

The Interdependence between Social Protection System and Labour Market

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Abstract

The analysis of social policy impact over the labour market focuses on assessing the interdependence between the social protection system and the labour market, and performance of the social policies management, determinant factor in order to achieve simultaneous acceleration for social inclusion and social protection.

The relationship of interdependence between the social protection system and the labour market was analysed through the main social protection, economic and social indicators and through employment stimulation programs of public employment service implemented nationally during 2006 - 2010.

The analysis of the interdependence between social protection system and the labour market was done through logical analysis, behaviour and mechanism, of causality and impact method.

Keywords: *social policy, social protection, labour market, interdependence, professional training, employment.*

JEL classification: H51, H52, H53, H55, H75, I14, I32, I38, J11, J24.

Introduction

The analysis of the interdependence between the social protection system and labour market was based on the structural components of social policy and labour market in terms of problems, challenges and specific priorities, and the result gives the dimension of social policies' impact over the labour market impact.

Generally speaking, the social protection is the set of measures aimed on ensuring a certain level of welfare and social security for the entire population and especially for vulnerable groups. Along with the material conditions of living (employment, working conditions, quality of life so as not to be damaged below the achieved level, housing, environment, etc.), social protection and social conditions are concerned, such as: health, education, culture, conditions of rest, socio-political environment and social order and law, and actions to prevent, reduce or eliminate the consequences of such events considered social risks on the living conditions over the population (Pop, 2002).

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Through the social protection system is provided a targeted direction of the material and human resources of the community to those in need (i.e. sickness, disability, handicap, hoariness, death, families with low incomes, but also with many children, unemployed, students , etc.), the principle of intergenerational and intragenerational solidarity, i.e. solidarity between young (active) and those in age, between employed and unemployed, between sick and healthy people, between people with children and those without, financial transfers from those with high income to low income people. Complementary social protection comes from all the tax provisions and aims the complementary social security funds management (Angelescu, 2001).

Currently, in Romania exists a wide range of social protection programs both money transfers, which have the largest weight in the total funds designated to social protection, such as pensions and social security benefits, social assistance (grants, social benefits and allowances) and services such as the stimulation of employment (active measures to combat unemployment) or social services (primary and specialized medical, social, etc.).

The labour market represents the interrelation between the demographic situation, which determines the supply of labour, and social and economic realities that determine the labour demand, and involves continuous negotiation between the owners of labour supply and labour demand owners. Also, the labour market is the result of the actions of governmental and non-governmental actors, public and private, from central and local level, each with varying degrees of involvement in developing and implementing various types of social policy with direct or connective impact. The judicious management of economic factors - prices, salaries, productivity - is an essential condition for economic profit and growth, but equally a fundamental importance represents the human resource management in achieving the economic individual and collective purpose.

In order to determine the demand for labour is necessary to know the evolution of goods production in terms of quantity, quality and structure, from micro to macroeconomics. Thus, work consumption can be determined by different work skills and professions, along with the necessary investments. Knowing the demand for labour in production, can be determined also the necessary of work force which is not directly proportional with the production, due to some inertia factors of the system or to some social, educational and cultural factors, which may have a significant effect on consumption and work force demand.

In Romania the economy has insufficient capacity to create sustainable work places, and the demand for work force is required to be considered in the context of fundamental changes. While the technical level and productivity of the Romanian economy is between existing levels in developed countries and those in process of development, the consumer needs and aspirations are at the existing level in developed countries.

Supporting, developing and maintaining the economic motivation of human resources to work throughout the economy, modernization of production capacities in sustainable sectors, qualification and re-qualification of the workforce

in other industries, is the main stimulus measures and levers, balancing and strengthening supply and demand of labour.

