12. Romania: A country under permanent public sector reform

Valentina Vasile

1. INTRODUCTION

During the political and economic transition in Romania, the public sector underwent continuous reform, ranging from measures required to adjust the government sector to the market economy, to those to meet the demands of EU accession, and finally to measures to overcome the crisis. Public sector employment increased significantly, with jobs paid from the state budget increasing from about 800,000 at the beginning of the transition to almost 1.4 million before the crisis, then decreasing again to below 1.2 million. The public sector concentrates about 21 per cent of the labour force and its total wage fund represents about 25 per cent of budgetary expenditure (Voinea et al. 2010).¹

The institutional structure has followed the same path of repeated change, with increases in the number of ministries, agencies and so on and then their restructuring and merging during the crisis.

During the crisis, a mix of quantitative adjustments and structural reforms has been implemented in the public sector, some aimed at improving efficiency and others part of the restrictive IMF package. The result is that Romania has been characterized by continuous reforms in the public sector, not all with positive outcomes.²

The chapter proceeds as follows. Section 2 discusses public sector adjustments. Section 3 analyses the effects of the anti-crisis measures. Section 4 presents two case studies, the first on comprehensive education reform and the second on wage reform. Section 5 addresses policy issues, and Section 6 presents the conclusions.
2. PUBLIC SECTOR ADJUSTMENTS

2.1 Main Features of the Current Public Sector Adjustment

The main changes in the public sector in recent years have been concentrated on two aspects: institutional reform and policies for better use of the workforce. The main purpose was to create a well-performing state sector which would be able to meet economic and social exigencies with adequate services.

2.1.1 Short history of public sector reform

The main drivers of the public sector reform are the following: (i) transition to a market economy and the need to adjust the state; (ii) institutional reform for adjustment to EU structures; (iii) crisis response to quantitative adjustments – reducing expenditure; (iv) making state structures efficient and improving public management – emphasis on qualitative reforms aimed at making public services more modern and efficient; (v) redefining the state economic sector: its size and types of activities, including privatization/outsourcing of public utilities; and (vi) redesigning the social responsibility of the state in response to demographic ageing (pension and health-care reforms and labour force mobility – employment policy on young people and those returning from abroad).

The economic and social context represented a permanent factor both stimulating and hindering reforms in the public sector. The dynamics of the economy supported diversification of the state’s activities and the employment increase in the public sector, but the lack of sustainable economic growth increased budgetary deficits, and the financial crisis, even if it did not affect Romania immediately, substantially depressed domestic demand for goods and services. As a result, economic recovery started in Romania later than in other EU member states, that is, in the last part of 2010, and continued in 2011, at a slowed down rate in the fourth quarter of 2011 and the first quarter of 2012 (Figure 12.1).

State budget expenditure for 2008–12 is shown in Figure 12.2.

Other factors causing inconsistency and/or delays in the public sector reform were: (i) low wages (minimum wage of €137, the lowest level in the EU27, and average gross income of €450 per month); (ii) demographic ageing (a high economic dependency index of old people – around 22 per cent) and labour force mobility (more than 2.5 million workers abroad); (iii) a large share of informal employment (around one-third) and a dual payment system; (iv) high and slowly decreasing level of poverty (around 40 per cent of the population face the risk of poverty or social exclusion according to Eurostat); (v) wage polarization, high differentials by
Figure 12.1 Development of GDP, Romania, 2007–2011

Public sector shock

2.1.2 Institutional restructuring until 2009

Reform of state institutions followed naturally on the redefinition and reorganization of the role and involvement of the state in the economy and efforts to make it more efficient. Central and local administrative structures were permanently reorganized and modernized and state institutions as economic agents (autonomous administrations and national companies) were diminished by reorganization and privatization. Up to 2008 changes in the structure of state institutions depended on the requirements
of modernizing the state and were made gradually, as the demand for specific services was defined. During the crisis, a general reorganization of public authorities and institutions has been pursued (Law 329/2009). In a first phase in 2009–10, reform and reorganization of the public sector were aimed at public sector management, the payment of employees’ wages, and education and health reform. In 2011, the reforms continued, with the emphasis on pension reform, the second round of wage reform, continuation of the public sector cuts and reorganization of social benefits.

