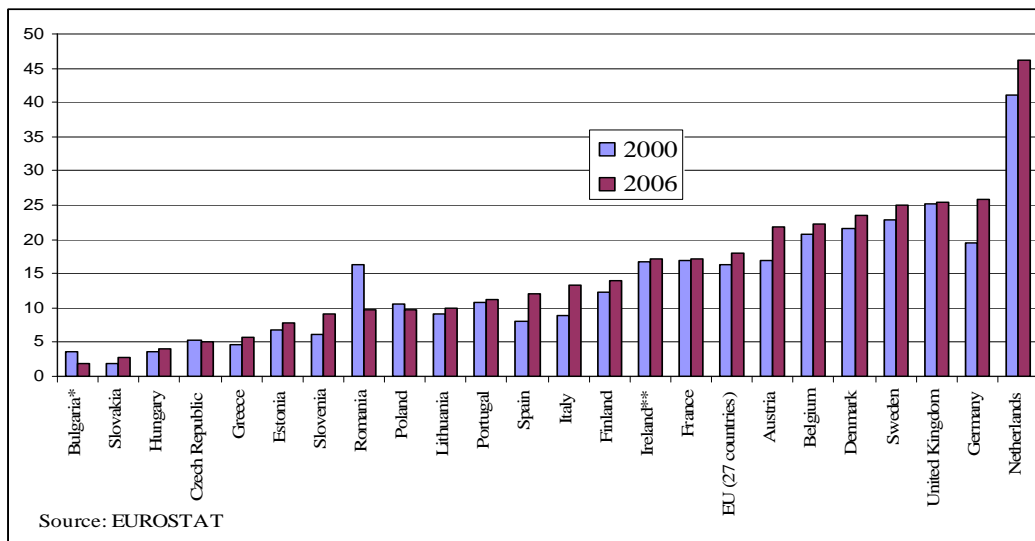


Figure 3: Part-time employment as a percentage of the total employment (%), 2000 and 2006

2.2 Active Labour Market Policies (ALMP)

Active Labour Market Policies aim at reducing labour market imperfections and at preventing the degradation of the situation of some disadvantaged groups of people (the youth, disabled, unskilled, long-term unemployed, etc.). ALMP enhance the human capital of those persons participating in programmes and sustain their employability. Thus, the provisions are expected to improve the efficiency of the job-matching process.

Some figures regarding expenditure on active and passive labour market policies as a percentage of GDP in the selected European countries are presented in figure 4. Romania is placed near the bottom of the list spending about 0.1% GDP on ALMP and 0.3% GDP on PLMP. Generally, all the new member states spend a relatively low amount of resources on LMP. The three highest spending countries are Denmark, Sweden and Belgium. The magnitude of the resources involved indicates that a model like Denmark's cannot be applied to other Member States.

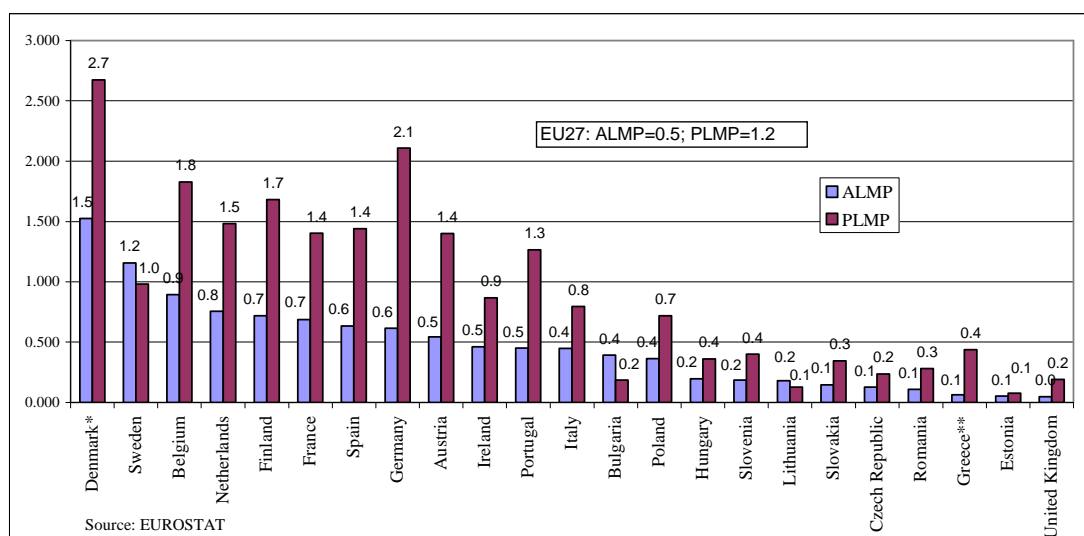


Figure 4: Expenditure on active and passive labour market policies as a percentage of GDP (2006)