At the basis of the elaboration, implementation and evaluation of policies regarding assistance and social inclusion, labour relations, employment and social security, must stand trial and evaluation of all processes taking place in the labour market in terms of size, structure and its trends, determined by the interdependence of these , otherwise explained:

- assistance and social inclusion policies, through their objectives established and the implemented measures, provide the necessary framework for the development of the social programs regarding the combat of poverty and social inclusion determining, in the direct beneficiaries level, the overpassing of the state of need, civic integration, economic integration, social integration and interpersonal integration. As indirect effect of functioning in optimal parameters of social service providers, these social programs determine also the increase of the occupation and qualification rate of their staff;

- the policies regarding labour relations through the objectives established and measures implemented which aim the regulation of labour relations in terms of increasing employability and occupation safety, of flexibility of the labour process, of health and safety in labour, payroll and social dialogue, determine optimal employment and thus increase employment and work productivity;

- employment policies through the objectives established and measures implemented ensure the necessary framework for performance of social protection programs for the unemployed and those affected by collective dismissals, employment stimulation programs, training programs that ensure the acquirement of new competencies and professional skills, determining thus the increase of the labour market integration of persons seeking employment. Important to note is the interference of these policies on social inclusion;

- social security policies, through the established objectives and the measures implemented, create the need to ensure, on the one hand, the standard of living by providing a permanent replacement income for persons above a certain age or in case of the loss of working capacity and, on the other hand, maintain working capacity in the event of special circumstances, generating temporary disability, such as accidents and occupational diseases

For all these programs are needed considerable funds, which are predominant either from the state budget – for expenditures related to non-contributory social security system, either from the social security budget - for expenses related to the pension system, accidents and occupational diseases, unemployment benefits and other expenses in order to stimulate employment. In these circumstances it is easy to understand that a more consistent participation in the labour market creates prerequisites for a healthy and sustainable social welfare. The Government is directly interested in the labour market to function optimally and in parameters of performance, because only in this way can be ensured an adequate tax base to create the conditions necessary for sustainability of the budget for implementation of government programs undertaken. Thus, if the revenues out

of contributions, taxes and state budgets, social security and local ones are higher, the government may be more effective, with the condition of provided ownership and exercise of social responsibility, management competencies and insurance of the continuing budget balances.

1. The main indicators of social protection and their contextualization

The characterization of social protection is achieved through economic and social indicators through which is revealed, in an easy way, the connection between these systems and the way in which these economic and social processes influence social protection policies, being able thus to apply corrections to avoid negative developments. Moreover, the growing interdependence between the dynamics of social dialogue and the social-economic environment can be easily traced along the transition period (Lipciu, 2011).

The economic reforms from Romania in the last two decades have reduced the state's role in national economy transforming it in a management system of managing public property and have contributed to economic liberalization and modernization of public administration and decentralization of decision-making process, not very effective, because it partially succeeded to transfer the responsibilities along with the leverage and financial resources.

The annual inflation rate calculated by the NIS, according to the European methodology, indicates an overall increase in prices of goods and services for the population. Real GDP represents the value of goods and services produced in an economy with rising prices and highlights adjusted growth in real terms, in a certain period, measuring the country's overall economic performance. Between economic growth and population welfare is a powerful interdependency. One can see that during the period 2006-2010, employment growth rates, real GDP and inflation have evolved in the same direction, but in reverse with the rising unemployment rate. Regarding the developments of any of these indicators there is no relationship of proportionality but there is a relationship interdependence. The relationship between the evolution of inflation, GDP, unemployment and employment is shown in Figure 1.

One can easily see that the evolution of these indicators during 2006-2007 shows a positive economic activity characterized by a decrease of ILO unemployment and inflation, of a GDP value which grew until 2008 in tandem with the positive evolution of employment rate. Starting 2009, along with installation of international financial crisis effects, the values of these indicators have registered a negative trend, GDP decreasing by 7.1%, the employment rate by 0.4% compared to 2008, and ILO unemployment increased by 1.1% compared to 2008. In 2010, following the implementation of anti-crisis measures, and in the context of mitigation of global economic crisis, the employment rate gained 0.2%, ILO unemployment 0.4%, inflation reached 6.09% and GDP registered a decrease of 1.3% compared to the previous year.