The end of 2009 represented the most important stage of the quantitative reform. Reorganization took one of the following forms: (i) doing away with the public authority or institution, as a result of absorption by another public authority or institution; (ii) absorption by a newly established department in other public authorities or institutions; (iii) merger and constitution of a new legal entity; (iv) division and takeover by two or several existing entities; (v) lowering employment grades in public authorities or institutions; and (vi) changing the financial system of some public authorities or institutions by transferring incomes to and financing expenditure from the state budget. The number of agencies and other state institutions was reduced by half, but the number of employees cut was much lower (in a first stage, along with the institutional reorganization 10,000 jobs were cut).

2.1.3 Adjustments during the extended crisis period
The year 2010 represented the second stage of economic contraction, when GDP decreased by 1.6 per cent, after a fall of 6.6 per cent in 2009. The economic turnaround was modest, starting in the fourth quarter of 2010, with oscillations during 2011, and was achieved particularly by exports, because domestic demand decreased significantly due to the strict austerity measures implemented in 2010. Remittances decreased from €6.6 billion in 2008 to €4.4 billion in 2009 and only €3.8 billion in 2010. Gross fixed capital formation diminished by 13.1 per cent in 2010 as against 2009. The public debt increased significantly during the crisis, rising to 34.3 per cent of GDP in 2011 (ESA95) from 23.8 per cent in 2009 due to continued economic contraction and budget deficit decreasing from 9 per cent of GDP in 2009 to 6.9 per cent in 2010 and 4.9 per cent in 2011 (ESA95). Government debt represents over 90 per cent of the total.

Average employment was 4,238,000 in 2010, decreasing further in 2011 to below 4.2 million due to continuing economic decline and staff cuts in the public sector. In 2010, the gross wage in the total economy was 1,937 lei, an increase of 2.5 per cent against 2009, but decreased in 2011, in both nominal and real terms.

The 2012 budget was based on economic growth between 1.8 and 2.3
per cent and did not include wage and pension increases. Thus, staff expenditure is slowly increasing in 2012, to 6.7 per cent of GDP, from 6.6 per cent in 2011, 8.2 per cent in 2010 and 9.2 per cent in 2009 (GR 2012). The general consolidated budget has a nominal deficit of 11.2 billion lei, representing 1.9 per cent of GDP by the cash methodology and less than 3 per cent according to European standards. Budgetary expenditure is estimated to be 35.6 per cent of GDP, as against 38.7 per cent in 2011, and the investments represent 6.8 per cent of GDP, subsidies decreasing below 1 per cent of GDP. The government will cease to pay the thirteenth-month wage and meal, gift and holiday vouchers to the employees of public institutions by 2014. It will also halt bonuses to budgetary personnel and other incentives. Overtime is not paid but compensated by free time. Estimated savings are 9.1 billion lei in 2012 and 9.6 billion lei in 2013.

2.2 Employment in the Public Sector

In Romania, there are two categories of budgetary personnel: (i) public sector employees – health care and social assistance, education, public administration and defence – whose wages are paid from the state budget; and (ii) employees of autonomous administrations, national and other state-owned companies, subsidized directly or indirectly from the budget. Data are provided by the National Institute for Statistics based on the Labour Force Survey (LFS) and CANE Rev. 2 activity classification and from periodical reporting to the Ministry of Finance, in which case data are organized by legal entities in the public sector. The main data in this chapter are based on the LFS and data publicly available from the Ministry of Finance.

2.2.1 Employment development based on LFS data

As for employment, an oscillating evolution is seen from about 1.25 million people in the mid-1990s to over 1.3 million in 2002, with considerable yearly variations, decreasing up to 2007 and then significantly increasing even during the crisis period, according to LFS data and CANE Rev. 2 from 1.26 million, in the third quarter of 2008 to 1.32 million in the third quarter of 2011.

