

# Romania: the commodification of work during the economic crisis

## Abstract

*This study approaches in a contextual manner the question of employment in Romania, emphasising: the upshots of the transition from communism to capitalism; the phenomenon of migration; integration into the European Union; and the aging of the population. Meanwhile, the current economic crisis has led to a decline in the number of employed people and in their salaries. The author's intention has been for this approach to facilitate the creation of a nuanced image of employment in Romania through a time-dependent (past-present-future) and geopolitical (Romania as a part of the European Union) analysis. The reaction of the Romanian government to the crisis has been to develop right-wing policies in the name of austerity: employees now enjoy fewer rights while the language around flexibilisation offers them fewer opportunities than it does capital owners as a result of the imbalance between supply and demand on the labour market. The outcome has been an unfortunate reduction in what Gøsta Esping-Andersen named the 'decommodification' of the workforce.*

**Keywords:** transition, economic crisis, austerity politics, migration, migrant networks, dual labour markets, EU integration, employment rate, public pensions system, labour law reform, population aging, rising dependency rate, decommodification

## Introduction

The situation of employment in Romania has been shaped by the transition from a centralised communist society, where the capacity of the employee in the labour market was not only a right, but also an obligation, to the capitalist society based on a market economy, where the capacity of the worker is acquired as a result of the relationship between supply and demand. The transition, a term that has entered the vocabulary not only of the media, but also of the common people in the last two decades, was associated in the 90s with great economic hardships that reappeared after 2008, along with the global financial crisis. Eliminating visas for EU member states after 2000 meant that Romanians had opportunities to travel to developed western states and to find employment in their labour markets, usually without legal papers.

Romania's accession to the EU led to a full opening of labour markets in ten member States, and to other states applying transitional measures that postponed for a maximum period of seven years the possibility of Romanians finding employment in these countries, at least in certain industries. The economic crisis did not discount the migration

of the workforce to developed countries (especially Italy and Spain), but has reduced Romanian migrants' remittances to those back home.

The global financial crisis drastically affected the Romanian economy by dramatically reducing GDP, with dire negative consequences regarding employment and unemployment rates. The right-wing reaction of the Romanian government has been directed towards the flexibilisation of the labour market; this has taken the shape of a new labour code, which has been generally criticised by labour unions for being too liberal.

Thus, an analysis of the labour market in Romania must consider at least five aspects:

1. the difficulties of the economic transition from a communist centralised economy to a capitalist market economy
2. the substantial migration of the younger Romanian workforce towards the more economically developed states of the European Union
3. Romania's accession to the European Union has meant enacting the Community *acquis* concerning employment
4. the current economic crisis has been responded to with policies and strategies that have also had a major impact on the labour market
5. the growth of the dependency rate on the older population in relation to the active population, due to a decrease in birth rate, a growth of life expectancy and the migration of the younger population.

This article presents the situation of the labour market based on these five perspectives, drawing on the academic literature, relevant Romanian and European Union legislation or strategies, and statistical data offered primarily by the National Institute of Statistics (NIS), the Romanian Ministry of Labour, Family and Social Protection, and Eurostat.

### Transition and the labour market in Romania

The Revolution of December 1989 brought Romanians a high level of optimism regarding their economic and political future. The societal model seen as worth trying to achieve by change was the western one, but the word 'capitalism' was still avoided by the majority of politicians, signalling that the anti-capitalist propaganda of the communist regime had consequences that lasted over time, including after the replacement of the totalitarian regime. It was even mentioned that it was necessary to adopt as a model the Swedish type of socialist state, defined by a high degree of prosperity and social solidarity.

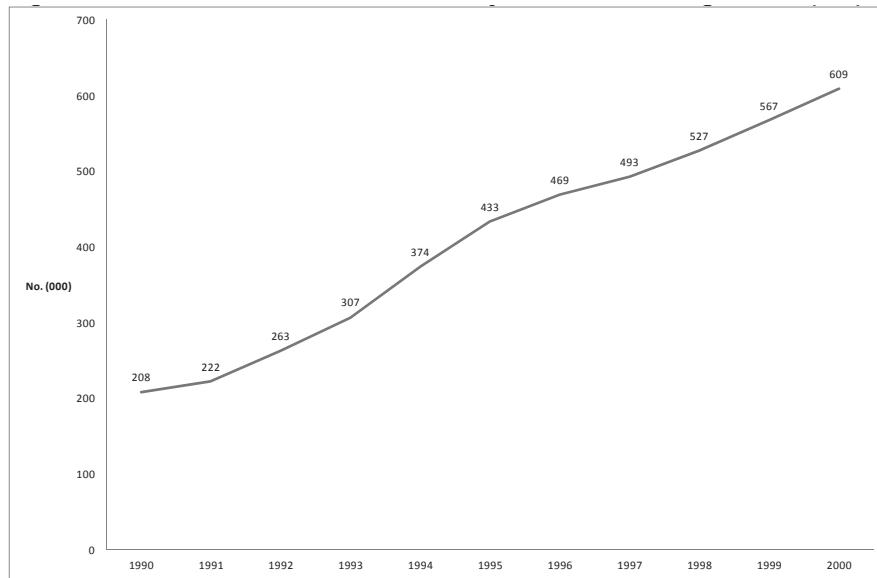
One of the most important consequences of the transition to market economy was the arrival of unemployment. The communist regime boasted total employment, but it is certain that there was an unacknowledged level of unemployment, estimated at 4.5 % for 1989 (Zamfir, 2000: 13). The arrival of unemployment was one of the key problems of the transition, economically, politically and socially. It was closely related to aspects such as:

- the inheritance of old representations regarding the place of work in society
- the fear of governments of carrying out a reform that would lead to social tension, with negative consequences for the political parties in power

- resistance to change on the part of workers
- pressure from the labour unions, associated with a wave of demands
- early old-age pensions
- job protection through government subsidies for companies and even sectors (mentioning, for instance) (Zamfir, 2000: 15)
- costly lay-offs, based on severance payments
- resistance to change on the part of some people and groups which, as it was said metaphorically, welcomed the possibility to fish in troubled waters.

One of the solutions used by the governments of the 90s, especially in the first years after the fall of the communist regime, was allowing early retirement, with older workers becoming pensioners instead of unemployed. It was, politically and maybe even socially for a short period, an easy solution but, in the long run, this approach brought an increase in the number of pensioners, especially among those with disabilities (see Figure 1) whose numbers almost tripled in ten years. This raised serious issues regarding the sustainability of the public pensions system.