The active labour market policies expenditure as a share of GDP per unemployed is over twenty-times higher in EU 27 than in Romania. This figure can be explained through a very low coverage rate of the Romanian unemployment insurance system.

The Structure of the expenditures on LMP in 2006 shows significant differences between our country and the EU average. Whilst most of the European Union countries spend a lot on training, Romania assigns to this area only 0.018 percentage points of GDP. In Romania, the largest share of the total ALMP expenditure is spent on employment incentives.

Table 2: Public expenditures on labour market policies

	LMP expenditure as percentage of GDP, 2006		Share of LMP expenditure by category, 2006		LMP expenditure per unemployed person (in euro), 2006	
	EU27	Romania	EU27	Romania	EU27	Romania
Labour market services (1)	0.217	0.042	11.2	9.8	1302.9	56.1
Training (2)	0.212	0.018	10.9	4.1	1267.8	23.4
Job rotation and job sharing (3)	0.003	-	0.2	-	20.9	-
Employment incentives (4)	0.125	0.054	6.4	12.7	747.6	72.4
Supported employment and rehabilitation (5)	0.063	-	3.2	-	376.3	-
Direct job creation (6)	0.073	0.034	3.8	8.0	437.0	45.6
Start-up incentives (7)	0.04	0.001	2.1	0.2	238.5	1.1
Out-of-work income maintenance and support (8)	1.119	0.279	57.8	65.2	6706.4	372.0
Early retirement (9)	0.085	-	4.4	-	510.9	-
Total LMP measures (2-7)	0.515	0.107	26.6	25.0	3088.0	142.4
Total LMP supports (8-9)	1.204	0.279	62.2	65.2	7217.3	372.0
Total LMP expenditures	1.937	0.428	100.0	100.0	11608.2	570.5

Source: EUROSTAT

The share of ALMP expenditure in the total expenditure of the Unemployment Insurance Fund for Romania has significantly improved between 2000 and 2006 proving that our country has made efforts to adapt its policy to the requirements of a modern system.

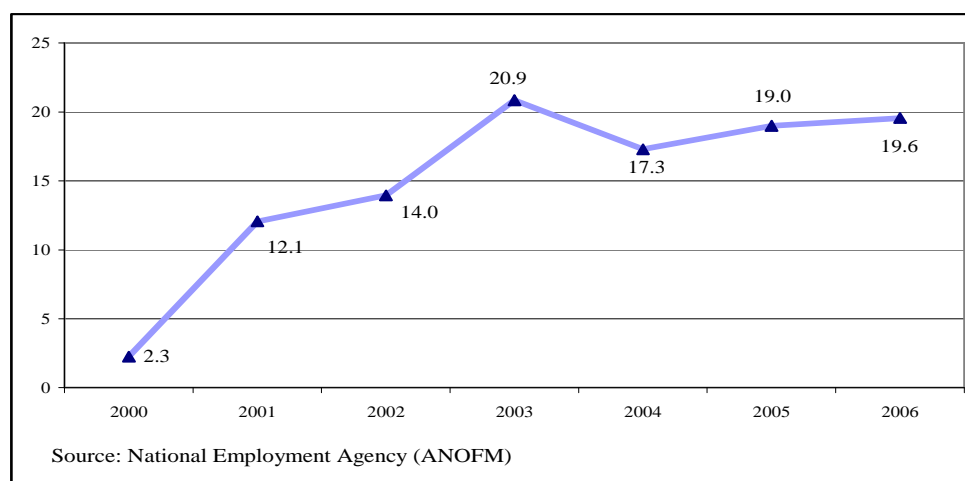


Figure 5: Share of ALMP expenditure in total expenditure of Unemployment Insurance Fund for Romania, 2000-2006

2.3 Lifelong learning strategies

Table 3 shows that in 2006 9.6% of the EU27 population aged 25 to 64 participated in lifelong learning (LLL). The differences between countries are significant, ranging from a participation rate of 32% in Sweden to 1.3% in Bulgaria and Romania.