Around 11.5–14.5 per cent of total employment is in the public sector (Figure 12.3). During the crisis period, due to a more marked decrease in employment in the private sector, the share of the public sector in total employment increased to 13.8–14.6 per cent.

In the national economy, women’s employment (Figures 12.4–6) represents 47.1 per cent, but in the public sector it is higher: in administration around 55 per cent, in education 70 per cent and in health care 80 per cent.
In public administration, women are better represented with differences at central/local level, depending on specific activities (police, armed forces and defence, in general, as well as the judiciary, prison guards and diplomatic services have a high proportion of men).

In central government, there are fewer women than men, but there is a high density of women employees in education, health care and social services.

Detailed analyses by gender differences highlight the following: (i) the presence of women in the labour market decreased slightly in 2009 as against 2004 (from 46.4 to 45.1 per cent) due to the extension of the initial education period and the more favourable conditions for giving birth (higher benefits for mothers and economic growth); (ii) single mothers earn less because they allot more time to the family, preferring private part-time jobs. This feminization of the public sector depends on activities in the public sector, so that in total the share of women’s employment decreased faster than at national level, from 54 per cent in 2000 to 40 per

Source: LFS.

Figure 12.3 Employment in the public sector, Romania, 1996–2011 (total and as a percentage of national employment)
**Public sector shock**

![Graph: Women in employment, Romania, 1996–2011 (% of public sector in the total economy)](image1)

**Source:** LFS.

**Figure 12.4** Women in employment, Romania, 1996–2011 (% of public sector in the total economy)

![Graph: Women’s share of employment and employees – national economy vs. public sector, Romania, 1996–2011](image2)

**Note:** NE = national economy level; PS = public sector.

**Source:** LFS.

**Figure 12.5** Women’s share of employment and employees – national economy vs. public sector, Romania, 1996–2011
cent in 2011 (third quarter). Feminization increased by about 1 percentage point, whereas at the level of the public sector the increase is about 8 percentage points. By activities in the public sector, women account for about 40 per cent in public administration and in cultural and recreation activities, and over 70 per cent in education and health care.

With regard to public sector activities (Figure 12.7), public administration employment represents about 5 per cent, education and health care about 4 per cent and cultural–recreation activities about 0.6 per cent. With regard to total employment volume by activities, we noticed a contraction of the public administration sector and an increase in the health and social assistance sector.

Employees in the public sector, even though significantly reduced in number as a result of restructuring, remain the preponderant labour force category, with significant differentiation by activity. They represent almost all active people in public administration and defence, and about 99.5 per cent in education, 97 per cent in health and 96 per cent in culture and recreation. The largest decreases in number of employees were recorded in 2010 and in the first nine months of 2011. The trend will
continue in 2012, albeit smaller. At the national level (Figure 12.8), the crisis effect on decreasing the number of employees was more significant in the first period (2009): in 2011 it registered a slight increase. In December 2011 as against September 2008, when it was acknowledged officially for the first time that Romania was in crisis, employment was reduced by 552,600 at national level and by 97,400 in the public sector. The most significant decreases were recorded in health (36,500) and education (34,600). As against September 2008, the public sector employment cut was 9.3 per cent, lower than at national level (13.7 per cent).

The variation in the number of employees (Table 12.1) during the crisis was more intense in public administration and health. Thus, there was a decrease of 14.6 per cent in culture and recreation, 9.8 per cent in health, 8.6 per cent in education and 8.4 per cent in public administration. The wage employment decrease was twice as high in 2010 as against 2009 (almost 70,000 in 2010 against 36,600 in 2009) and in 2011 the layoffs continued, so that by the end of December there were almost 152,000 fewer employees.