**Figure 1 – Trends in the number of disability retirements during the 90s (000)**



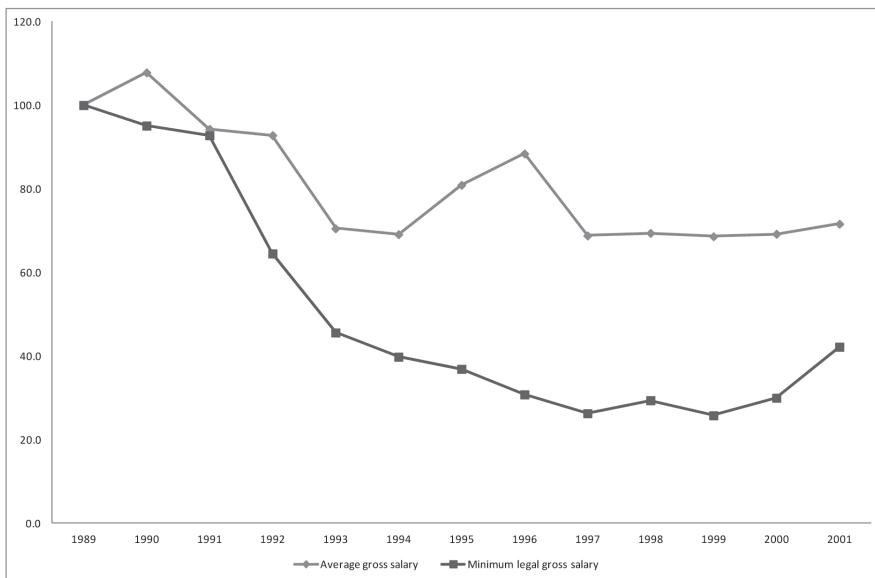
Source: NIS

The increase in the legal age of retirement was brought about firstly in 2000 through the Pensions and Other Social Security Law No. 19/2000 and then in the Unitary System of Public Pensions Law No 263/2010. Law No 19/2000 brought two main parametrical changes. The first change was to increase the retirement age, from 62 to 65 for men and from 57 to 60 for women. The second major change was the introduction of a new

formula to calculate the amount of pension, calculating a value for it based on an average taken over the person's entire occupational career and on the relationship between the employee's salary and the average national salary. The pensions law of 2010 extended this formula for calculating pension to the employees of military institutions, while projecting the retirement age for women to increase to 62 by 2030. These laws de-emphasised early retirement, while increasing the legal retirement age was intended to keep older workers within the labour market as long as possible.

The severe economic crisis led not only to the loss of jobs, especially through early retirement, but also to a spectacular decrease in salaries compared with those of the last year of existence of the communist regime (see Figure 2). The trend in average gross salary correlates with electoral events, particularly the parliamentary and presidential elections of 1990, 1992 and 1996. The election year of 2000 was associated with an increase in the minimum gross salary. Elections were, generally, important moments for salaries, and especially pensions, in post-communist Romania.

**Figure 2 – Trends in the average gross and net salary in the 1990s**



Source: Government of Romania (2002) National Anti-Poverty and Social Inclusion Promotion Plan CASPIS, p. 92.

### Workforce migration from Romania

Free movement of workers, along with the free movement of capital and services, is one of the pillars that support the edifice of the European Union. In the Treaty on European Union from Maastricht, Chapter I, Section 'Workers', the right of workers to work in any member state is guaranteed, along with equal treatment with workers

who are nationals of the host country as regards hiring, labour conditions and pay. In the EU Charter of Fundamental Rights, Article 15, it is stipulated that:

*Every citizen of the Union has the freedom to seek employment, to work, to exercise the right of establishment and to provide services in any Member State.*

Based on these principles, one of the objectives of the EU, according to decision 2005/600/EC (which sets guidelines regarding employment), is that people seeking a job in the EU should be able to apply for all vacancies which are published by the employment agencies of the member states.

However, the accession treaty of Romania and Bulgaria to the European Union, Annex VII, established that nationals of these countries may be temporarily restricted from the labour markets of member states. These restrictions, called transitional measures, could be imposed by other member states initially for a two-year period but this period was extendable for a further three and then a further two years. The temporary restrictions applied to Romanian and Bulgarian workers in the labour markets of the member states were dependent on a decision in each member state, but they could not exceed seven years (2+3+2).

Even at the time of the accession, ten member states (Cyprus, the Czech Republic, Slovakia, Slovenia, Poland, Estonia, Lithuania, Latvia, Sweden and Finland) completely opened their labour markets to Romanian and Bulgarian workers. In 2011, according to information from the Romanian Ministry of Labour, the Family and Social Protection, there were ten other countries maintaining restrictions on Romanian workers, including France, Italy, Germany, the UK and Austria. Spain was among the countries that opened their labour market to Romanian workers but, on the request of the Spanish authorities on 28 July 2011, the European Commission approved the restriction of Romanian workers until 31 December 2012. Spain's argument for this measure was the 3.9 % GDP decline between 2008 and 2010 and the increase in unemployment to more than 20 %: two aspects that had led to a severe disturbance on the Spanish labour market.

Spain is an important case because Romanian migrants have gone especially to Spain, as well as to Italy: these two countries have been the destinations for three in every four Romanians who have left to work abroad. Nevertheless, these are both countries that now restrict Romanian workers other than in the sectors of agriculture, tourism, domestic service, construction, etc. (see Table 1).

We should also note, in the context of destinations abroad, that a high percentage of Romanian nationals from Transylvania (17 %), very probably ethnic Hungarians, have left for Hungary. People from Banat have gone not only to Italy but also to Germany, because this historical region had an important German community, much of it migrating to the homeland even during communism.

**Table 1 – Main destinations of temporary migration, by historical region, 2001-2006 (%)**

	Moldova	Muntenia	Oltenia	Dobrogea	Transylvania	Crășana-Maramureș	Banat	Bucharest	Total
Italy	76	21	62	75	42	41	43	75	50
Spain	14	54	21		17	29	4		24
Germany	1	8		13	3	3	29		5
Hungary					17	6			4
Greece			3		1		18	13	2
France	1	1	3		3	3			2
Other	8	17	11	12	17	18	6	12	13

Source: Sandu (2010: 90)

That Romanians have left for much more economically-developed states confirms neo-classical economic theory which explains (international) migration in the context of the economic gap between developed and less-developed states. People from less-developed states with an excess labour force migrate to states with more developed capital, where there is a workforce deficit and opportunities for better wages. In this macro, push-and-pull type of approach, migration leads to a decrease in wages in the developed country, due to the excess workforce offer, and to an increase in wages in the country of origin, due to the departure of the workforce. When the difference between wages begins to cover only the expenses of travel, migration stops because its causes stop (Constantinescu, 2002: 95).

A theory that takes into account the help that a migrant gets in the society to which he or she migrates, from relatives, friends and other members of the community of origin, is the theory of migrant networks. These networks, seen by Arango (2000: 291) as forms of social capital, provide the individual with information, financial help in finding a job or a house, and emotional and social support. Such networks form a mechanism that self-reproduces (each migrant can help other members of the community of origin), but studies have shown that their expansion may be limited and that there is a point of saturation (Arango, 2000: 292; Constantinescu, 2002: 105). This theory is confirmed by Romanian migration between 1990 and 2006 when, at the beginning, only 22 % of migrants were helped by people already in those states; at the end of this period, help came for 60 % (see Table 2): successive migrants were helped primarily by relatives and friends to leave and find work.

**Table 2 – How migrants reach abroad**

		Stages			Total
		1990-1995	1996-2001	2002-2006	
Did you receive help from someone when leaving?	Yes	22	40	60	52
	No	69	56	38	46
	No reply	8	4	2	3
What was the source of that help?	Local relative	5	16	23	19
	Local friend	7	6	16	13
	Local acquaintance	3	3	5	4
	Others	15	20	18	18
	Not applicable	69	56	38	46
	No reply	0	0	1	0
How did you manage to find work abroad?	Contacts brokered by work office	10	7	3	4
	Through Romanian broker companies	22	21	11	14
	Through relatives from abroad	7	13	27	22
	Through friends from abroad	25	24	27	26
	By directly asking the owner	17	13	15	15
	Others	12	10	12	12
	No reply	7	10	5	7

Source: Sandu (2006), p. 30

Another theory explaining migration, based primarily on the economic factor, is the *theory of the dual labour market*. Within economically-developed societies, there is a segmentation of the labour market between, on the one hand, stable and well-paid jobs requiring high qualifications; and, on the other, low-paid, unstable, dangerous jobs, associated with lower education and prestige, which workers who are nationals of that state refuse to take. If the gap between the economies of two countries is large, the individuals belonging to the poor economy will be attracted even by these low-paid jobs, and the problem of prestige is settled by comparing with the community of origin, instead of the economically-developed society where they work (Massey *et al.* 1998: 30).

