The Impact of the Europe 2020 Strategy on Romanian Labour Market

by
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Abstract. The aim of the Europe 2020 strategy is that EU to become a smart, sustainable and inclusive economy. In the paper we characterize the labour market for the Eastern European Union countries, focusing on the impact of the Europe 2020 Strategy on Romanian labour market. We will discuss the following targets: 75% of the population aged 20-64 should be employed (this target could be achieved by getting more people into work, especially women, the young, older and low-skilled people and legal immigrants); combined public and private investment levels to reach 3% of the European Union’ GDP; the share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education.

Key words: Europe 2020 strategy, smart growth, inclusive growth, employment rate.
JEL classification: E24, J30

1 Introduction

An analysis made by the Irish Government stated that „as much as 70 to 80 percent of economic growth is now said to be due to new and better knowledge”. At the Second World Summit on the Knowledge Society (Crete, 2009) one of the topics were about intellectual and human capital development beside business and enterprise computing, social and humanistic computing, innovation, sustainable development and strategic management.

The difference between knowledge economy and knowledge based economy is that in the first case knowledge is a product, while in the second case knowledge is a tool. In this context human capital (competencies) are a key component.

Kefela (2010) said “the traditional pledge where employees expect a stable or lifelong employment will no longer apply. New ideas of intellectual capital, more than savings or investments, are the keys to prosperity and wealth of nations”.

The aim of the Europe 2020 strategy is that EU to become a smart, sustainable and inclusive economy. There are five major objectives to be achieved: employment, innovation, education, social inclusion and climate/ energy. There are targets set for EU, overall, but also for each country. The strategy includes the following components: smart growth meaning to improve EU performances in education, research and innovation and digital society; sustainable growth meaning to built a low-carbon economy, protecting the environment, developing new green technologies, harnessing EU-scale network, improving the business environment and helping consumers make well informed choices; inclusive growth referring to raise Europe employment rate, investing in skills and training, ensuring the benefits of growth reach all parts of the EU;

The targets included in smart growth are: 75% of the population aged 20-64 should be employed (this target could be achieved by getting more people into work, especially women, the young, older and low-skilled people and legal immigrants); combined public and private investment levels to reach 3% of the European Union’ GDP; the share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education.

One important target is included in inclusive growth, meaning at least 20 million fewer people to be in or at risk of poverty and social exclusion. On the Agenda to achieve this target it is stipulated to help people acquiring new skills, to adapt to a changing labour market, raising employment and labour productivity, reducing unemployment, investing more in
training and helping people to find a job and to have access to social benefits.

2 Europe’s 2020 Strategy in East European Labour Market

The crisis affected every country in the EU, but the effects are variable from country to country. The countries from the Eastern Europe, excepting Slovakia, are not included in the EURO zone. The recovery from the crisis is a long-term process. For this we will look at the forecasts made by the European Commission. In Bulgaria the real GDP growth is expected to increase, reaching an annual growth of 0.5% in 2012 and 1.9% in 2013. The unemployment rate is expected to increase in 2012 to 12.0%. In the Czech Republic the real GDP growth is expected to reach 1.5% in 2013. The unemployment rate is expected to rise to 7.2% in 2012. In Hungary the real GDP is expected to rise after contracting by 0.3% in 2012. The unemployment rate is foreseen to decrease to 10.6% in 2012 and to fall further in 2013. Economic growth in Slovakia is expected to decelerate to 1.8% in 2012 and the unemployment is foreseen to remain high at around 13% in 2012 and to decrease slightly in 2013. The Poland case should be carefully studied (having a solid economic growth) although the economic activity is expected to slow down as compared to 2011. The GDP growth is foreseen to increase by 2.7%. The unemployment rate should rise to 9.8%.

In Table 1 we can find the EU-27 overall targets from Europe 2020 strategy, as well as the targets for each Eastern European Country and the actual level of the indexes. Although the EU-27 target regarding the employment rate stipulates that 75% of people aged 20-64 should be employed, Bulgaria settled an ambitious target (76%), followed by Hungary and the Czech Republic (75%). In 2011 the employment rate was 64.3% in EU overall. The highest rate was in 2008 (65.9%). The highest absolute gap between the target and the employment rate in 2011 is in Hungary (18.5%), followed by Bulgaria (17.3%).

The investments in research and development should increase to 3% of the GDP in EU overall by 2020. In 2010 the highest rate was in Czech Republic (1.56%). Although the value of the target registered the highest level in Romania among the Eastern European countries, the index had a small value in 2011 (0.48%).

Being all Bologna countries they increased the investments in research and development, while, the expenditure on educational goods and services increased at a lower rate. In 2020 the share of early school leavers should be the lowest in Poland (only 4.5%), while in EU-27 overall should be less than 10%, the same as in Hungary. To meet the targets there are three main challenges:

- broadening access to higher education;
- reducing the drop-out rates and the time it takes to complete a degree;
- improving the quality of higher education and making it more relevant.