It should be noted that the share by activities changed slightly in favour of education and diminished in health and public administration. We cannot say that these reductions have generated more efficient reallocation of human resources in the public sector as there is a significant

**Figure 12.7 Employment in the public sector by main activities (number of persons)**
shortage of personnel in fields such as health (nurses, physicians for some specializations) and there is still overemployment in some public administrative structures. Such qualitative adjustments are intended for 2012, but it is only by replacement through natural wastage at a rate of one for seven, which is less likely to generate real and useful resizing and reshaping at a performance/efficient employment level and structure. Recruitment continues to be blocked, hence important qualitative adjustments cannot be made and qualitative restructuring of the public sector is again being postponed. Also, the decrease in the number of employees registered in local public administration units are also found in activities with a secondary character, such as cultural, sports and recreation activities, landscaping and services for buildings, agriculture, waste management, decontamination, construction, transport and warehousing, electric and thermal power, gas, hot water generation and supply, air conditioning, rentals of real estate, by externalizing some services and concession of others to private entities. On the other hand, transfers from central to local administration took place in the decentralization of some state services (schools, hospitals). In 2012, personnel reductions continue, but at a slower pace and only in some fields. The personnel cuts in the budgetary


Figure 12.8 Employment, Romania, 2007–2011 (end of month –’000)
Public sector shock

Table 12.1 Number of employees, Romania, 2009–2011

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<td></td>
<td>'000</td>
<td>%</td>
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<td>'000</td>
</tr>
<tr>
<td>Public administration and defence; social insurance in the public sector</td>
<td>237.9</td>
<td>21.66</td>
<td>-8.5</td>
<td>-25.2</td>
<td>196.2</td>
<td>20.73</td>
</tr>
<tr>
<td>Education</td>
<td>409.7</td>
<td>37.30</td>
<td>-14.6</td>
<td>-18.5</td>
<td>367.4</td>
<td>38.81</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>393.6</td>
<td>35.83</td>
<td>-11.2</td>
<td>-19.8</td>
<td>334.2</td>
<td>35.31</td>
</tr>
<tr>
<td>Performances, cultural and recreational activities</td>
<td>57.3</td>
<td>5.22</td>
<td>-2.3</td>
<td>-6.3</td>
<td>48.8</td>
<td>5.16</td>
</tr>
<tr>
<td>Total public sector</td>
<td>1,098.5</td>
<td>100</td>
<td>-36.6</td>
<td>-69.8</td>
<td>946.6</td>
<td>100</td>
</tr>
<tr>
<td>Total economy</td>
<td>4,807.5</td>
<td>-439.8</td>
<td>-266.1</td>
<td>70.5</td>
<td>4,172.1</td>
<td>-635.4</td>
</tr>
</tbody>
</table>

Source: Author’s calculation based on National Institute of Statistics (NIS) data, Monthly Statistical Bulletin.

system, with a 120,000 target in 2012, are directed especially at local administration, central administration and the Ministry of the Interior. In health care, there will be no cuts and as a novelty for 2012 it is expected that the number of community social workers and sanitary mediators will be increased.

Based on the Family Budget Survey for 2004–09, employment in state-owned companies had decreased – from 20 to 15.5 per cent due to privatization.

Reform of the state sector of the economy continues, but employment in companies that are majority or wholly state owned is being done piecemeal, similar to wage policy. The measures for reducing employment include unpaid leave for several days per month, technical unemployment or layoffs. Gradual reductions are also applied, as formerly by agreement.
Romania

with the IMF. The 2012 objectives are: continuing the wind-up of entities in the mining industry, restructuring and reorganizing some national companies in transport and telecommunications. Thus, state-owned companies are to undergo a new wave of layoffs, including about 1,100 employees of the Romanian Railway Company (CFR)\(^{11}\) by the end of March, 618 from the Romanian Post\(^{12}\) (who are currently in technical unemployment and earning 75 per cent of the normal wage, the number of employees being currently about 35,000). The Petrița, Uricani and Paroșeni mines are to be closed and about 2,400 people will be dismissed in the next five years.\(^{13}\)

Those who are laid off will receive compensation.\(^{14}\)

If we analyse the average number of employees, by gender (Table 12.2) we note that the reduction has been more significant for men at national level and in public administration and higher for women in the public sector as a whole based on the cuts in education (reform at pre-university level) and health care (migration of nurses and medical specialists).

