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Influence of financial policy about the employment in Romania

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Abstract: This paper aims to examine the influence of the fiscal and budgetary policy to the labour market and how to determine the movement of filled employment positions from one period to another, the gross job creation, the gross job destruction, the job reallocation and the average job vacancies. The paper draws especially on the data reflected National Institute of Statistics, for the period 2002 - 2009. Therefore the paper comes to show that measures of fiscal and budgetary policy are deeply involved within the labour market. In that respect this paper comes with pertinent solutions.

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JEL Classification: E61, E62, E63, E64, E65, E66

In almost all studies, books or other materials regarding financial domains where are showed the data about how much the economy is growing or not the labour market, especially the employment and the movement of employment is minimized. And, in our opinion, the economically active population is the main factor when you want to start to improve your assessment and when you start analysis the existing situation and what it is happened in last 5 years in one economy or in other.

The study of employment or unemployment is based on evolution of employment from one year to

another also on structure of employment by activity of national activity. But the real movement is happened because the financial policy (fiscal and budgetary) is changed and the economical situation outside the border is changed too. The financial policy always comes with changes in the structure of the employment and also in the rate of unemployment (Gregory, 2000).

In this article we will try to show what it is happened since 2002 till present on the labour market in connection with financial policy. We will not attempt to provide theoretical explanations for the statistical data. Rather, we will concentrate on real life according to the fiscal and budgetary influences.

1. Unemployment evolution in Romania during 2002–2009

1.1. Unemployment evolution during 2002 - 2007

After the latest Population Census in Romania, in July 2002 the date the calculated inhabitants' number was 21537563. From this total, 9,994,000 is

economically active population out of which 9,353,000 are employments, out of which 4,885,000 are employees. In order to see what was the employment grows will use the follow formula:

$$(1.1) \quad C_{est} = \sum \Delta X_{est} \quad \text{or, it depends of the result}$$

$$(1.2) \quad D_{est} = \sum \Delta X_{est}$$

where:

C_{est} = gross job creation, if the result is positive;

D_{est} = gross job destruction, if the result is negative;

X_{est} = number of filled employment positions at activity e , sector s , period t

ΔX_{est} = movement of filled employment positions from one period to another.

Starting from the general formula mentioned above and depending on activities we will have: C_{agp} and X_{agp} for the first sector of economy (agriculture,

hunting and forestry, plus fishery and pisciculture); C_{ic} and X_{ic} for the second sector of economy (industry and construction) and C_{serv} and X_{serv} for the third sector of economy (services).

Having in a view the calculation from table no. 1.1 we can conclude that the gross job creation resulted for the end of the year 2007 is 313 thousands individuals. Also from the numbers and from the figure no.1.1 we can see that the employment population moved in the thirds sector of economy – services. This number doesn't mean anything if we do not take into consideration the rate of economy growth. Because the way of movement of the employment are very well connected to the increase or decrease the economy. So if we register a growth economy then the third sector will grow much faster than other two sectors and we will have a highest gross job creation in sector of services. We can see that this is also correlation to the budgetary and fiscal policies.

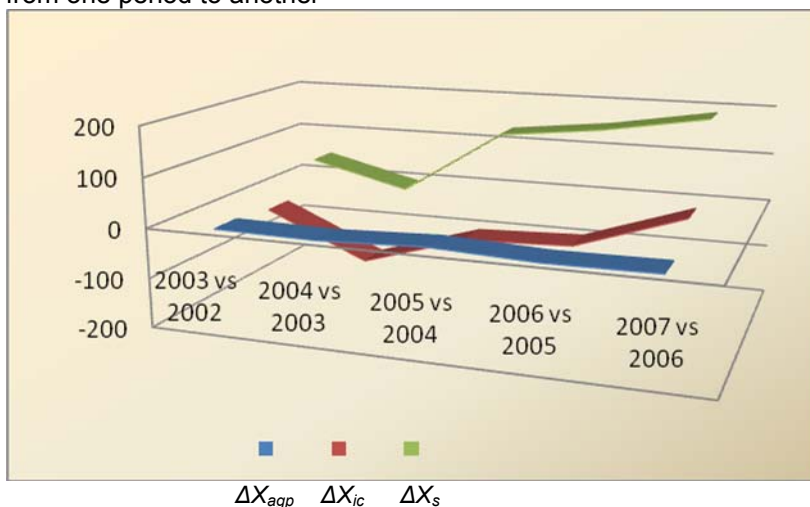
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Table no.1.1: Movement of filled employment positions from one period to another and the gross job creation (thousands of persons)