The weakness of this theory lies in that, in practice, migrants do not leave the community of origin for pre-existing jobs – they look for a job at their destination; while the factor that triggers a decision to leave is not the duality of the labour market. Another

criticism, addressed to all theories that restrict an explanation of migration to economic factors, is that there are countries with similar dual economic structures but which are not the focus of migration (Arango, 2000: 290).

In spite of criticism of the theory of a dual labour market, Romanian migration confirms it: 72 % of migrants working abroad are employed in agriculture, construction and domestic service. The increasing number of migrants working in domestic service is due to women arriving in destination countries after their men had migrated.

**Table 3 – In what field and how are migrants employed abroad?**

		Stages			Total
		1990-1995	1996-2001	2002-2006	
In what field did you work?	Agriculture	14	14	16	15
	Construction	41	42	28	32
	Domestic service	0	7	28	20
	Other	44	32	26	29
	No reply	2	5	3	3
During this stay, did you find work legally or illegally?	Legally	53	57	31	39
	Illegally	34	31	53	46
	Both	8	7	9	8
	No reply	5	6	7	6
Did you legalise your status during this stay for work?	No, did not try to do so	68	58	53	55
	No, but did try to do so	0	10	28	23
	Yes	12	28	13	15
	No reply	20	5	6	7

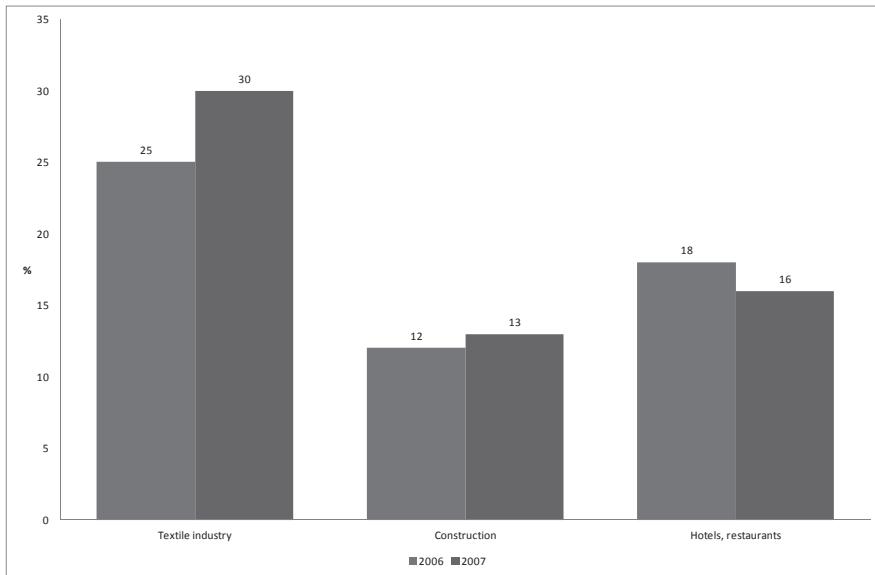
Source: Sandu (2006), p. 34.

We can conclude that, initially, migrants were mainly men with secondary and higher levels of education, urban residents who worked legally. In time, as the theory of migrants' networks and the theory of the dual labour market explain, migrants were also women, rural residents and people with lower levels of education who came to work illegally in the countries of destination.

The great number of Romanians who went to work outside their country was bound to have an impact on the labour market in Romania. From 20-30 October 2007, at the request of the Soros Foundation, a nationally representative survey was carried out with the objective of establishing the problems with which three industries (textiles, construction and hospitality) were confronted as a result of the shortage of workers. The result was that, in the textile industry, 30 % of companies had available jobs which had

been unoccupied for more than two months (see Figure 3). The other two industries had to confront the same problem, although at a lower level.

**Figure 3 – Distribution of companies that had available jobs unoccupied for more than two months in 2006 and 2007**



Source: Ţerban and Toth (2007), p. 5.

The good news is that, in order to face the difficulties of finding a workforce, most of these companies turned to investment in technology (76 %) and increasing labour productivity (83 %) (Şerban and Toth, 2007: 28). Bringing a workforce in from abroad, a possible solution for the future, was a measure undertaken by no more than 3 % of these companies. This means that, at least for the time being, offsetting a workforce lost to migration by bringing workers in from abroad is not a solution.

It must be said that this study was carried out in the best years of economic development after the fall of the communist regime, when the demand for labour was very high.

Also, we must not ignore the migration of ‘brains’ from Romania to more developed states. This is the result of either Romanian university graduates remaining in these countries or alternatively the departure of specialists with experience acquired in Romania, such as medical doctors or IT specialists. After analysing the migration of Romanian specialists abroad, Ferro underlines that:

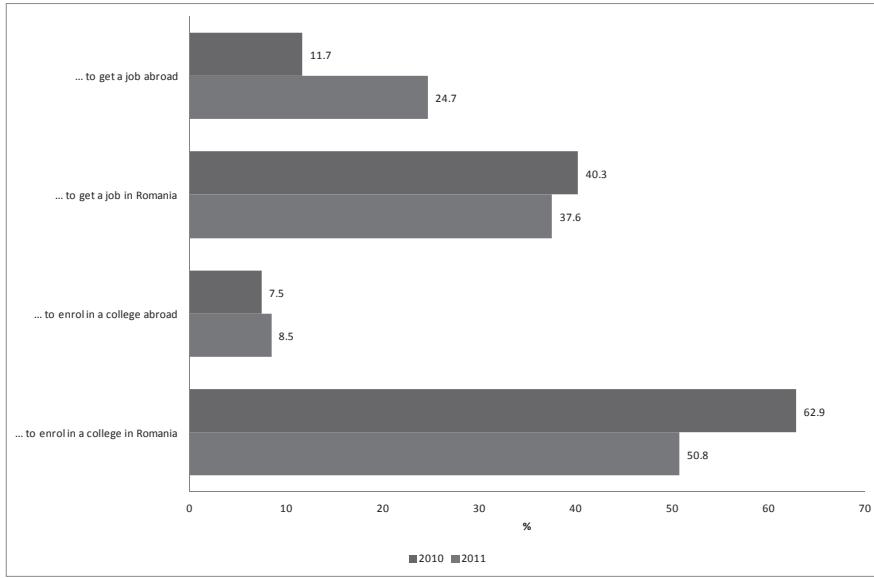
*Brain migration does not mean necessarily a brain exodus, because a to-and-fro movement of persons, competences and contributions continues to constitute a connection with the country of origin. (Ferro, 2009: 227).*

Owing to the economic crisis, the condition of the labour market has worsened both in Romania and in the countries of destination for Romanian migrants. According to the World Bank, the remittances of Romanian workers dropped from \$9.4bn in 2008 to \$4.9bn in 2009.<sup>1</sup>

Nevertheless, Romanian teenagers see going abroad as a solution to the difficulties of having a decent life in Romania. Some sociological inquiries conducted on representative samples of the Romanian high school population in 2010 (n= 2 632) and 2011 (n= 2 624)<sup>2</sup> revealed that the intention of high school students towards migration increased. Roughly one in four respondents declared in 2011 that they undoubtedly wanted to go abroad to work (see Figure 4).