By ownership (Table 12.3), the number and share of employees in private entities is increasing in education and health, men being more numerous than women. In education, almost 7 per cent of employees work in private entities, over 18 per cent in health and social assistance and more than one-third in cultural and recreation activities. In entities with joint ownership, employees are more numerous in cultural and recreation activities.

Although still small, private and joint ownership are gaining ground in activities such as health and education, including participation of foreign capital. This structure underwent further changes in 2011 and some are continuing in 2012, the main reasons are: (i) externalizing some activities; (ii) increasing social capital or selling shares to the private sector in some economic entities of the state; (iii) decentralizing some activities and transfer to local community management; (iv) reduction in number of employees as a result of austerity/anti-crisis measures; and (v) development of some new institutions based on foreign direct investment (FDI) and/or domestic private investments (private education institutions, health and social assistance centres or culture, arts and recreation entities).

2.2.2 Skill/educational composition of the public sector

The public sector employs twice as many university graduates as the private sector (about 40 per cent against about 20 per cent, respectively) and as a trend, the share of higher education employees (any education above high-school) is increasing for both ownership forms (Figure 12.9).

With respect to lifelong learning, only 1.8 per cent of employees benefited in 2009 from continuing vocational training, with regular courses at intervals below one year (1.5 per cent in 2004–07). Employment for
Table 12.2  Average number of employees, by activity and by gender, Romania, 2008–2010 (’000; %)

<table>
<thead>
<tr>
<th>Activity (CANE Rev. 2 sections)</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5,046</td>
<td>4,774</td>
<td>4,376</td>
<td>2,723</td>
<td>2,542</td>
<td>2,291</td>
<td>2,323</td>
<td>46.0</td>
<td>2,232</td>
</tr>
<tr>
<td>Total public sector</td>
<td>997</td>
<td>1,053</td>
<td>1,009</td>
<td>305</td>
<td>326</td>
<td>315</td>
<td>692</td>
<td>69.4</td>
<td>727</td>
</tr>
<tr>
<td>% of public sector in total</td>
<td>19.8</td>
<td>22.1</td>
<td>23.1</td>
<td>11.2</td>
<td>12.8</td>
<td>13.7</td>
<td>29.8</td>
<td>32.6</td>
<td>33.3</td>
</tr>
<tr>
<td>Public admin./defence; public sector social insurance*</td>
<td>213</td>
<td>225</td>
<td>210</td>
<td>96</td>
<td>103</td>
<td>95</td>
<td>117</td>
<td>54.9</td>
<td>122</td>
</tr>
<tr>
<td>Education</td>
<td>394</td>
<td>394</td>
<td>380</td>
<td>121</td>
<td>121</td>
<td>122</td>
<td>273</td>
<td>69.3</td>
<td>273</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>350</td>
<td>378</td>
<td>366</td>
<td>71</td>
<td>77</td>
<td>74</td>
<td>279</td>
<td>79.7</td>
<td>301</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>40</td>
<td>56</td>
<td>53</td>
<td>17</td>
<td>25</td>
<td>24</td>
<td>23</td>
<td>57.5</td>
<td>31</td>
</tr>
</tbody>
</table>

Note: * Excluding armed forces and similar staff (Ministry of National Defence, Ministry of Administration and Interior Romanian Intelligence Service).

Source: Labour Cost Survey.
replacement jobs and new job creation by modernization or the development of new job fields is increasing employment based on higher educational levels and new competencies, in both the private and public sectors. At national level, the population with a low educational level represents about 37 per cent of the total and that with secondary educational level exceeds half, while individuals with higher education account for less than 12 per cent. Women represented the majority of higher education graduates (51.5 per cent) and men the majority of secondary-level graduates (52.9 per cent) in the third quarter of 2011.