Year Indicators	2002	2003	2004	2005	2006	2007
X_{agp}	162	155	145	147	136	127
X_{ic}	2191	2173	2064	2020	1984	2021
X_s	2215	2263	2260	2392	2547	2737
	2003 vs. 2002	2004 vs. 2003	2005 vs. 2004	2006 vs. 2005	2007 vs. 2006	
ΔX_{agp}	- 7	- 10	- 2	- 11	- 9	
ΔX_{ic}	- 18	- 109	- 44	- 36	+ 37	
ΔX_s	+ 48	- 3	+ 132	+ 155	+ 190	
D_{agp}	$C_{agp} = \Delta X_{agp} 2003/2002 + \Delta X_{agp} 2004/2003 + \Delta X_{agp} 2005/2004 +$ $\Delta X_{agp} 2006/2005 + \Delta X_{agp} 2007/2006$ $= - 39$					
D_{ic}	$C_{ic} = \Delta X_{ic} 2003/2002 + \Delta X_{ic} 2004/2003 + \Delta X_{ic} 2005/2004 +$ $\Delta X_{ic} 2006/2005 + \Delta X_{ic} 2007/2006$ $= - 170$					
C_s	$C_s = \Delta X_s 2003/2002 + \Delta X_s 2004/2003 + \Delta X_s 2005/2004 +$ $\Delta X_s 2006/2005 + \Delta X_s 2007/2006$ $= + 522$					

Source based on data from Romanian Statistical Yearbook - 2008

Figure no.1.1: Movement of filled employment positions in Romania, from one period to another



In Romania in present time (we do not have the actual data but... we can feel the reality), according to the economic crisis when the capital market is locked so the loan market is locked too and the enterprises and legal persons activity is lower and lower and when many companies are starting to close their activity we can say that we deal more with gross job destruction. So for years 2009-2011 we will assist to the gross job destruction in all three economy sectors. Can job reallocation be a solution in order to improve the rate of unemployment? And the social costs?

1.2. Average job vacancies between 2007 - 2009

Compared years 2009 with 2007, the average annual rates of job vacancies were registered lower values in almost all economic activities. The average annual rate of job vacancies represents the ratio between the average annual number of job vacancies and the average annual total number of jobs (occupied and vacant). According to the formula²:

$$\overline{RLVa} = \frac{\overline{\text{job vacancies}}}{\overline{\text{job occupied}} + \overline{\text{job vacancies}}} \times 100 = \frac{\overline{LVa}}{\overline{LOa} + \overline{LVa}} \times 100$$

where:

\overline{RLVa} = the average annual rate of job vacancies;

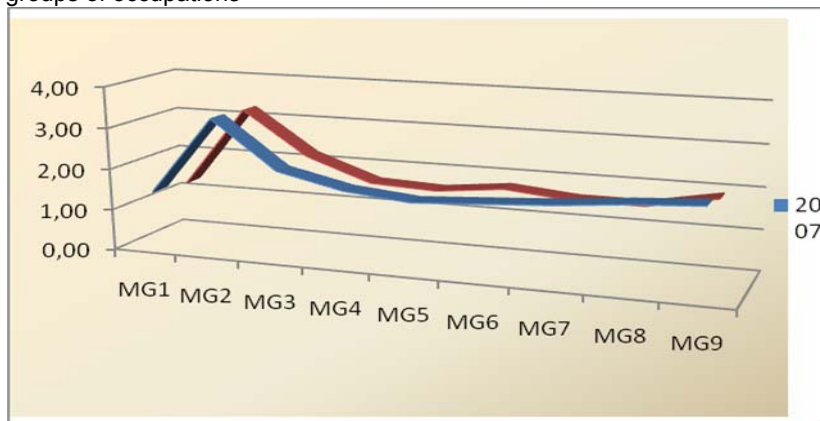
\overline{LVa} = the average annual number of job vacancies;

\overline{LOa} = the average annual number of job occupied.

² National Institute of Statistics.

Starting from the date related to the number of job occupied and job vacancies published within Romanian Statistical Yearbook – 2008, we can conclude that the economic crisis was its presence felt since 2008, when the number of vacancies jobs had started to decrease slightly. The figure no.1.2 showed very clear that the rate of job vacancies had a downward trend since 2008.

Figure no.1.2: Average rate of job vacancies during 2007 – 2008, on main groups of occupations



Note: MG meaning the shortcut for main groups of occupations. MG1 = members of the legislative body of the executive, senior government leaders, senior officials and leaders of social-economic units and political; MG2 = specialists with intellectual and scientific occupations; MG3 = technicians, craftsmen and assimilated; MG4 = administrative officials; MG5 = operational workers in services, trade and assimilated; MG6 = farmers and skilled workers in agriculture, forestry and fishing; MG7 = craftsmen and skilled workers in trades type item, adjustment and maintenance of machines and installations; MG8 = plant operators of machinery and assemblers of machinery, equipment and other products; MG9 = unskilled workers.

