THE ECONOMIC GROWTH – EMPLOYMENT – POVERTY REDUCTION NEXUS IN THE ROMANIAN ECONOMY

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Abstract:
A series of studies: Weeks et al., 2006; OECD, 2009; Herman, 2014; World Bank, 2014 etc. underline the fundamental idea that creating jobs, increasing employment from both a quantitative, and qualitative-structural point of view, constitutes the most sustainable way to reduce poverty, in general, and in-work poverty, in particular. The results of this research show that, in Romania, in the period 2000-2014, the economic growth has not sufficiently generated productive employment, so that at-risk-of-poverty can be significantly reduced. In order to improve the impact of economic growth on employment and poverty reduction, we consider that, in Romania, it is necessary: on one hand, to improve the structure of employment, so that to assure the employment elasticity increase, and, on the other hand, to reconsider the economic growth model, respectively an economic growth based on investments which favour the economic sectors with a high potential of jobs creation and high productivity, an efficient and inclusive structure of employment by sectors being necessary.

Keywords: economic growth, economic development, employment, poverty, in-work poverty
1. INTRODUCTION

A major challenge for national economies is their small capacity to generate employment under the conditions of the existence of an economic growth process. The economic growth is a previous condition necessary for economic development and poverty reduction, but the socio-economic impact of economic growth is different in terms of the effect that this growth has on employment (Herman, 2012).

Employment is the key that unlocks the door of economic and social development (Jinchang, 1998), being considered as an important mediator between economic growth and poverty reduction. A series of studies: Weeks et al., 2006; Perry et al., 2006; Gutierrez et al., 2008; OECD, 2009; Herman, 2014; World Bank, 2014; UN, 2013 underline the fundamental idea that creating jobs, increasing employment from both a quantitative, and qualitative-structural point of view, constitutes the most sustainable way to reduce poverty, in general, and in-work poverty (or working poverty), in particular. According to the UN (2013), high rates of economic growth, associated with high rates of employment growth, represent a necessary condition for the alleviation in poverty, but may not be sufficient, requiring that the benefits of economic growth are more equitably distributed.

Productive employment as “employment yielding sufficient returns to labour to permit the worker and her/his dependents a level of consumption above the poverty line” (ILO, 2012b) represents a critical nexus between growth and poverty reduction, points out the UN (2013).

In order to reduce economic poverty, labour productivity and real earnings must increase sufficiently to boost the incomes of poor people. The link between economic growth, employment and poverty reduction is thus a process in which output growth induces an increase in productive and remunerative employment, which, in turn, leads to an increase in the incomes of poor people and a reduction in poverty (Herman & Georgescu, 2012; Islam, 2004).

As highlighted by the World Bank (2014), inclusive growth demands more and more productive jobs and equal opportunities for the poor to access them, “because labour earnings account for most of the income of poor households”. It also argues that: “Improving opportunities for poor and disadvantaged groups makes building their human capital a critical component of inclusiveness”.

The importance of employment in reducing poverty is highlighted globally, by setting the following target “Achieve full and productive employment and decent work for all, including women and young people” (World Bank, 2008), in order to reach the „Eradicate extreme poverty and hunger” world objective, one of the eight Millennium Development Goals, adopted by the UN. Full, productive and decent employment and decent work represent the central objective of national and international policies (ILO, 2012a). The need to increase employment as a solution against poverty and social exclusion was highlighted at the EU level, as well, by the EU's strategic agenda, the Lisbon Strategy, and continues to be the core of “the Europe 2020” Strategy (EC, 2010).

Despite all these strategic directions, many of the European countries, and not only, have a persistent jobs deficit, faced with the problem of unemployment, and more than that, employment does not grow enough while the economy is growing (jobless growth). In the same time, “employment growth does not always affect the distribution of work across households in such a way as to reduce poverty” (Marx et al., 2012).

The EU Report (EU, 2012) draws attention to the fact that, in the pre-crisis period, under the conditions of both economic growth and employment growth rates, at the EU level, the quality of many jobs created was affected, not least in terms of pay and job security, and, therefore, tightening the connections between the creation of jobs and the poverty reduction policies represents a necessity. According to the UN (2013), due to the debt crisis in the euro zone area and the Great Recession, it has become more difficult to achieve rapid economic growth and generate high rates of employment. Also, ILO experts (ILO, 2014) highlight that recent crisis has had a negative impact on the quality and quantity of employment in most countries, increasing the incidence of in-work poverty, job and wage polarization and income inequality.