Only eight countries have reached the target of 12.5% participating rate to be achieved by 2010, but all the countries analyzed except Slovakia and Bulgaria show a positive trend in the overall LLL participation rate. Generally there are more women than men taking part in LLL.

Table 3: Participation in lifelong learning, percentage of the adult population aged 25 to 64 participating in education and training, by sex

	Total			Females			Males		
	2000	2006	Change 2006 -2000, %	2000	2006	Change 2006 -2000, %	2000	2006	Change 2006 2000, %
Sweden	21.6	32.0	48.1	24.1	38.3	58.9	19.2	26.0	35.4
Denmark	19.4	29.2	50.5	21.8	33.8	55.0	17.1	24.6	43.9
United Kingdom	20.5	26.6	29.8	23.6	31.2	32.2	17.5	22.0	25.7
Finland	17.5	23.1	32.0	19.6	27.0	37.8	15.5	19.3	24.5
Netherlands	15.5	15.6	0.6	14.7	15.9	8.2	16.3	15.3	-6.1
Slovenia*	7.3	15.0	105.5	7.9	16.3	106.3	6.7	13.8	106.0
Austria	8.3	13.1	57.8	7.4	14.0	89.2	9.2	12.2	32.6
Spain	4.1	10.4	153.7	4.5	11.5	155.6	3.7	9.3	151.4
EU (27 countries)	7.1	9.6	35.2	7.5	10.5	40.0	6.7	8.7	29.9
France	2.8	7.6	171.4	3.1	8.0	158.1	2.6	7.2	176.9
Belgium	6.2	7.5	21.0	5.7	7.6	33.3	6.7	7.4	10.4
Germany	5.2	7.5	44.2	4.8	7.3	52.1	5.6	7.8	39.3
Ireland**	5.5	7.3	32.7	6.4	8.7	35.9	4.7	6.0	27.7
Estonia	6.5	6.5	0.0	8.2	8.6	4.9	4.5	4.2	-6.7
Italy	4.8	6.1	27.1	4.8	6.5	35.4	4.8	5.7	18.8
Czech Republic**	5.6	5.6	0.0	5.4	5.9	9.3	5.8	5.4	-6.9
Lithuania	2.8	4.9	75.0	3.6	6.6	83.3	1.9	2.9	52.6
Poland*	4.3	4.7	9.3	4.9	5.1	4.1	3.7	4.3	16.2
Portugal	3.4	4.2	23.5	3.5	4.4	25.7	3.2	4.1	28.1
Slovakia**	8.5	4.1	-51.8	8.8	4.4	-50.0	8.2	3.8	-53.7
Hungary	2.9	3.8	31.0	3.3	4.4	33.3	2.4	3.1	29.2
Greece	1.0	1.9	90.0	1.0	1.8	80.0	1.0	2.0	100.0
Bulgaria*	1.4	1.3	-7.1	1.4	1.3	-7.1	1.3	1.3	0.0
Romania	0.9	1.3	44.4	0.8	1.3	62.5	0.9	1.3	44.4

Source: EUROSTAT; *2001; **2002

In Romania there has been some slight progress between 2000 and 2006 taking into account the overall participation in LLL. Our country has only just started to access the ESF and the Sectoral Operational Programme has only just been approved by the Commission. There is great hope that the intervention of the ESF will develop the LLL and will improve the links between the process and the needs of the labour market.

2.4 Social security systems

The generosity of the unemployment insurance system depends mainly on the duration of the unemployment benefits and their level in respect to the previous labour income (see table 4).

The scientific literature highlights that the more generous the unemployment insurance system the higher unemployment rate is (especially the long-term component). This may be explained by the rise in the employees' wage claims, decreasing their job-search intensity and motivation to accept a job offer [8].

The negative consequences of the generous unemployment insurance system can be partly offset by suitable ALMP aimed at returning the unemployed back to work.

In Romania the generosity degree is 4.8, very low compared with Denmark (30.2). The maximum duration of the benefit payments is unlimited in Belgium and due to this fact this country was placed at the top of the list.