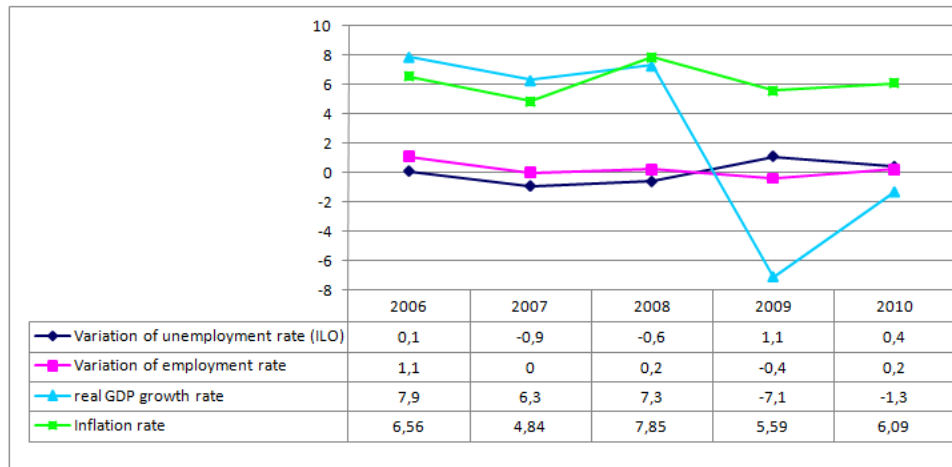


Figure 1. Growth rate of ILO unemployment rate, employment rate, real GDP and inflation rate² during 2006-2010

Source: adaptation after NIS, EUROSTAT.

The responsibility of the state in producing and balancing welfare, in providing social services based on the principle of social solidarity and contribution is quantified by measuring the weight of social public expenditure in GDP indicator.

During 2005 - 2009 the state funded most the pension system and least the unemployment insurance and active measures to stimulate employment. Although in the period 2005 - 2009 financial allocations for the pensions system increased reaching in 2009 8.1% of GDP, Romania is still well below the EU27 average, which is about 12%. In terms of health with average allocation of 3.5% of GDP, below the EU27 (about 7.7%), and education with an average allocation of 3.6% of GDP, below the EU27 (about 5%) indicates that Romania is among the last countries in Europe in regards of these two categories of public social spending. Neither in terms of unemployment insurance and active measures for boosting employment Romania is not better. With an allocation of 0.46% of GDP, Romania is also in this chapter under the EU27 average (2.17%)³.

The expenditures on social protection in Romania between 2000 - 2007, had a sinusoidal variation of 13.03% of GDP in 2000 to 12.78% in 2001, reaching in 2007 to 13.55%. In 2008 their share increased significantly to 14.25% of GDP. It should be noted that during 2000 - 2006, the share of expenditure on social protection in Romania⁴ remained mostly below half the average weight of social protection expenditure in the EU27. Since 2007, their share rose more than half the

² Increase rate of GDP- percentage modification in comparison with previous year.

³ Adaptation after EUROSTAT, NIS, Data Base TRANSMONEE.

⁴ Adaptation after EUROSTAT.

average weight of social protection expenditure in the EU27, meaning 1.36% in 2007 and 2.15% in 2008.