Empirical research (Fraser et al., 2011; Herman, 2014) point out that working poverty represents a major socio-economic challenge of EU member states, and not only. According to EAPN (2013), working poverty is regarded as: “a critical barrier impeding progress in addressing poverty through sustainable employment”.

Through the “Europe 2020” Strategy, the European Union aims to become a sustainable, intelligent and favourable to inclusion economy, „delivering high levels of employment, productivity and social cohesion” (EC, 2010).

Achieving an inclusive growth implies the following:
• raising Europe’s employment rate to at least 75% of the population aged 20-64, including through the greater involvement of women, young people, older workers and the better integration of migrants in the work force;
• reducing the number of Europeans living below the national poverty lines, lifting over 20 million people out of poverty;
• better educational attainment (reducing school drop-out rates below 10% and at least 40% of 30-34 year-olds completing third level education);
• ensuring that the benefits of growth reach all parts of the European Union (EC, 2010).

By the National Reform Program (G. R., 2011), in its quality of a member state of the EU, Romania, has set the following national targets with regard to poverty reduction and employment, within the “Europe 2020” Strategy (Herman, Georgescu, 2012);
• reaching an employment rate of population aged 20-64 by 2020 of 70%;
• reducing school drop-out rates to 11.3%;
• increasing the rate of population aged 30-34 years that graduates a form of tertiary education to 26.7% and
• reducing the population at risk of poverty or social exclusion by 580,000 persons.

These targets have been set based on a scenario which comprised (Herman, Georgescu, 2012):
• the forecasted demographic evolution for the next decade,
• the economic growth potential and
• the annual growth rhythm of employment rate historical evolution.

2. ECONOMIC GROWTH AND EMPLOYMENT IN THE ROMANIAN ECONOMY

Examining the relationship between economic growth and employment, Picture 1 points out that the Romanian economy, until 2008, achieved economic growth, fact reflected by the positive evolution of the real GDP: the average growth rate of the real GDP of 5.8% was above the EU-27 average value of 2.3%.

In 2009, in the context of the global economic crisis, as well as due to a complex of internal factors, in Romania, real GDP fell by 6.6%, decrease that continued in 2010 as well, with a lower intensity, of 1.1%. In the period 2011-2014, Romania managed to overcome the economic crisis, registering an average annual growth of the GDP of 2.3%.

Amid economic growth, Romania has made an important progress in economic development: the real GDP / capita grew from 2,700 euro / capita in 2000 to 4,800 euro / capita in 2013. Despite all these advances, in 2013, Romania ranked second lowest in EU-28, its GDP / capita (expressed in PPS) accounting for only 55% of the EU-28 average of 100% (Eurostat, 2015).

Picture 1: Economic growth and employment growth, in Romania, 2000-2014 (%)

Despite the economic growth, in the analysed period, the number of jobs at the level of the national economy fell by 2.2 mil., from 10.995 mil., in 2000, to 8.795 mil. in 2014 (Eurostat, 2015).

Even if the number of jobs recorded an annual average of 1.5% decrease (146.6 thousand jobs / year), it does not mean that that no jobs were created in Romania, in that period. For instance, jobs were created in the services sector, but they were reduced in the other sectors.
We can conclude, based on the data supplied by Picture 1, that, in the period 2011-2014, in Romania, economic growth (with an annual average of 3.6%) was not accompanied by employment growth, fact which entails the existence of a negative employment elasticity of economic growth (Herman, 2012). The same negative elasticity has been identified for the period 2007-2014, too, period in which Romania has been an EU stat member state: employment has registered an annual average decrease of 1%, while the GDP an annual average increase of 1.9%.

The changes in the quantitative dimension of the labour force can also be highlighted by the employment rate of the working age population, aged 20-64. In Romania, in 2014, this indicator was of 65.7%, lower by 3.6 percentage points (p.p.) than the one recorded at EU level (of 69.3%) and by 4.3 p.p. than the national target set for 2020, as highlighted by Picture 2.