Table 4: Generosity degree of Unemployment Insurance Systems, 2005

	Net replacement rate: initial phase of unemployment	Maximum duration (months)	Generosity degree
Belgium	58	Unlimited	100
Denmark	63	48	30.2
Portugal	82	24	19.7
France	67	23	15.4
Spain	62	24	14.9
Finland	54	23	12.4
Netherlands	65	18	11.7
Poland	51	18	9.2
Sweden	62	14	8.7
Germany	60	12	7.2
Austria	55	9	5.0
Romania	40	12	4.8
Ireland	31	15	4.7
Italy	63	7	4.4
Greece	36	12	4.3
Slovak Republic	64	6	3.8
Hungary	40	9	3.6
Czech Republic	50	6	3.0
United Kingdom	41	6	2.5

Source: OECD and [9] for Romania

Another very interesting indicator is the unemployment trap (see figure 6) which is measured by comparing the net income from a job to the net income while out-of-work. When there is little difference between benefit income and the income from work, people may find it financially unattractive to accept a job and can be trapped in unemployment [10]. Hence the term unemployment trap is used to describe this situation.

Denmark and Slovenia have the highest unemployment traps. In these countries more than 90 per cent of the gross income gain is not received by the employee.

In Romania the unemployment trap in 2006 represented 71%, going down by 5 percentage points compared with 2001. This meant that from every gross Euro earned by moving from a benefit to a job, only 0.29 Euro remained as a net increase.

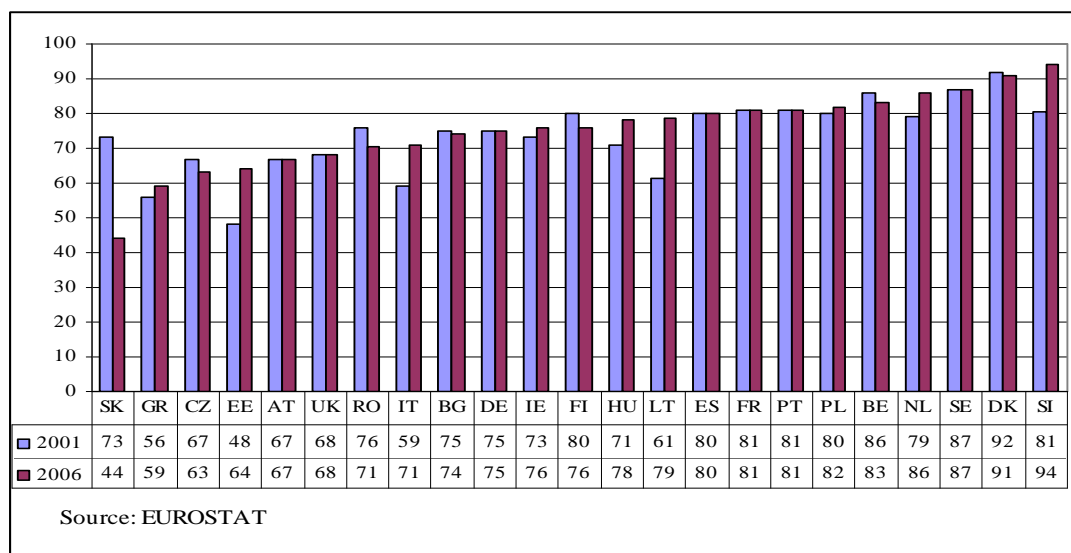


Figure 6: Tax rate on low wage earners: Unemployment trap

3. Effects on the labour market

EU 27 has experienced a rise in employment between 2000 and 2006 while Romania has witnessed a contraction in employment of around 4.2 % (see table 5). This development may be partly explained by the external migration of the labour force and by the significant weight of undeclared work (around 20 percentage of GDP). In addition our country has one of the highest tax-wedge on labour in Europe especially due to the social contribution rates. The reduction in employment was even higher for women and older workers proving the development of a segmented labour market partly reflecting the difficulties of conducting comprehensive labour market reforms. This can also be a result of stricter employment protection legislation.