We need to distinguish between an intention to migrate and a corresponding action, but these data show that the economic crisis in western countries has not diminished the intention of teenagers to find a new life outside Romania. Opportunities back home are insufficient for many respondents, and 'over there' is better, at least in terms of perception.

**Figure 4 – 'When I finish school, I want...'**



1 <http://businessday.ro>, 26 December 2010.

2 This study is part of POS DRU Project No. 41506: *Instruments and Mechanisms of Growth and Facilitation of Higher Education Access based on Horizontal and Vertical Partnerships among Institutions of Education, Central and Local Structures of the Educational System and Social Actors* financed by the EU through the European Social Fund. For more information, see Pricopie et al. 2010.

## Romania, a new member state of the European Union

Romania acceded to the European Union on 1 January 2007, with many hopes on the part of its citizens regarding an improvement in the standard of living and freedom of movement, and in finding employment in developed member states. Accession meant enacting the Community *acquis*, including as regards employment, as presented in Chapter 13 concerning ‘Employment and social policy’. Preparing for accession to the European Union necessitated enacting new laws or applying existing ones regarding employment, for:

- improving social dialogue
- achieving gender equality on the labour market
- fighting discrimination
- increasing employment
- preparing to benefit from the European Social Fund
- achieving social security, protection of older people and diminishing social exclusion
- health and safety at work.

At the level of the Community, perhaps the most important documents presenting the European Employment Strategy are those directives which set guidelines regarding employment in the member states and the European Union strategies for a ten-year period, such as the strategies for 2000-2010 (the ‘Lisbon Strategy’) and for 2010-2020 (the ‘2020 Strategy’).

The European Union Strategy for 2020 continues the Lisbon Strategy in the direction of increasing the employment rate, while respecting the principle of not discriminating in any way, in the context of the development of the knowledge-based economy. The employment rate in the European Union must reach 70 % by 2020 for people aged 20 to 64. Along with other common objectives of the European Union, this objective does not imply sanctions from Brussels on those member states that do not reach this threshold. The European Union establishes common objectives and a common language: it is even underlined in the Amsterdam Treaty that the employment issue is a common concern, but that each state will develop its own policies regarding employment.

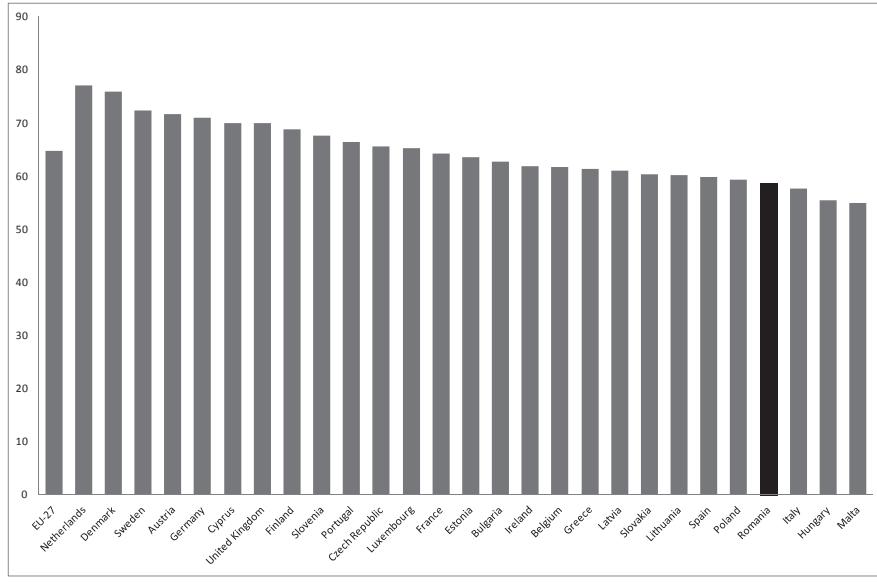
In this context of common values and objectives, on the one hand, and economic crisis on the other, the employment rate in Romania must increase significantly in order to reach 70 % by 2020 (Figure 5). Employment at the level of the EU in 2010 was 64.2 %, with only five states exceeding the 70 % threshold: the Netherlands; Denmark; Sweden; Austria; and Germany. Many states from the former communist bloc and the Mediterranean region had an employment rate below 60 %. Romania is one of these, with a low employment rate of just 58.6 % although, according to the Eurostat data, the employment rate in Romania is higher than in Italy and not much lower than in Spain, the latter having an unemployment rate that, in 2011, went on to exceed 20 %.

However, the employment rate is associated with a low quality of employment: if we were to consider quality of employment, then the employment situation in Romania would be inferior to that of the two old member states. It must be remembered here that, by an employed person, we understand:

*All persons aged 15 and over who carried out an economic activity producing goods or services of at least one hour during the reference period (one week), in order to get income as salaries, payment in kind or other benefits. (National Institute of Statistics, 2005: 14)*

For self-employed workers, or family workers in agriculture who receive no remuneration, the duration taken into account is of at least 15 hours weekly. Therefore, people who are working for fifteen hours in agriculture, even in subsistence agriculture, are seen as employed.

**Figure 5 – Employment rate in the European Union, 15-64 age group, 2009**



Source: Eurostat

According to Eurostat, in 2009 in Romania the employment rate for the population aged 15 to 64 was 59 %. But, as we can see from Table 4, out of 9.4m employed people in 2008, 28.7 % worked in agriculture, hunting and fishing. Therefore, the employment rate was almost 60 % even though more than one-quarter of the employed population worked in agriculture, a very high percentage in view of economically-developed countries having only about 5 % of employment in this sector.

**Table 4 – Employment structure, by activity of the national economy, 000 (2008)**

Industry	No.	% of total
Agriculture, hunting and forestry, and fishing	2 690	28.7
Industry	2 199	23.5
Mining and quarrying	107	1.1
Manufacturing	1 930	20.6
Electric and thermal energy, gas and water	162	1.7
Construction	747	8.0
Trade	1 178	12.6
Hotels and restaurants	154	1.6
Transport, storage and communications	509	5.4
Financial intermediation	110	1.2
Real estate and other services	298	3.2
Public administration and defence	476	5.1
Education	397	4.2
Health and social assistance	396	4.2
Other activities of national economy	211	2.3
Total	9 369	100

*Extended data are not reliable due to the low number of observed cases. Source: NIS.*

A consequence of the large number of people working in agriculture is a higher rate of employment in rural areas compared to urban areas. In 2008, the employment rate in rural areas was 61.2 %, higher than the 57.5 % found in urban areas (see Table 5). By age category, and compared with urban areas, the employment rate in rural areas was much higher for those in the 15 to 24 and 55 to 64 age groups; that is, for people towards whom the European Union shows a high concern in its employment policy. This paradoxical situation is due to it being much easier to be considered to be an employed person in rural areas, as long as one is carrying out agricultural activities of at least fifteen hours weekly.

**Table 5 – Population structure, by participation in economic activity (000)**

	Urban		Rural	
	Employed	Unemployed	Employed	Unemployed
15 – 64 years	57.5	4.2	61.2	3.3
of which:				
15 – 24 years	19.1	5.8	32.0	5.5
25 – 34 years	76.3	5.0	68.5	3.6
35 – 44 years	80.5	4.4	77.0	3.1
45 – 54 years	69.3	3.7	73.4	2.5
55 – 64 years	31.8	1.2	57.4	1.0
65 years and over	1.8	-	25.7	-

Source: NIS.