Another target from Europe 2020 strategy stipulates that the number of people at risk of poverty and social exclusion should be reduced by 20 million. From the considered countries there will be almost 3 million people less at risk of poverty, meaning 15% and half of them will be from Poland.
Table 1. The targets stipulated in Europe 2020 strategy and the real value of the indexes in 2010-2011

<table>
<thead>
<tr>
<th>Europe 2020 strategy</th>
<th>Romania</th>
<th>Czech Republic</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Hungary</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>The employment rate of population aged 20-64 to be 75%</td>
<td>70%</td>
<td>75%</td>
<td>72%</td>
<td>71%</td>
<td>75%</td>
<td>76%</td>
</tr>
<tr>
<td>2011 – 62.8%</td>
<td></td>
<td>2011 – 70.9%</td>
<td></td>
<td>2011- 65.1%</td>
<td>2011- 64.8%</td>
<td>2011- 60.7%</td>
</tr>
<tr>
<td>Investing 3% in R&amp;D</td>
<td>2% in R&amp;D</td>
<td>1% of public sector and overall</td>
<td>1% in R&amp;D</td>
<td>1.7% in R&amp;D</td>
<td>1.8% in R&amp;D</td>
<td>1.5% in R&amp;D</td>
</tr>
<tr>
<td>2011 – 0.48%</td>
<td></td>
<td>2010 – 1.56</td>
<td></td>
<td>2010 - 0.63%</td>
<td>2010 - 0.74%</td>
<td>2010 – 1.16%</td>
</tr>
<tr>
<td>The share of early school leavers less than 10%</td>
<td>11.3%</td>
<td>5.5%</td>
<td>6%</td>
<td>4.5%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>2011 – 16.7%</td>
<td></td>
<td>2010 – 4.9%</td>
<td></td>
<td>2010 – 4.7%</td>
<td>2010 – 5.4%</td>
<td>2010 - 10.5%</td>
</tr>
<tr>
<td>The share of population aged 30-34 having completed tertiary education or equivalent to be at least 40%</td>
<td>26.7%</td>
<td>32%</td>
<td>40%</td>
<td>45%</td>
<td>30.3%</td>
<td>36%</td>
</tr>
<tr>
<td>2011 – 20.5%</td>
<td></td>
<td>2010 – 20.4%</td>
<td></td>
<td>2010 – 22.1%</td>
<td>2010 – 35.3%</td>
<td>2010 - 25.7%</td>
</tr>
<tr>
<td>reducing by 20 million the number of people at risk of poverty and social exclusion</td>
<td>580 000</td>
<td>30 000</td>
<td>170 000</td>
<td>1 500 000</td>
<td>450 000</td>
<td>260 000</td>
</tr>
</tbody>
</table>

Source: [http://ec.europa.eu/europe2020](http://ec.europa.eu/europe2020)

3 Recommendation of the Commission for the East European Countries to reach the Europe 2020 Targets related to the Labour Market

One of the recommendations for **Bulgaria** refers to the pension system, meaning to restrict the access to early retirement and to make the statutory retirement age the same for men and women. Another recommendation was to tighten the criteria for invalidity pensions. To reduce the number of people at risk of poverty the Commission recommended improving the social transfers and social services. Regarding the education system Bulgaria should improve teacher training and ensure access to education for all categories of people.

The **Czech Republic** should increase the availability of affordable and quality pre-school childcare facilities, the quality and effectiveness of training, job search assistance and individualised services, including outsourced services, make a transparent and clearly defined system for quality evaluation of higher education and research institutions.

The Government of the **Czech Republic** should strengthen the measures to encourage women’s participation in the labour market, particularly by expanding childcare and pre-school facilities.

The recommendations of the Commission for **Hungary** were to increase the quality and effectiveness of training, job search assistance and individualised services, to prepare and implement a national strategy on early school-leaving by ensuring adequate financing, to ensure the implementation of the higher education reform.

The Commission's recommendations for **Poland** were to adopt a reform of the country's pension system, rising the statutory retirement age to 67, to reduce youth unemployment, to increase the availability of apprenticeships and work-based learning, to improve the quality of vocational training and to adopt the proposed lifelong learning strategy. Another important issue to solve for Poland is to combat labour market segmentation and in-work poverty. A good way to raise the employment rate is to
increase the labour market participation of women.

To reach the Europe 2020 targets, Slovakia should introduce a direct link between the statutory retirement age and life expectancy; ensure individualised employment services for the young, long-term unemployed, older workers and women; ensure the provision of childcare facilities, adopt and implement the Youth Action Plan.

Another recommendation that was made also for Hungary and Bulgaria refers to Roma Inclusion, insuring labour market integration.

4 Romanian Labour Market

In 2011, for the first time after a two years decline period, the real GDP in Romania have grown by 2.5% and the European Commission estimated that in 2012 it will increase only with 1.4%. Because there has been made limited progress in 2011 the Country Specific Recommendations for Romania were to step up efforts to accelerate the delivery of the Europe 2020 strategy as the basis for any new growth initiative.