Occupational groups reflect the specific features of activities in the public sector and the increase in the share of the employed receiving specialized education:

- Men are predominant in the group of members of legislative bodies, and of executive and high officials in the public administration, which employed about 11 per cent in the third quarter of 2008, and

### Table 12.3  Distribution of employees by type of ownership of the job, by gender, Romania, 2008–2011 (share of total, %)

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<tbody>
<tr>
<td>Total employees</td>
<td>26.66</td>
<td>70.82</td>
<td>27.35</td>
<td>70.59</td>
<td>27.78</td>
<td>70.09</td>
<td>26.71</td>
<td>71.33</td>
</tr>
<tr>
<td>Education</td>
<td>94.38</td>
<td>4.54</td>
<td>93.78</td>
<td>5.83</td>
<td>93.10</td>
<td>6.81</td>
<td>92.76</td>
<td>6.83</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>80.99</td>
<td>18.36</td>
<td>81.02</td>
<td>18.45</td>
<td>82.15</td>
<td>17.36</td>
<td>81.44</td>
<td>18.35</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>–</td>
<td>–</td>
<td>68.42</td>
<td>30.97</td>
<td>55.13</td>
<td>41.81</td>
<td>50.24</td>
<td>49.09</td>
</tr>
<tr>
<td>Women total</td>
<td>30.73</td>
<td>67.60</td>
<td>31.37</td>
<td>66.93</td>
<td>32.49</td>
<td>65.88</td>
<td>31.29</td>
<td>67.14</td>
</tr>
<tr>
<td>Education</td>
<td>95.60</td>
<td>3.20</td>
<td>95.00</td>
<td>4.52</td>
<td>93.06</td>
<td>6.90</td>
<td>92.96</td>
<td>6.63</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>81.50</td>
<td>17.73</td>
<td>80.23</td>
<td>19.08</td>
<td>83.76</td>
<td>15.74</td>
<td>81.46</td>
<td>18.27</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>–</td>
<td>–</td>
<td>71.07</td>
<td>–</td>
<td>59.68</td>
<td>34.74</td>
<td>63.35</td>
<td>36.19</td>
</tr>
</tbody>
</table>

**Note:** The entities in central and local public administration pertain entirely to the public sector.

**Source:** LFS, quarterly.
Public sector shock

7 per cent in the third quarter of 2011; women are more numerous in the group of experts, whose share is increasing slightly and the groups with secondary and lower training are decreasing.

- Experts in intellectual occupations represent almost one-quarter of those with a higher education in public administration and cultural and recreation activities, and are increasing against 2008, growing from 46 to 74 per cent in education and from 22 per cent to almost 49 per cent in health, based on the significant reduction of those with secondary education (technicians, foremen).

2.3 Wages and Labour Costs

2.3.1 Public sector wage policies in the crisis

The public sector is an important actor in national wage determination and dynamics. The wages of employees of state-owned companies are generally above those in the private sector. This trend was already identified in 1995 and becomes more significant after 2000. Thus, a job with a state-owned company ensured a wage 6 per cent higher than in a comparable private company. The wage differentiation originates in the relatively higher education level in the public sector than in the private sector, and in
the length of service, in other words, experience and career advancement are more certain in the public sector. Moreover, wages – at least officially – are relatively higher in the public sector, especially in the lower part of the payroll grid because the supplementary ‘envelope’ payments that are widespread in the private sector are not possible in the public sector.

Public sector wage policy during the crisis has aimed at reforming the grid with the purpose of improving the coherence of the entire public sector and has achieved budget savings, curbing total personnel expenditure by wage cost reductions associated with layoffs.

Wage inequality is more significant in the public sector than in the private sector (Figure 12.10). First, this may represent underreporting in the latter, while all jobs are formal – and thus with clear wage levels – in the former. Second, it reflects better wages at the bottom – at least until 2009 – but also much higher wages at the top. Employees’ distribution places about 60 per cent of those working in the private sector under 1,000 lei and only 40 per cent of employees in the public sector. If we consider employees’ distribution by income brackets, there are twice as many workers earning the minimum wage in the private as in the public sector.