The consequence is that unemployment is also lower in rural areas than in urban ones. According to the definition of the International Labour Organisation, unemployed people are those who meet three criteria:

1. not having a job and not carrying out an activity in order to get an income
2. seeking a job (applying in the last four weeks to employment agencies or private placement agencies, carrying out actions to start self-employed activities, publishing advertisements, appealing to friends, etc.)
3. being available to start work in the next two weeks, upon finding a job immediately (NIS, 2005: 16-17).

Hence, people not seeking a job, thus being outside the labour market, are not unemployed. So, the unemployment rate is rather an indicator of exit from the labour market and not one referring to the quantity of employment. This explains the paradox that, in Spain, unemployment was around 21 % in 2011, while in Romania it is three times less despite an employment rate which is more or less the same.

Even if the employment rate for younger and older workers from rural areas is high, at the level of the entire population, the percentage of employed people is only 24.8 % for those aged 15 to 24, while it is just 43.1 % for workers in the 55-64 age group. It may be noted that the employment rate of older people in 2008 was considerably lower than the 50 % threshold set by the European Union for 2010. And this was when fewer than one person out of three aged 55 to 64 from urban areas was employed in the Romanian labour market.

We can conclude that, when comparing the employment rate in Romania with other member states, we must consider the high percentage of people working in agriculture, many of them in its subsistence forms. To that we must add that 13.5 % of employed people work in public services (public administration and defence; education; and health and social assistance), therefore being paid from the public budget. Consequent-

ly, there is a low number of people working in economic sectors supporting the state budget and also contributing to the social security budget (few agricultural workers have social security). This also adds to the problem of the sustainability of the public pensions system.

One last aspect that needs to be approached is that of gender equality in the labour market. According to the Lisbon Strategy, the employment rate among women should have reached at least 60 % in 2010. Of the 27 member states, eleven had already reached this threshold in 2010, but some new member states (Malta, Poland, Hungary, Slovakia, Romania) or states from the Mediterranean area (Italy, Greece, Spain) are greatly lagging behind the EU objective. The employment rate for women in Romania was 52 % in 2010, placing us in 23<sup>rd</sup> position in a hierarchy of the member states. The low employment rates among women in some member states indicate an average rate of 58.2 % for the EU as a whole in 2010. In view of the employment rate among women in 2000 in the EU-27 (theoretically computed, because, at that time, only the EU-15 existed) being 53.7 %, then the increase over the ten-year period corresponding to the Lisbon Strategy was 4.5 percentage points.

In 2008, according to data from the National Institute of Statistics, the employment rate among women aged 15 to 64 was more than 13 per cent lower compared to men (see Table 6). The differences in the employment rate increase with age: in the case of people aged 15 to 64, the difference between men and women is 8.9 % whereas for older workers the difference grows to 18.6 %. If we consider only those people who are aged 55 to 64, the gender difference regarding the employment rate is also a reflection of women's lower age of retirement. Nevertheless, if we consider all age categories, the explanation of this negative correlation between age and gender differences regarding the employment rate may come from changes of a cultural nature: newer generations are more open to the higher involvement of women in the labour market.

**Table 6 – Population structure, by participation in economic activity, by sex (2008)**

	Male		Female	
	Employed	Unemployed	Employed	Unemployed
15 – 64 years	65.7	4.9	52.5	2.7
of which:				
15 – 24 years	29.1	6.8	20.2	4.5
25 – 34 years	77.7	5.6	68.2	3.3
35 – 44 years	85.8	4.6	72.2	3.1
45 – 54 years	79.2	4.6	62.7	2.1
55 – 64 years	53.0	2.1	34.4	0.3
65 years and over	17.9	-	13.4	-

Source: NIS.

Paradoxically, a lower unemployment rate among women is, as we mentioned above, an indicator of the lower presence of women in the labour market.

### The economic crisis and employment policy

From 2000 until the arrival of the global economic crisis, Romania enjoyed steady economic growth, due in part to an increase in citizens borrowing from banks to buy houses or fast-moving consumer goods. GDP growth in Romania was over 6.5 % on average in the 2003-2008 period, rising to 7.7 % in 2006 and 7.1 % in 2008. The financial crisis associated with the economic crisis led to a decrease in foreign investment, in Romanian migrants' remittances from western European countries and to a blocking of the possibility of taking out of loans to buy houses. The decline in Romania's GDP was 7.1 % in 2009 and 1.3 % in 2010, which raised the problem of the ability financially to support state-employed people and pensioners. To adjust the budget deficit gradually and to surpass the problem of the current account deficit, the Romanian Government borrowed almost €20bn from the International Monetary Fund, the World Bank, the European Union and the European Bank for Reconstruction and Development. These loans were conditioned by the implementation of policies that limited the budget deficit and rising inflation.

According to the letter of intent addressed by the Government of Romania to the International Monetary Fund (IMF) on 24 April 2009, the increase in wage costs in the public sector between 2005 and 2009 was over 200 %, given the increase in wages and the rise in the number of public sector employees. In the context of the decline in the economy, the Romanian Government pledged in the fiscal policy chapter, among other things, to:

1. raise social security contributions by 3.3 %
2. reduce incentives and other benefits and eliminate 137 000 vacant jobs which, in the opinion of the authors of the letter, were used to award greater salaries to the existing personnel
3. remove the salary increases in the public sector scheduled for 2009 (or embark on an equivalent reduction in the number of employees)
4. reduce the number of employees in the public sector, including by replacing only one out of seven employees that leave the public sector
5. apply a new unitary salary scale (the quota of non-salary costs would no longer exceed 30 % of total public remuneration)
6. continue the parallel reform of the public pensions system, including increasing the age of retirement, especially among women.

We may note that obtaining the loan from the international institutions was not sufficient to resolve the problem of the current account deficit and that the Romanian Government aimed to diminish spending on public employees by the reduction of salaries and the number of state employees. In order to keep a low budget deficit, after the decline in GDP, the measures undertaken by the Romanian Government were even more drastic than the ones promised to the IMF in April 2009. In a letter addressed to the IMF of 9 September 2010, the Romanian Government said that it would reduce public salaries by 25 %; reduce the number of employees by 27 000; reduce social remuneration by 15 %; and increase VAT from 19 % to 24 %. The intention of these

measures was that, at the end of the year, the budget deficit would be reduced to only 6.8 % of GDP.

These measures have been associated, among other things, with the reform of the healthcare system and the reform of the system of education. For instance, to make the healthcare system more economically efficient, 370 out of a total of 435 hospitals have been transferred from central level to local level, while management and administrative personnel have been reduced so that wage costs would not exceed 70 % of the total spending of hospitals.

We can conclude that the measures undertaken by the Romanian Government were very drastic for public sector personnel: the salary decrease was over 25 %, due to the elimination of the possibility of overtime; some existing personnel lost their jobs; while the blocking of the filling of vacant positions led to an increase in unemployment.

Furthermore, the decline in public sector workers' purchasing power which was the result of these moves led to a decline in consumption, with negative consequences for the private sector. The decline in GDP in 2009 and 2010 was a result, among other things, of the decline in construction (13.6 % in 2009 and 10.7 % in 2010) and in commerce, auto repair and household items, hospitality, transportation and telecommunications (11.2 % in 2009 and 4 % in 2010.) We may notice that the biggest decline was in sectors affected by cash flow problems (construction) and the decline in the income of the population (commerce and tourism).