If at the end of 2008 the average of unemployment rate was at 4.1%, and at the end of 2009 the average rate of unemployment was registered at 5.6% as well as in 2010 and at the end of 2011 the analysts consider that it will reach 7%, and that because increasingly more private companies close their business as a result of the global economic crisis that inevitably affected Romania. In order to avoid quick growth of unemployment rate one of the good solution (in our opinion) may be *job reallocation*.

2. Job reallocation – a possible solution

Usually the job reallocation number R_{est} is calculated by the sum of numbers of job created C_{est} and job destroyed D_{est} .

$$(1.3) \quad R_{est} = C_{est} + D_{est}$$

In our case, in Romania at the end of the year 2007 the job reallocation number is 313 thousands individuals (see table no.1.1). So, those 313 workers had switched jobs into services sector till the end of year 2007. Maybe (no data) in 2008 were more jobs reallocation but, in present time, when we fill the economic crisis we have to reallocate those workers back, to training them for other positions or encourage them to become self-employments.

In this period when the economy is in crises, the labour market is marked by a strong earthquake also the whole individuals which are into restructuring process. In our opinion an active policy about employment must to be focused on training and continues self development, because the restructuring process will increase the unemployment rate, both from the public and the private sector.

3. Influence of the financial policy about the labour market

3.1. Influence of the budgetary policy about the labour market

Many people think that only the measures of fiscal policy have impact on the labour market, but the through is that the fiscal measures are just a part of measures of budgetary policy. How come? When we come to talk about budget we always analyses the amount of revenues and expenditures, and the way to fulfil it or the right way to make the expenditures in order to obtain the maximum efficiencies.

Let's see how the changes in the budgetary law have influence on the labour market. When the economy rising, usually increases the costs of personnel, by increasing the number of staff, wages etc. But, in the situation like crisis in 2009 when the general consolidated budget deficit increased, the first issue is to reduce the public expenditures, also the personnel cost and to increase the revenues provided both from individuals and legal persons (Moşteanu, 2011a).

When the public administration have to reduce the personnel cost they can either reduce wages or reorganize institutions and to reduce the number of employees. If they reduce wages we can expect to have social protests (it happened before). If it proceeded to reorganization of public institutions we can expect to have increased of the unemployment rate, because this case entails the reduction of staff. So, the measure of budgetary policy in order to reduce the staff's costs come with an increased unemployment rate. Now we can easily observe that the measures of budgetary policy have a direct influence on the labour market.

When it wants to increased the public revenues usually it takes the fiscal measures.

4. Conclusions

When we spoke about the influence of the measures of fiscal policy about labour market we referred at changes in the fiscal system (Popescu and Prodan, 2010). These changes are usually made in

order to increase the public revenues (collected from individuals and legal persons) but they have effect over the labour market. So, from public revenues point of view these measures are good, but from the taxpayers' point of view is not so simple and definitely not in the same way (increase revenue), because it usually changes the tax quota and the tax base.

Changes in the settlement of tax on profit (in order to include more expenses as non deductible and the rate of profit tax go higher) would influence the price of goods which will made more difficult the lifestyle because the wages will stay the same (almost the same). And will also have influence into the behaviour of legal persons in the sense that they will be more restrictive personnel expenditure, in order to cut the costs as more it is possible. And, in the worst way this change may lead to closure of many legal persons which means also an increase of unemployment. (Moşteanu, 2011b)

Changes in the settlement of tax of income, in order to increase the rate of tax under a limit of wage will have both affect on the individuals' income and also in the legal persons side, because will increase the costs

with personnel. This change can also lead to a movement of better trained personnel to other sectors of the economy, or from public sector to private one or they not may lead to increasing the number of migrants.

Changes in the settlement of contributions, in order to increase the rate of mandatory contributions will have also both effects on individuals' income and on costs with social contributions in the legal person's side. These can conducted to the development of *black* labour market, because the legal persons will prefer to declare less wages in order to pay less to the social contributions budgets.

And finally, changes in the settlement of VAT or of excises can also conduce to the higher price of goods, reduced consumption of the population, reduction of production, and in time increasingly more private companies will close their business. When they closed their business we have to deal with increasing the number of unemployed.

To avoid these, in our opinion, may be it would be better if we will relax the fiscal system in the same time with baking system – meaning reduction of interest on corporate loans in order to ensure business continuity –

and continuing training and self development of personnel.

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