The target for the Romanian population aged 20-64 is that 70% should be employed by 2020. In 2011 only 62.8% were employed, the value of this index decreased from 2008 (see Figure 1).

Regarding the absolute gap between the employment rate and the targets, Romania was well situated comparing with the other Eastern European countries. We may consider this as a signal, meaning there are hopes that Romania will reach this EU 2020 target.

Romanian Government could improve the value of this index raising the employment rate for women. For example, in 2010, the employment rate for men exceeded with 0.8% the Europe 2020 target, but the employment rate for women was only 55.9%. In Poland (34%), Hungary (34.4%) and Slovakia (40.5) the employment rate for the people aged 55-64 was less than in Romania (41.1%), while the EU-27 rate was 46.3%.

Romania is one with the lowest minimum wage levels among the European Union countries. In 2007 and 2008 Romania had the lowest level of the minimum wage, but in 2009 the minimum wage expressed in purchasing power parity increased. The evolution of the minimum wage is presented in Figure 2. Zavodny (2000) proved that if the minimum wage level increases then the share of the young people with the low-paid jobs that become unemployed also increases.

The settled target for R&D in 2020 strategy was that 2% of GDP to be invested in research and development. In present in Romania only 0.48% from GDP is allocated to R&D, 0.3% from public sources and 0.18% from private sources.

The average annual growth of the intensity target for 2000-2010 in EU-27 was 0.08% while to meet the target it should be 4.1%. In Romania these values were 2.5% and, respectively, 15.6%. This target represents a challenge for Romania, having in mind that the value added for R&D intensive sector as % of all sectors was 10.7 in 2008.

The early share leaving is an obstacle to economic growth and employment, having a major impact on competitiveness, poverty and...
social inclusion. By 2020 in Romania the share of early school leavers should be less than 11.3% while in 2011 it was 16.7% and the EU-27 average was 14.01% in 2010. During the crisis the share of early school leavers increased, this happens because usually this share is more frequent among young people from disadvantage backgrounds and ethnic minorities. The recommendation of the European Commission to prevent this refers to better support for teachers, trainers and other education staff, parental involvement and cooperation with local communities. Also, increasing the quality of Vocational Education and Training could help to decrease the share of early school leavers from education.

The percentage of the Romanian population aged 18-24 with at most lower secondary education and not in further education and training decreased from 22.9% (in 2000) at 18.4% in 2010, while in Slovakia the value for this index was 4.7% in 2010.

Low tertiary education levels have a major negative impact on productivity, innovation and competitiveness, limiting smart and sustainable growth. In Romania the share of population aged 30-34 having completed tertiary education or equivalent should be at least 26.7% by 2020. In 2011 the value of the index was 20.5%. Slovakia and Poland are above the EU-27 average, but they have not met the headline target. The key action to improve this index should include: removing financial barriers, improving guidance and counseling to help student to choose an appropriate course, programmes focusing on developing skills. Because Romania had one of the minimum percent of total public expenditure on education from GDP, to have a competitive labour force the Government should encourage the investment in trainings and lifelong learning programs. One of the Euro 2020 strategy target means that 15% of adults aged between 25 and 64 years old should participate in lifelong learning. In 2008 in EU the lifelong learning rate was 9.4% while in 2011 in was 8.9%. In Romania the lifelong learning rate is one of the smallest from the EU member states, meaning 1.5% in 2008 and 1.6% in 2011. In the future Romania needs to invest more in education, prerequisite for long-run sustainability of economic growth process.

A major source of private investment, which are very hard to quantify, but are relevant for the social dimension especially for higher education, is student fee and other contribution. Students can finance their study with the money received from their parents or earned from a job.

The quality of education and training is very important to generate smart growth, providing a productive and adaptable workforce. In 2009 Romania and Bulgaria ranked last if we consider the percentage of low achievers in reading (15 years old), the participation in adult lifelong learning (population aged 20-64). In terms of employability Romania, Hungary and Poland are below the European average of 76.5%.

Poverty and social exclusion is the challenge in achieving the Europe 2020 targets for inclusive growth. In Romania the percentage of population at risk of poverty and social exclusion is 41.4%, comparable with the one encountered in Bulgaria (41.6%), while the top performer is Czech Republic (14.4%). Some groups are on average at greater risk of poverty than the total population, meaning children, women, young people, people living in a single-parent households and large families. Access to employment represents a good way out of poverty and social exclusion. In work-poverty is directly connected with low skills which induce low wages.

5 Conclusions

To reach the targets from EU 2020 strategy in Romania the efficiency should increase, optimizing the school network and training education managers. The quality of education could increase if the management of human resources is improved. The Government should invest more in lifelong learning and trainings to adapt permanently the workers skills to a changing labour market.

The Romanian Government should implement policies to encourage women, young people and elderly workers participation in the labour market. Raising the employment rate for these
categories of workers will facilitate reaching the Europe 2020 targets.

Acknowledgment

This paper is supported by the Sectoral Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number POSDRU/89/1.5/S/56815.

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http://ec.europa.eu/europe2020/pdf/themes/12_research_development.pdf


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