Additionally, however, the Parliament of Romania voted in Law 40/2011, which became effective on 1 May 2011 and which changed the Labour Code.

An important change brought by this reform was one regarding the trial period (Article 31). Thus, to verify an employee's abilities, the trial period increased from no more than thirty days to no more than ninety days for staff positions; and from no more than ninety days to no more than 120 days for management positions. The specification that, for unskilled workers, the trial period was exceptional and could not exceed five working days was eliminated. At the same time, the first six months, at most, of graduates entering employment had previously been considered to be a trial period but, according to the new law, this period is now considered as a training period. A very important new regulation is that according to which, during or at the end of the trial period, the individual employment contract can stop without notice, on the initiative of either of the parties, without it being necessary to justify it.

Compensation in the situation of a temporary restriction of activity due to economic, technological, structural or other similar reasons can now be lower than 75 % of the base pay corresponding to that workplace (Article 53). The regulation according to which an employer who has made collective redundancies cannot hire again for the jobs of the dismissed employees for a period of nine months (Article 72) has been eliminated. If employees are notified that activity is to be resumed, they can agree in writing in no more than five days (ten days in the old Labour Code) to resume activity. Also, the period of notice increases from no more than fifteen days to no more than twenty days for staff positions; and from no more than thirty days to no more than 45 days for management positions.

A fixed-term individual employment contract can be concluded for no more than 36 months, twelve months longer than in the old law. As regards collective employment

law, Law 40/2011 abolished Articles 238-247 of the former labour law regulating written contracts between employers and employees. Only minimum wages can be negotiated through collective employment contracts, while individual wages can be established only through individual negotiations (Article 157). Labour unions also lose their importance in negotiating work regulations, which are no longer decided with the approval of, but after consultation with, the labour unions (Article 129), while evaluating the accomplishment of performance objectives may be a criterion for collective redundancies (Article 69).

Some of the new regulations are in favour of employees. The Labour Code allows concurrent positions with different employers, or at the same employer, with the employee getting an appropriate wage for each of these positions (Article 35). If a person is subject to disciplinary measures, this sanction is expunged *de jure* after twelve months if, during this time, the employee is not subject to further disciplinary action. The new Labour Code stipulates a fine or imprisonment as sanctions for the employment, without an individual employment contract, of more than five people (irrespective of their nationality); for wages being below the level of the minimum gross wage for employees hired on the basis of an individual employment contract; and for refusing access to labour inspectors to the premises of the firm, or for not releasing documents required by them.

Labour unions were dissatisfied with the changes introduced into the Labour Code by Law 40/2011, and afterwards by Law 62/2011 regulating the social dialogue. The five nationally-representative labour union confederations decided to resign temporarily from their positions on all social dialogue committees and from the Economic and Social Council, established indefinitely according to the stipulations of Law No. 62/2011. In a joint letter addressed to the Romanian Prime Minister, the five confederations claimed that:

*The current form of Law No. 62/2011, and the way this law is applied, abolish the tripartism of social dialogue in Romania, blocking the unfolding of negotiations for collective employment contracts, because the social partners are impaired in acquiring representativity. During the last two years, the Romanian Government has promoted a substantial change in labour legislation, but also in laws governing the social security system, without taking into account any of the common proposals expressed by labour union organisations and some of the employers' organisations.*

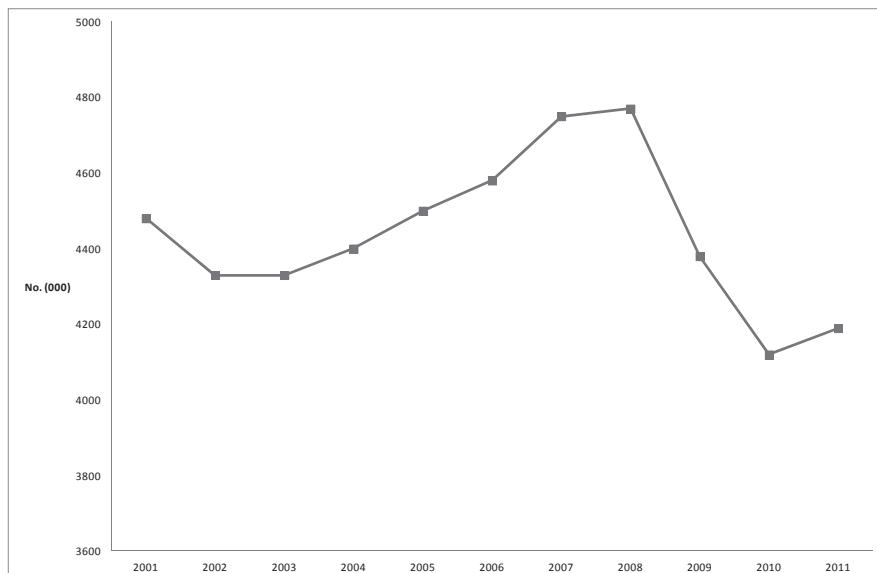
The national labour union confederation 'Cartel Alfa' referred to the new Labour Code as a 'code of slavery' in the workplace; but, on the other hand, the right-wing government claimed that the new Labour Code would lead to a flexibilisation of the labour market, the Prime Minister declaring that:

*If we do not do that, we will not succeed in being competitive with what is happening in the European or global labour market in any field.<sup>3</sup>*

3 [http://www.gov.ro/primul-ministru-emil-boc-noul-cod-al-muncii-va-duce-la-flexibilizarea-pietei-muncii\\_11a112367.html](http://www.gov.ro/primul-ministru-emil-boc-noul-cod-al-muncii-va-duce-la-flexibilizarea-pietei-muncii_11a112367.html) [last accessed on 28 September 2011].

The crisis led to a decrease in the number of employees: in 2010, there were 13.5 % less employees in the economy than in 2008 (see Figure 6). Between 2003 and 2008, a period marked by a high economic growth rate, the number of employees grew but the result of the economic crisis was that there were less workers in the economy in 2010 than there were in 2001, the year of the beginning of the economic recovery. If we take into account redundancies in the public sector, the number of people employed in the labour market in Romania dropped even further during the economic crisis.

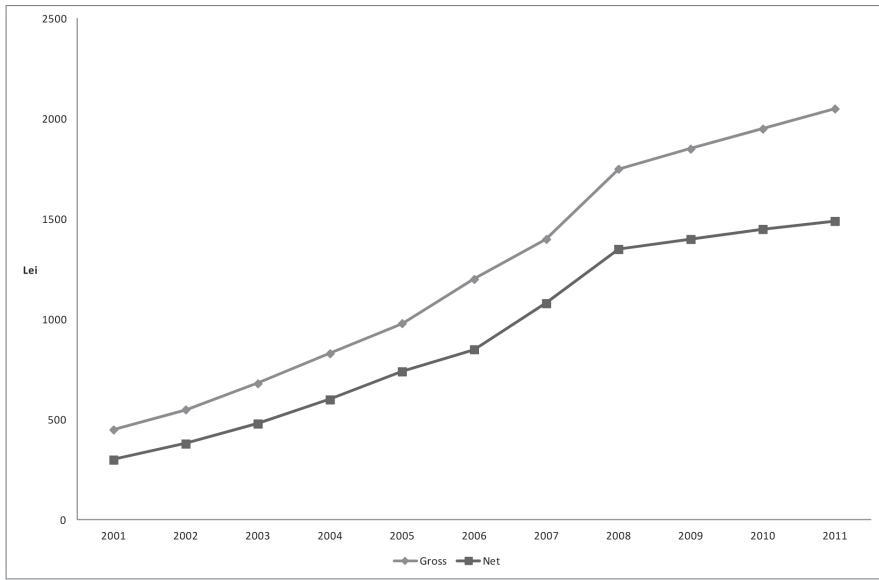
**Figure 6 – Trends in the number of employees in the economy, 2001-2011 (000)**