Table 5: Employment rate and labour productivity, 2000 and 2006

Country	Employment rate									Labour productivity	
	Total			Women			Older workers			GDP (PPS) per person employed (EU27=100)	Growth 2006/2005
	2006	2000	Change 2006 - 2000, %	2006	2000	Change 2006 - 2000, %	2006	2000	Change 2006 - 2000, %		
Denmark	77.4	76.3	1.4	73.4	71.6	2.5	60.7	55.7	9.0	108.5	2.2
Netherlands	74.3	72.9	1.9	67.7	63.5	6.6	47.7	38.2	24.9	113.3	1.2
Sweden	73.1	73.0	0.1	70.7	70.9	-0.3	69.6	64.9	7.2	113.9	2.3
United Kingdom*	71.5	71.4	0.1	65.8	65.0	1.2	57.4	52.2	10.0	109.7	2
Austria	70.2	68.5	2.5	63.5	59.6	6.5	35.5	28.8	23.3	120.2	1.7
Finland	69.3	67.2	3.1	67.3	64.2	4.8	54.5	41.6	31.0	112.4	3.1
Ireland	68.6	65.2	5.2	59.3	53.9	10.0	53.1	45.3	17.2	134.9	1.4
Estonia	68.1	60.4	12.7	65.3	56.9	14.8	58.5	46.3	26.3	64.3	5.3
Portugal	67.9	68.4	-0.7	62.0	60.5	2.5	50.1	50.7	-1.2	68.4	0.5
Germany	67.5	65.6	2.9	62.2	58.1	7.1	48.4	37.6	28.7	107.1	2.7
Slovenia	66.6	62.8	6.1	61.8	58.4	5.8	32.6	22.7	43.6	84	4.5
Czech Republic	65.3	65.0	0.5	56.8	56.9	-0.2	45.2	36.3	24.5	70.7	4.5
Spain	64.8	56.3	15.1	53.2	41.3	28.8	44.1	37.0	19.2	103.1	0.7
EU (27 countries)	64.5	62.2	3.7	57.3	53.7	6.7	43.5	36.9	17.9	100	2.2
France	63.8	62.1	2.7	58.8	55.2	6.5	38.1	29.9	27.4	123.5	1.2
Lithuania	63.6	59.1	7.6	61.0	57.7	5.7	49.6	40.4	22.8	57.1	5.9
Belgium	61.0	60.5	0.8	54.0	51.5	4.9	32.0	26.3	21.7	131.5	1.6
Greece	61.0	56.5	8.0	47.4	41.7	13.7	42.3	39.0	8.5	103.9	2.7
Slovakia	59.4	56.8	4.6	51.9	51.5	0.8	33.1	21.3	55.4	71.8	6.1
Romania	58.8	63.0	-6.7	53.0	57.5	-7.8	41.7	49.5	-15.8	39.2	4.9
Bulgaria	58.6	50.4	16.3	54.6	46.3	17.9	39.6	20.8	90.4	34.9	3.6
Italy	58.4	53.7	8.8	46.3	39.6	16.9	32.5	27.7	17.3	109	0.2
Hungary	57.3	56.3	1.8	51.1	49.7	2.8	33.6	22.2	51.4	74.5	2.9
Poland	54.5	55.0	-0.9	48.2	48.9	-1.4	28.1	28.4	-1.1	61.1	2.8

Source: EUROSTAT; *2001;**2002;***2003

The long term unemployment rate for 2006 averaged 3.7% for the EU as a whole, down from 4.0% in 2000 (table 6). Amongst the individual Member States rates went down in 14 out of the 23 countries analyzed. In Romania the situation became worse, the long term unemployment rate being in 2006 with 13.5 % higher than six years ago. The Denmark is again at the top of the list and the figure is improving which means that the flexicurity model applied there is a very strong one.