Even if the last eight years: 2007-2014 reveal a slight increase trend, by 1.3 p.p., from 64.4% to 65.7%, we consider that the employment growth rate rhythm is insufficient.

It takes both quantitative growth and quantitative growth of employment to increase the level of human development and, respectively, to reduce poverty.

Picture 2: Employment rate (20 to 64 years), 2007-2014, Romania and the EU-27

Our results do not confirm the economic theory (Kapsos, 2005; Schmid, 2008), according to which there is a positive relationship between employment and economic growth, but of different intensity from one period to another and from one country to another, which reflects the different response of the labour market to the economic growth.

Employment intensity of economic growth can be influenced by (Herman, 2012):

- the relative cost of labour - especially for the unskilled work - and capital;
- working time including part-time work;
- the employment structure by sectors;
- the institutions specific to the labour market technological progress, etc.

Regarding the employment structure by activity sectors, Romania records a particular situation among the member countries of the EU, with strong social and economic consequences, registering the extremely high share of the employed population in agriculture, as Picture 3 reveals.

In the period 2007-2014, an employment reduction trend in agriculture: from 30.6% to 29.2%, and in industry: from 31.5% to 28.3%, as well as an increase in the services sector: from 37.9% to 42.4% can be noticed.

All these changes in the employment structure by sectors determined Romania, in 2014, to hold the first place in the EU in terms of the share of employment in the primary sector and last place in terms of employment in services.

We notice that Romania is far from the average European Union’s values, as it results from Picture 3 and even of some countries in Central and Eastern Europe (the Eurostat database).

Growth in one sector of the economy will not automatically translate into benefits for the poor, more productive sectors needing to develop themselves. A real problem for the Romanian agriculture is represented by the large and persistent gap between agriculture’s shares in the Gross Added Value and employment: 6% against 29.2%, fact which suggests that labour productivity in agriculture is lower than in non-agriculture and poverty is concentrated in the agricultural sector and rural areas (World Bank, 2007).

These results highlight the necessity of a productivity-intensive growth in agriculture, in order to reduce poverty. As regards the labour productivity, according to Eurostat (2015), in 2013, Romania holds the next to the last place in the EU-27, in terms of labour productivity per person employed, accounting for 51.7% of the EU-27=100%.
The modifications in the economic growth pattern and in the employment structure by sectors have also influenced the employment structure by professional status (employee, employer, own-account worker and contributing family worker). The dimensions of these categories can characterize the dynamics of the labour market, as well as the dynamics of the socio-economic development at a regional and national level (Herman & Dălălău, 2011).

**Picture 3: Employment structure by activity sectors, 2007-2014, Romania and EU-27**

It is important to mention that Romania is the first country in EU being in terms of share of contributing family workers (unpaid workers). Compared to the average value recorded at the EU-27 level, of 1.2%, the contributing family worker in 2014 Romania has a share of 10.8%, 9 times higher than the average value recorded at the EU-27 level.

A low share of employees of total employed population and high share of own-account worker and contributing family worker of total employed population, as it results from Picture 4, reflect high insecurity of incomes earned by workers, with consequences upon working poverty and, implicitly, on the overall poverty.

**Picture 4: Employment by professional status**

As we can see from Picture 5, at-risk-of-poverty rate, measured as the share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers), has registered a decrease trend, from 24.8%, in 2007, to 22.4%, in 2013. Nevertheless, in 2013, Romania ranked the second highest in the EU, after Greece, with 5.8 p.p. over the average EU-27 level.

### 3. POVERTY – CONSEQUENCE OF THE LOW PRODUCTIVE EMPLOYMENT?

As we can see from Picture 5, at-risk-of-poverty rate, measured as the share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers), has registered a decrease trend, from 24.8%, in 2007, to 22.4%, in 2013. Nevertheless, in 2013, Romania ranked the second highest in the EU, after Greece, with 5.8 p.p. over the average EU-27 level.
The data presented in Picture 6 confirm the fact that having a job remains the most efficient protection against poverty and social exclusion, because the risk of poverty, both in the EU, and in Romania, is lower among people who have a job than those who do not have a job, are unemployed or inactive.