*Source: Ministry of Labour, the Family and Social Protection. Note that the increase in the number of employees in 2011 compared with 2010 is due to the numbers for this year reflecting the figures for the month of July, a period when the employment rate is generally higher due to seasonal work (e.g. construction, tourism, agriculture).*

The period of economic growth was associated with a high increase in salaries (see Figure 7). Between 2009 and 2011, salaries continued to rise, but this rise did not cover inflation, especially as a result of the increase in VAT. Inflation rose by 5.6 % in 2009 and 6.1 % in 2010, but the net average wage rose by only 4 % in 2009 and 3.4 % in 2010. We may also notice that, due to rising taxation and social security contributions, after 2008 the gap between the average gross wage and the average net wage widened.

Figure 7 – Trend in average gross and net wages, 2001-2011 (Lei)



Source: Ministry of Labour, the Family and Social Protection. Note: Data for 2010 are provisional; while data for 2011 refer to the month of July.

We can say that the right-wing measures undertaken by the Romanian government between 2008 and 2011 did not succeed in preventing a decrease in the number of employees and a decline in salaries. Given that only a few months have passed since the new Labour Code became effective, as well as the economic crisis being further prolonged, it is difficult to assess the impact of these new regulations on economic trends and on the labour market.

### The aging of the population and the labour market

Medium and long-term forecasts raise serious problems regarding the future of the workforce in Romania and the sustainability of social security systems, especially the public pensions system.

The increase in life expectancy and low fertility rates have led to an aging of the population. A greater number of older people in relation to the rest of the population creates enormous pressure on welfare states, which have to undertake firm measures in order to maintain financial sustainability. Healthcare systems and pensions systems are under an enormous burden of a constantly rising rate of dependency: fewer and fewer workers are contributing to these social protection systems for the benefit of a rising number of pensioners.

According to estimates, life expectancy in EU-15 countries will increase by four-five years by 2050 (European Commission, 2003: 12-13). For the majority of member states (i.e. among the EU-15), the life expectancy of women will exceed 84 years, reaching even 87 in France. For men, life expectancy will reach the 80-year threshold in eleven member states, rising to 82 in the case of Sweden. Given that life expectancy in excess of the age of 65 (the retirement age in most member states) is currently 15.5 years for men and 19.5 years for women, an increase of four-five years implies an increase in the total numbers of pensioners of 25-30 %. The dependency rate (the ratio between the total number of people aged 65 and over and the number of people aged 15 to 64) was almost 25 % in 2000 for the EU-15 but, in 2050, it will be close to 50 % (i.e. will almost double). Moreover, the dependency rates estimated for 2050 are highest in those countries such as Italy, Spain and Greece (for the first two, estimates exceed 60 %) which face a low employment rate.

The situation of Romania is even more serious. Romania's low birth rate, the increase in life expectancy and international migration led Vasile Ghețău to declare that:

*The demographic situation of Romania has reached a degree of complexity and danger so high that intervention is the only alternative to be considered. Ghețău (2004: 26)*

He presents three possible prognoses that take into account trends in the birth rate and in life expectancy, but not in migration. If, for all three variants, one uses the same estimate for increases in life expectancy, then the required fertility rate remains that of 2005 (an average number of 1.25 children born to every woman) for the lower variant; it rises to 1.8 in 2020 and subsequently to 2.1 in 2050 for the medium variant; and, in the case of the higher (optimistic) variant, it reaches 2.1 as early as in 2020. A fertility rate of 2.1 is considered desirable because this is necessary for demographic reproduction. If we take into account that, in Romania 102 boys are born for every 100 girls then, for demographic reproduction, 202 children must be born. And if we also take into account mortality up to the age of fertility, we reach a necessary fertility rate of 2.1. It needs to be mentioned that, even though more boys are born than girls are born, there are more women than men in Romania because women's life expectancy is higher than that of men.

**Table 7 – Demographic prognosis for Romania (2005-2050)**

	Total fertility rate	Life expectancy (M / F)	Romania's population (thousands)	Proportion of people aged 65 and over	Dependency ratio (people aged 65 and over, per 100 adults)
Lower variant					
2005	1.25	67.7 / 75	21 626	14.8	23.9
2020	1.25	71.6 / 78	20 501	17.2	27
2050	1.25	76 / 82	16 290	30.7	55.8
Medium variant					
2005	1.25	67.7 / 75	21 704	14.8	24
2020	1.8	71.6 / 78	21 509	16.6	27.3
2050	2.1	76 / 82	20 289	24.7	47
Higher variant					
2005	1.25	67.7 / 75	21 729	14.7	24
2020	2.1	71.6 / 78	22 152	16.1	27.3
2050	2.1	76 / 82	22 093	22.7	43.1

Source: *Ghețău, 2004, p. 17, p. 25.*

We may notice that, even in the most optimistic variant, the dependency ratio (the total number of people aged 65 and over related to the number of persons aged 18 to 64) will be almost double in 2050 compared with 2005. If we were also to take into account the migration of a great number of Romanians (most of them young people), then the demographic forecasts would be even more worrying.

To prevent this problem of a rising dependency rate, it is obviously necessary to increase the number of employed people and to decrease the number of pensioners. Achieving these objectives is possible through closely inter-related policies. Laws regarding the public pensions system (19/2000 and 263/2010) have led to an increase in the retirement age and a de-emphasis of early retirement. As regards the new Labour Code which, in the opinion of its authors, leads to the flexibilisation of the labour market, it need also to lead to an increasing rate of employment.

## Discussion

Analysing employment is a difficult and complex process because we face a changing reality which can be seen from the perspectives of, among others, the economy, demography, social policy, education, migration, labour sociology, anthropology or ethics. The approach in this study has been a contextual one, taking into account the difficulties of Romanian society's transition from communism to capitalism, the massive migration of the Romanian workforce, Romania's capacity as a member state of

the European Union, the current economic crisis and demographic forecasts concerning the aging of the population. The intention has been for this approach to facilitate the creation of a nuanced present image of employment in Romania through a time-dependent (past-present-future) and geopolitical (Romania as a part of the European Union) analysis.

The analysis of the transition of employment from the communist system to the capitalist one brought into light those policies whose impact we are still experiencing. Transition hit hard the majority of Romanians who had looked to the future with huge optimism. The arrival of unemployment, the decrease in wages and very high rates of inflation were harsh realities that Romanian workers and their families had to confront. Romania in transition was an anomic society, in search of new norms, values and institutions. Employment policy was reactive and tardy, and it had three dimensions that had a negative impact on the dependency rate of pensioners to the employed population, on the national budget and on the mentality of the population.

Firstly, the early retirement of older workers led to an increase in the number of pensioners and to a decrease in the number of people contributing to the public pensions system.