The public sector pays low wages to a lesser extent than the private
Public sector shock

sector (Voinea et al. 2011): 78 per cent of the employees with wages in the first two deciles work in private companies, against only 12.2 per cent in the public sector. The main reasons are: (i) the characteristics of some economic activities in which productivity depends on low labour costs; (ii) the share of the informal economy in the private sector; and (iii) the higher average of the education level in the public sector.

The earnings gap between activities in the public sector emerged in 2006–10, when the new basic wages were established and the share of bonuses was limited to 30 per cent.

By major occupation groups, wages are comparatively higher for activities in the public sector against the national average and for the groups GM5–GM9, in particular based on the working programme which generates the payment of supplementary hours or special working conditions when the time and frequency of labour is different (working on holidays, shifts or evening/night work). Wage differences by educational level demonstrate that a university graduate earns 10 per cent less in the state sector than in the private one. The public sector employs more experienced people (30 years or more) and fewer people lacking experience (less than 10 years of experience). An employee with less than five years’ experience earns 15 per cent less in the state sector than in the private sector. Inequalities in the public sector deepened in 2007–09 (Table 12.4).

The differences between the coefficients for men and women indicate that an additional year of education advantages women to a higher extent than men. In other words, the positive impact on the wage is higher for women than for men (Voinea et al. 2011). The wage provided for one year of education is lower in the public sector than in the construction or financial sectors. Differences in payments for one year of formalized education are greater in the private sector, where the wages are higher. In general, men’s wages are up to 25 per cent higher for the same qualifications even if they have a smaller number of schooling years.

3. EFFECTS OF THE ANTI-CRISIS MEASURES

The mix of structural reforms in the public sector are concentrated on improving efficiency and making the adjustments for financial sustainability compatible with the IMF. To date, most of the policy measures have been focused on short-term financial effects, delaying or halting structural reforms (Table 12.5). The economic and social effects of the extreme quantitative adjustments enacted mainly in 2010 have blocked any qualitative, medium- or long-term approach to the structural/qualitative reform,
increasing tensions between these two types of reform and leading to adverse responses from social actors.

The effects of the crisis on public sector employment and wages have been both quantitative and qualitative, few of them positive, most negative. The expected positive qualitative outcomes were, in fact, few and sometimes transformed into adverse ones, leading to further costly measures.

The main characteristics of the anti-crisis responses are that they have induced higher tensions and their real implications are controversial; many consider them less economically and more politically oriented. The general effects of the reforms can be summarized as follows:

- increased pressure on social services due to rising unemployment and forced retirement;
- public sector employment less attractive because of the freeze on career advancement, lower wages than in the private sector and significantly poorer job quality and working conditions;