Working poverty is analyzed based on the in-work at-risk-of-poverty rate indicator, which reflects: “the share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers)” (Eurostat, 2015).

Therefore, this indicator includes individual aspects related to the employed persons, as well as aspects linked to the household in which the worker lives.

In Romania, in the period 2007-2013, in-work poverty risk has fluctuated, but with a slight increase, from 17.3% to 17.7%, significant gaps compared to the EU-27 average being observed, as revealed in Picture 7.

The highest in-work at-risk-of-poverty rate from EU-27 is recorded in Romania, 2 times higher than the European average, followed by Greece: 13%, Poland: 10.8%, Spain: 10.6%, and Portugal: 10.4%.

The existence of a relatively small difference between total poverty rate and in-work poverty rate, as presented in Picture 5 and Picture 7, can be explained by the fact that the working poor have more weight in the total poverty. For this reason, in Romania, working poverty contributes significantly to the high total poverty rate.
Different empirical studies (Fraser et al. 2011; Hellier & Chusseau 2013; EU, 2012; Herman, 2014) show that the level and dynamics of working poverty depend on various factors, of which the most important are:

- job characteristics: professional status, full-time or part-time work, type of employment contract etc
- personal characteristics: gender, age and education
- the household context, low earnings, different dysfunctions of the labour market and
- not the least, the welfare states regimes.

According to the data provided by Picture 8, in Romania, high in-work poverty risk is associated with:

- high share of self-employment
- high share of temporary job
- high share of part-time and
- low educational level.

**Picture 8:** In-work at-risk-of-poverty rate by professional status, full-/part-time work, type of contract and education level, Romania and EU-27, 2013

Thus, in Romania, in 2013, in-work poverty risk is:

- more than 11 times higher for self-employed than for employees;
- 4.4 times higher for part-time workers in comparison to the full-time worker;
- 2.5 times higher for temporary workers than for permanent workers;
- 56 times higher for low educated workers (pre-primary, primary and lower secondary education: levels 0-2, than for those with high education: first and second stage of tertiary education: levels 5 – 6.

The fact that in-work poverty is much higher in the case of flexible work: part-time and temporary work reflects earnings and job insecurity. In Romania, there is a low level of part-time and temporary work, but most of the flexible work is involuntary.

Our results show that the existence of a high share of employment in agriculture and high share of vulnerable employment: own-account workers and unpaid family workers, who are usually engaged in subsistence agriculture, coincides with the greater incidence of working poverty for those working in agriculture, fact which is confirmed by other studies, too: Lewandowski and Kaminska (2014), Bodea and Herman (2014).

Taking into consideration that low educated workers are exposed to higher in-work poverty risk, we consider that, in order to reduce this risk, it is necessary to increase the level of education.

**4. Conclusions and policy implications**

“People are the real wealth of a nation” (UNDP, 2010), the drivers of human development but its beneficiaries, too.

The results of this research show that, in Romania, in the period 2000-2014, economic growth has not sufficiently generated productive employment, so that at-risk-of-poverty can be significantly reduced.

In order to improve the impact of economic growth on employment and poverty reduction, we consider that, in Romania, it is necessary:

- on one hand, to improve the structure of employment, so that to assure the employment elasticity increase, and,
on the other hand, to reconsider the economic growth model, respectively an economic growth based on investments which favour the economic sectors with a high potential of jobs creation and high productivity, an efficient and inclusive structure of employment by sectors being necessary.

The relatively low effect of economic growth on economic poverty can be explained, on one hand, by a reduced share of the labour remuneration in the GDP (almost a third), compared to the over 50% share of the GDP for the remuneration of capital, and, on the second hand, by the inequality of income distribution.

In order that the Romanian workers benefit from the economic growth and economic development, it is necessary that the share in GDP of the remuneration of workers increases, given that this indicator is well below the EU-27 average. Herman (2014) underlines the crucial role for the diminishing of the inequalities of income and working poverty prevention, which should be played by the minimum wage policies.

Taking into account that working poverty, and, implicitly, overall poverty can be reduced through high level of income, it is essential for Romania to improve labour productivity, but, more than that, poor workers should significantly benefit from the gains in labour productivity.

REFERENCE LIST


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