Secondly, those who were dismissed were compensated with large amounts of money corresponding to a certain number of wages, a number which was larger or smaller according to length of service. This led to the creation of high expectations on the part of workers regarding possible redundancy and, therefore, to an inflexibility of the labour market.

Thirdly, ten years had to pass after the fall of the communist regime for the new pensions law to become effective, and another ten for the building of a unitary pension system. Additionally, the enforcement of the law regarding compulsory and complementary fund-type pensions, which underlie the construction of the multi-pillar pensions system, was accomplished only at the beginning of 2008.

Furthermore, privatisation in the economy was also delayed which can be explained, among other things, either by resistance to change (the popular slogan ‘Our country is not for sale!’) or the lack of clear ideas regarding the strategy to be followed.

As regards the search for a direction for Romanian society to follow, we must emphasise the importance of international players, primarily the European Union, the IMF and the World Bank. Some Romanian sociologists have criticised the involvement of international players, especially the IMF and the World Bank, in policy development in Romania. Lazăr Vlășceanu (2001) criticised the IMF and the World Bank for their lack of interest in institutional development; Cătălin Zamfir (2004) criticised them because they tried to impose their own solutions, even if they lacked legitimacy; while Marian Preda (2002) did so for the confusion created by the multitude of recommendations, sometimes contradictory ones, that came from the international actors (amongst others). The IMF had, and still has, an important role in developing policies that have an impact on employment in Romania. The loan contracted by the Romanian state from the IMF following the agreement concluded in 2009 was conditioned by a series of measures that led to many Romanians losing their jobs and receiving reduced wages. It cannot be denied that undertaking unpopular measures was sometimes justified by appeal to the international players.

Accession to the European Union was conditioned on the development of certain policies and the implementation of certain laws corresponding to community values and the *acquis*. The European context is important to an analysis of employment in Romania: the European Union does not establish national policies in this field, but it nevertheless establishes common objectives; and what Kerstin Jacobson (2004) names a 'soft system of governance' has an impact on national policies regarding employment. Additionally, we can talk about employment in Romania only within the common labour market of the European Union. The free movement of workers, even with certain restrictions for Romanians in certain member states, allows the legal migration of the Romanian workforce. Therefore, when speaking about employed people in Romania, we must take into account the migration, temporary or otherwise, of the Romanian workforce towards developed countries, most notably Italy and Spain.

The most acute current problems of employment in Romania have been caused by the severe economic crisis, a situation that has led to the undertaking of certain measures and the implementation of certain policies that had, and will have, a major impact on Romanian workers. Firstly, wages were drastically diminished and the number of people in the public sector reduced. Then, new and important laws on the labour market were developed: the Law regarding the Unitary Salary System (2009); the Law regarding the Unitary Pensions System (2010); the Law changing the Labour Code (2011); the Law regulating Social Dialogue (2011); and the Law on Education (2011).

On the one hand, these regulations aim to eliminate certain social inequalities (differences in wages or in establishing the amount of pension) while, on the other, they award fewer rights to workers and labour unions. Their acknowledged aim is the flexibilisation of the labour market, but this raises the problem of the relationship between flexibilisation and precarious employment. Obviously, the solutions undertaken are of an ideological nature: they are liberal, undertaken by a government supported by two parties which are members of the European People's Party group in the European Parliament.

However, that does not mean that we cannot be critical towards what is called 'the flexibilisation of the labour market.' The word 'flexible' is, in itself, one which has positive connotations. In general, flexible people are appreciated while inflexible ones are criticised. In our case, flexibility is taking the form of longer trial periods when hiring, prolonged fixed-term contracts, easier dismissal and a diminished role for labour unions in collective bargaining. In a crisis situation, such as the current one, when the unemployment rate is high, this flexibility is to the advantage of the employer, it gives flexibility to the owner of capital to buy or discard the workforce. Only in the case of an economic boom, when there is full employment, when workforce demand is at least as great as workforce supply; only then is flexibility (also) to the advantage of employed people.

Moreover, we can ask ourselves to what extent this flexibilisation of the labour market, in the guise of these liberal measures, is to the advantage of older, under-educated, or female workers. This is why Patrizio Di Nicola declares:

*Flexibility must be an opportunity not for employers, but also for employees, who must not live it as a misfortune or as a life sentence to precarity and to poverty. (Di Nicola, 2011: 17)*

And if we look into the future, people working part-time or on fixed-term contracts will have a smaller pension or will not even contribute sufficient years to have a pension. I do not want to criticise a set of measures undertaken from an ideological perspective from another ideological perspective, perhaps a left-wing one; but only to emphasise that the attractive language hides interests that are not adequate for all parties.

If the last twenty years have described a serpentine evolution, with socio-economic problems in the 90s, economic growth between 2001 and 2008, followed by a crash beginning in 2008, the future poses even more serious problems that cannot be answered by *ad hoc* solutions. The decline in the birth rate, the increase in life expectancy and the migration of the younger population raise the problem of the future of the Romanian workforce and the financial sustainability of the public pensions system. The solutions to this problem are long-term ones, with a strategy that takes into account several fields. Consistent parallel reforms have already been effected by the reform of the first pensions pillar and the creation of pillars II and III. Nevertheless, there still are differences regarding the age of retirement for men and women. The political class, probably also for electoral reasons, has not carried through gender equality in this regard. In the future, the retirement age of women does need to be raised to 65, given women's growing employment rate and their higher life expectancy.

An increase in both the birth rate and the rate of employment among women can be achieved only if sufficient nurseries and pre-school care are in place to provide support for employed parents. There must also be a change in mentality, among both women and men, regarding the status of the woman and then man within and outside the family. This change of mentality is hard to accomplish – Parliament cannot enact a law in this regard – but discouraging discrimination in the labour market, fighting domestic violence and encouraging the Roma population (especially female) to carry on with their studies are policies that, along with other factors, can lead to a change in mentality.

A higher level of education helps individuals to find better-paid jobs more quickly and also helps the employer be more competitive in a knowledge-based economy. Investing in education will have to be a part of any government, right or left. The Law on Education (Article 8) stipulates that the budget allocated to education must be at least 6 % of GDP. However, in none of the years since the enactment of this regulation (2007) has it been applied: the Minister of Education declares that Romania cannot yet afford to allocate this percentage of GDP to the education field. Low salaries of teachers can lead to a negative selection of education personnel, since valuable higher education graduates are not motivated to become teachers. In 2011, after more careful supervision of the final high school examination, the success rate among high school students was 45 %, a drop of more than 20 % compared to 2010. These data are an indication of the current state of play in Romanian education and, consequently, of the future of the Romanian workforce. Therefore, applying in practice the law that allocates a minimum of 6 % of GDP to finance education is a necessity.

Ultimately, we can conclude that, in Romania, a reduction of what Gøsta Esping-Andersen (1990/1997: 35-37) named 'decommodification' is taking place: that is, a diminution of the condition of the workforce as a commodity. Following Karl Marx and Karl Polanyi's theories, Esping-Andersen emphasises that decommodification

does not imply the eradication of the workforce as a commodity, but refers to the individual or the family, through social policies, enjoying a minimum standard of living independent of participation in the labour market. Currently in Romania, a process is underway whose result is that the worker is enjoying fewer rights, both as an employee and as an insured person. The age of retirement (and consequently the contribution period) has risen; paternity leave has been reduced from two years to one; and social benefits (e.g. the guaranteed minimum income or subsidies for paying the heating bill during winter) are allocated based on more restrictive criteria. Decommodification is being reversed.

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