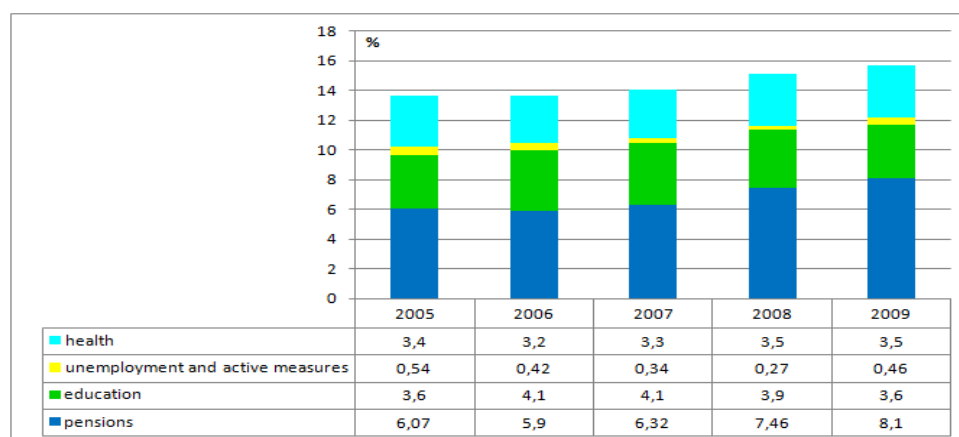


Figure 2. Public social expenditure share in GDP, during 2005-2009

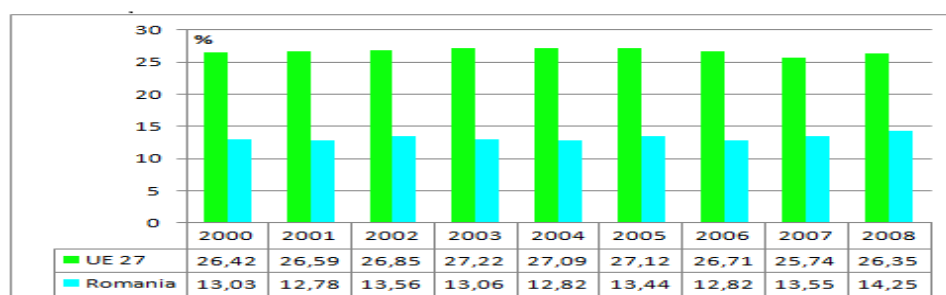


Figure 3. Expenditure on social protection, in Romania and EU27 GDP, between 2000-2008

The ongoing process of demographic ageing is validated by age structure of population, with high proportion of population aged 65 and over, determined largely by low fertility and negative natural increase, and also by the negative result of the migration balance.

The labour migration is a phenomenon which Romania has faced since 1990, has become widespread after 1996 and reached a maximum level after Schengen visas elimination in 2002. The phenomenon has stagnated with the advent of the economic crisis that affected Spain and Italy, countries where most Romanian worked. Statistics on the gender of the Romanians working abroad shows that at the beginning of the period the weigh of men went to work in the total population was 85%, reaching 55% in 2008.

Since the migration is considered a large social phenomenon due to the approximately 2.5 million Romanian workers abroad, have been initiated a series

of strategies and measures to manage it. The consequences of population migration had an impact on economic, social and demographic area.

In economic plan, the population migration had a positive effect through employment opportunities created for labour unoccupied or occupied force in subsistence agriculture, but also a negative effect by creating a skilled labour shortage especially in the fields of textile, construction and hotelier. Another economic effect have had the remissions that were an important source of cash inflows in the country. According to a 2010 World Bank report, the amounts sent by the Romanians left to work across borders progressively increased starting 2003, from \$ 124 million, reaching a peak of 9.38 billion dollars in 2008 (4.7% of GDP), after which followed the progressive decrease to 4.9 billion dollars in 2009 (3.04% of GDP) and \$ 4.5 billion in 2010 (2.78% of GDP).

The policies related to immigration focuses on two directions: on the one hand, by providing support to those living abroad, and on the other hand, by exploiting the resources they have abroad. In the first case is about public support to the citizens or co-ethnics to keep in touch with home and culture, but also to return to their country of origin. The second direction is towards attracting investment and skilled personnel so that the country of origin benefit economically from citizens' return.

In Romania, the social cost of transition, following the economic downturn of the two periods (1993-1994, 1997-2000), led to the collapse of the value of net average salary at about 60% of pre-90, recovered in 2007 and maintained until the economic crisis, knows starting 2010 a further decrease, more pronounced in public sector activity. Pensions have had a somewhat similar evolution because of the organic link between the two systems, the pensioners paying the expensive price of transition. In the last period, the situation has improved, the average pension (775lei, April 2011) represents 51.75% of net average national salary and pension point is 48.93% of it.