Table 6: Long term unemployment rate and youth unemployment ratio, 2000 and 2006

Country	Long term unemployment rate (% labour force)			Country	Youth unemployment ratio (% population aged 15-24)		
	2006	2000	Change 2006 - 2000, %		2006	2000	Change 2006 - 2000, %
Denmark	0.8	0.9	-11.1	Lithuania	2.6	11.0	-76.4
Sweden	1.1	1.4	-21.4	Estonia	4.3	9.1	-52.7
United Kingdom*	1.2	1.4	-14.3	Netherlands	4.6	4.2	9.5
Austria	1.3	1.0	30.0	Ireland	4.7	3.8	23.7
Ireland	1.4	1.6	-12.5	Hungary	5.1	4.8	6.3
Netherlands	1.7	0.8	112.5	Denmark	5.4	4.8	12.5
Spain	1.8	4.6	-60.9	Austria	5.4	2.8	92.9
Finland	1.9	2.8	-32.1	Bulgaria	5.6	10.8	-48.1
Lithuania	2.5	8.0	-68.8	Slovenia	5.6	6.4	-12.5
Estonia	2.8	5.9	-52.5	Czech Republic	5.9	8.0	-26.3
Slovenia	2.9	4.1	-29.3	Romania	6.6	8.3	-20.5
Italy	3.4	6.3	-46.0	Germany	6.9	4.3	60.5
Hungary	3.4	3.1	9.7	Portugal	6.9	4.1	68.3
EU (27 countries)	3.7	4.0	-7.5	Italy	7.0	11.9	-41.2
Portugal	3.8	1.7	123.5	Belgium	7.1	6.2	14.5
Czech Republic	3.9	4.2	-7.1	EU (27 countries)	7.6	8.4	-9.5
France	3.9	3.5	11.4	Greece	8.2	11.4	-28.1
Belgium	4.2	3.7	13.5	France	8.2	7.0	17.1
Romania	4.2	3.7	13.5	Spain	8.6	11.4	-24.6
Greece	4.8	6.1	-21.3	United Kingdom*	8.7	8.2	6.1
Bulgaria	5.0	9.4	-46.8	Slovakia	9.4	17.0	-44.7
Germany	5.5	3.8	44.7	Finland	9.7	11.2	-13.4
Poland	7.8	7.4	5.4	Poland	10.2	13.3	-23.3
Slovakia	10.2	10.3	-1.0	Sweden	11.0	5.9	86.4

Source: EUROSTAT; *2001; **2002; ***2003

In our country the youth unemployment ratio has improved compared with six years ago, but the figure remains quite high. The young people are part of the disadvantaged groups because they are a new entry on the labour market and experience the same problems as any other outsiders.

4. Conclusions and recommendations

Based on the institutional complementarities/policy regimes literature, the 2006 issue of the Employment in Europe (EiE) proposed a typology of EU labour markets along the dimensions of flexibility and security. The analysis included 18 countries and Romania was not among them.

The five flexicurity systems identified there were:

- **The Anglo-Saxon system** (including UK and Ireland) that have a high degree of flexibility, relatively low security and low taxation;
- **The Continental system** (comprising Germany, Belgium, Austria and France) with intermediate-to-low flexibility, intermediate-to-high security and intermediate-to-high taxation;
- **The Mediterranean system** (including Spain, Portugal and Greece) characterized by low flexibility, relatively low security and no clear pattern of taxation;
- **The Eastern European (plus Italy)** including Italy, Poland, Hungary, Czech Republic and Slovakia – low security, intermediate-to-high flexibility and intermediate-to-high taxation;

- *The Nordic system* (comprising Denmark, the Netherlands, Sweden and Finland) with high security, intermediate-to-high flexibility, and intermediate-to-high taxation.

In respect of socio-economic outcomes, two regimes could be classified as performing well: the Anglo-Saxon countries' regime and that of The Nordic countries.

Judging by the main features of the two dimensions of flexicurity Romania can be included in the Mediterranean rather than the Eastern European group. Our country is characterized by low flexibility (high EPL), low security (low spending on LMP and very low participation of adult population in LLL) and high taxation.

Romania is placed among the countries with the lowest employment rates, the highest long-term unemployment rates and the labour productivity represents only 39.2% of the average labour productivity calculated for EU 27. Agriculture, a sector with a very low value added, accounted for 36.2 per cent of the total employment. The economic growth has accelerated, but to a significant extent in the form of jobless growth.

In this context, we consider that the priorities with regard to the four elements of flexicurity should be as follows:

- to gradually increase the flexibility of the contractual relations following the evolution of the market;
- to further develop the active labour market policies to meet the demands of a continuously and fast changing labour market;
- to raise activation while unemployment benefits are received;
- to introduce systematic lifelong learning and to develop a system geared toward labour market needs;
- to stimulate employers' investment in LLL in order to increase productivity rates;
- to limit the tax-wedge on labour in order to reduce informal work;
- to find ways of increasing the financial resources for building up a more comprehensive social security system especially through combating the undeclared work.

We wish to conclude this paper here but not before stressing the fact that flexicurity is not in itself a panacea and the policy should be pursued in a wider context of sound macro and microeconomic policies.

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