However, in the evolution over this period, the salaries and pensions were polarized on the low income segment. Given that employees and retirees have accounted together approximately 50% of the population, their numerical evolution, mainly due to reforms and successive restructuring in the economy, was diametrically opposed; while the number of pensioners increased, getting in June in 2011 at 5424,1 thousands, the number of employees decreased getting in June 2011 at 4185 thousands, a situation that will be preserved as a direct effect of economic recession.

The state social security system, detailed in pension systems, the accidents and occupational diseases and unemployment insurance, organized by categories of risk and social criteria related to professional or formal membership of the scope of activities in the economy, is the strongest component of social protection system due to the large number of beneficiaries and the funds they manage and therefore the main leverage in combating poverty. However, due to the dependency ratio between the amount of insurance and benefits provided, many benefiting people are in the situation of not affording a decent living due to insufficient amount of income from these sources. In these circumstances, it is worth stressing the

importance of legal labour, because only in this way the active people in labour market can be assured against of professional risks.

Reinsertion on the labour market, due to the implementation of active measures programs, contributes to reducing the social cost of this component of social protection, at the GDP growth following the work of new employees and thus the increase of tax revenues of the state, and also to lower administrative costs for the functioning of employment system.

The average value of unemployment benefit in the period between 2005-2010 was 78.66% out of the gross minimum salary for the unemployed with work experience and 47.8% for the unemployed without work experience. These benefits are insufficient to ensure a person's standard of living above the poverty line, in such a situation being imposed an additional support.

The fundamental problem of social protection is to reduce poverty, whose effects are felt on the economic level and, especially, in the psycho-social plan. Is important since it manages to reduce inequality among population directing in this way the financial transfers only to persons who are entitled to receive them, in order to raise the living standard of each beneficiary up to the poverty threshold.

The relevant indicator that characterizes the evolution of poverty is the *poverty risk rate*. This represents the number of people with equivalenced disposable income below the poverty risk threshold, which is set at 60% of median income/ adult available, equivalent after social transfers. Among the determinants of risk of poverty are long-term unemployment, low quality jobs, low skill level, social vulnerability of the family, disability, drug abuse or alcoholism, poor health, belonging to ethnic minority groups and immigration.

In 2000, 21% of Romanian were at risk of poverty before social transfers and after social transfers the number decreased by 4%. Until 2004, a slight variation was registered in these indicators, risk of poverty rate before transfers being 23% and 18% after transfers. In 2007, before social transfers, 30.9% of Romanian were at risk of poverty, and after transfers their number decreased to 24.8%. During 2007 - 2009, these indicators had a slight decrease gradually, but always stood above the EU average. According to Eurostat data available, between 2005 - 2009 the number of EU citizens who were at risk of poverty before the transfers suffered slight variations from 25.9% in 2005 to 25.1% in 2009, approximately 16% of whom are at risk poverty after transfers.

Following the implementation of anti-poverty programs, in 2009, with a risk of poverty of 22.4%, Romania ranks second in the EU after Latvia with 25.7% and is followed by Bulgaria with 21.8%. At the opposite pole lies countries such as: Czech Republic by 8.6%, Iceland 10.2%, Slovakia 11%.

Social inequality shows the distribution of income at the society level, whose dimension is given by the standard measure - the Gini coefficient, and is among the highest in Europe. If in the years 2001-2003 it had values of 30, similar to the average registered since 2005 in EU, starting 2006 has registered a substantial increase. In 2009, Romania registered for this indicator a value of 34.9 which ranked 4 in EU after Latvia (37.4), Lithuania (35.5), Portugal (35.4), and stood at opposite countries such as Slovenia (22.7), Norway (24.1), Hungary

(24.7). It can be seen the increased inequality in the Romanian society, especially if we refer to the value of 24 registered in 1989.

2. Social protection programs with impact in the labour market

The social inclusion programs aim at strengthening social cohesion and reducing the marginalization and social exclusion, but, in practice, often the inclusion is perceived as synonymous with social protection or social services or benefits.

The annual implementation, during 2006 – 2010, by the NAE and local agencies, of national programs for employment, have concerned, on the one hand, the increase of employment of disadvantaged groups by implementing a set of measures and, on the other hand, growth and diversification of skills of persons seeking employment through participation in training programs. The target group included: unemployed, long-term unemployed, graduates of educational institutions, people aged over 45 or single parent families unemployed, persons with disabilities, young people who left the child welfare system, Roma people people who came out of prison.

Training programs were offered by the NAE through its own network of regional training centres for adults, by the centres in their AJOFM, and also through private training authorized providers that agencies have contracted to provide these services. The training programs were designated for disadvantaged groups of people in the labour market such as: unemployed, people in rural areas, persons among the Roma ethnics, persons with disabilities, persons in detention who have executed up to nine months until the last day for penalty, people returned to work after childcare aged up to 2 years, people who have resumed work after the retirement for disability. It should be noted that the unemployed are required by law, to participate in training programs organized and offered by employment agencies and as well as to take the final examination.

The number of participants in employment and training programs to the NAE level in the last years is presented in charts below:

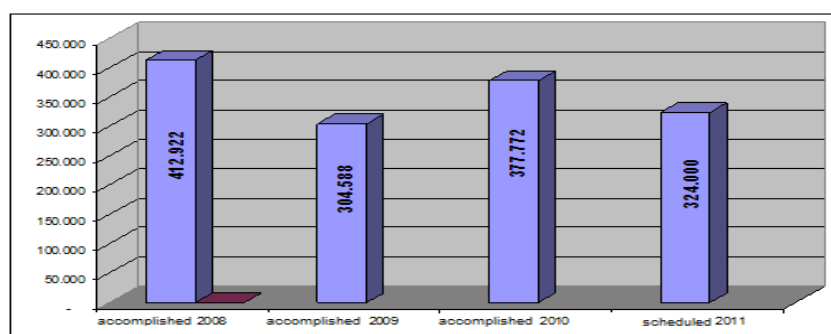


Figure 4. Number of participants in employment programs in the NAE

Source: NAE

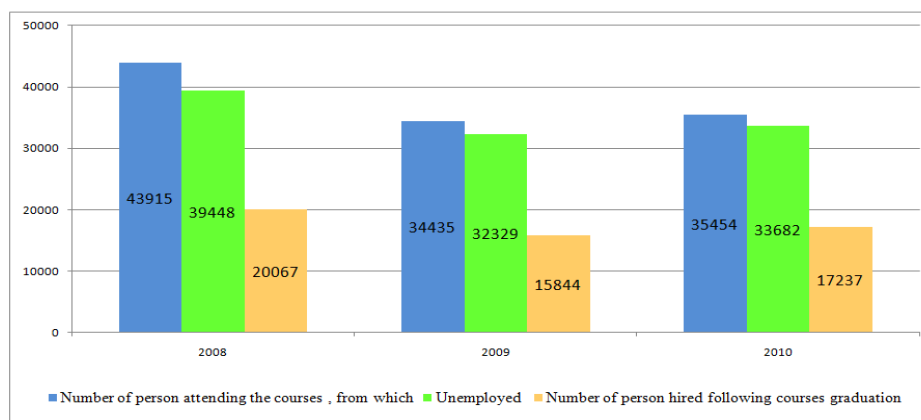


Figure 5. Number of participants in training programs in the NAE

Source: NAE

The areas in which were mostly organized professional training programs were: electronics, automation, computer/ information technology, trade, tourism, hotels, restaurants and constructions.

The success rate of providing training programs was insured by covering a larger number of unemployed and people from other vulnerable groups in induction courses, qualification, re-qualification and specialization and through the increased number of graduates, respectively employed.

In order to prevent unemployment, in addition to training programs designated to people seeking work, it were supported, by assuring co-financing training programs organized by employers for their employees.

A consistent contribution in the adults training are having the projects developed with the support of funds provided under ESF HRD aimed at: increasing social inclusion through the implementation of measures to stimulate employment, for both vulnerable people and those in search of employment, and supporting the establishment and development of social enterprises.

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