Table 12.4  Net average wages, by activity. Romania, 2009

<table>
<thead>
<tr>
<th>Public sector</th>
<th>Net average wages lei/month (1)</th>
<th>Average years of education (2)</th>
<th>Ratio 3 = 1/2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public administration and defence, social assistance in the public sector</td>
<td>1,276</td>
<td>12.83</td>
<td>99.45</td>
</tr>
<tr>
<td>Education</td>
<td>1,184</td>
<td>13.68</td>
<td>86.56</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>1,084</td>
<td>12.49</td>
<td>86.79</td>
</tr>
<tr>
<td>Other activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activities of extraterritorial organizations and organisms</td>
<td>2,243</td>
<td>14.54</td>
<td>154.24</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>1,985</td>
<td>11.4</td>
<td>174.14</td>
</tr>
<tr>
<td>Financial activities, banking and insurance</td>
<td>1,568</td>
<td>14.49</td>
<td>108.18</td>
</tr>
<tr>
<td>Construction</td>
<td>988</td>
<td>10.12</td>
<td>97.62</td>
</tr>
<tr>
<td>Processing industry</td>
<td>905</td>
<td>10.58</td>
<td>85.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measures</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative reorganization of public entities by reducing number of agencies and structural reorganization (141 agencies) – layoffs and forced retirement</td>
<td>Job cuts and employment structural changes (educational level and age groups)</td>
</tr>
<tr>
<td>Limitation of entry into the public sector – one-for-seven replacement rate through re-employment</td>
<td>Forced retirement of people over the statutory retirement age</td>
</tr>
<tr>
<td>Wage cut of 25% and payment reform in the public sector</td>
<td>Reducing job vacancy rate Lower employment flexibility (fixed/temporary or part-time contracts)</td>
</tr>
<tr>
<td>Personnel expenditure reductions (from 9.4% in 2009 to 6.6% in 2011 and 6.7% in 2012)</td>
<td>Decreasing average level of education due to reduced attractiveness of employment for young graduates, especially the highly skilled</td>
</tr>
<tr>
<td>Employees over standard retirement age can accumulate wages from public employment with a pension if the pension level is under the average gross wage</td>
<td>Real wages decreasing by 4.5% in 2011 as against 2008</td>
</tr>
<tr>
<td>Restructuring of 67 hospitals</td>
<td>No overtime pay, increasing work intensity</td>
</tr>
<tr>
<td>Increasing social contributions at the level of January 2008 and extending contribution categories (self-employed, some liberal professions); reducing tax deductions on property</td>
<td>Decreasing number of employees and labour expenditure cuts from health-care system</td>
</tr>
<tr>
<td>Introducing personnel standards in public and central administration</td>
<td>Decreasing nominal incomes of teachers, researchers, artists, actors etc.</td>
</tr>
<tr>
<td></td>
<td>Employment decrease of more than 200,000 (as of January 2012, 14.5% of total jobs in December 2008 have been lost)</td>
</tr>
</tbody>
</table>
gradual ageing of the employment structure and a decrease in the average educational level, with deficits in particular professions and specializations because young graduates are less inclined to enter the public sector; 

- increasing poverty risk for an increased proportion of low paid; and 

- elimination of social dialogue at national level and decreasing importance of negotiations in the public sector (wages are no longer negotiated in the public sector, being regulated annually by special legislation).

The main problems that the public sector has to deal with are loss of service quality and a potential increase in corruption. The crisis has diminished the infusion of young and relatively well-educated personnel by restrictive employment (one new recruit for every seven persons leaving), low wages and lack of career advancement prospects. Some poorly remunerated jobs in the public sector have been shed by the layoffs during the crisis, based on agency reorganization subordinate to the government, but the wage level is generally lower than in the private sector, with a minimum wage below national level. This does not generate the necessary synergies for qualitatively improved public services or capacity development needed to take advantage of structural funds and other EU funds. Furthermore, the lower remuneration level in Romania (lowest wages in EU27) has increased labour migration among specialists from the public sector, mainly doctors and nurses, aggravating the relevant structural deficits in health care.

3.1 Some Macroeconomic Effects of Public Sector Adjustment

Cutting expenditure and employment in the public sector in response to the crisis has created a Keynesian savings paradox (1936) and the impact on budget incomes was much lower than expected. Because of the lower incomes of a large share of employees paid from the state budget, demand for current goods and household services was reduced drastically. This pushed up unemployment and reduced tax revenues to the local and central state budget.

The annualized impact of the 25 per cent cut in public sector wages in 2010 was calculated to have led to a 4.5 per cent drop in aggregate consumption and hence a 2.7 per cent drop in GDP. After the second quarter of 2010 showed modest growth and signs of a potential recovery, the economy plunged back into a negative territory following the implementation of the austerity measures, and stayed there for the rest of 2010, which ended in economic contraction. The contraction in economic activity (or
Public sector shock

temporary winding-up or bankruptcy) and the restructuring of the public sector increased the unemployment rate. However, official statistics on the number of registered unemployed do not fully reflect this process, for several reasons:

1. The accumulation of functions in the public sector: some laid-off employees also have a second job in the public or private sector.
2. Some of those laid off did not register as unemployed for various reasons: they had no right to benefit and thought that they could find another job themselves, or were re-employed in the private sector. Some may have left to work abroad.
3. Retirement of those who met the age conditions but continued to work, in particular in education, health care and cultural activities.

In the first three months of 2009, when the first measures for public sector layoffs were implemented, fewer than 22,000 people were registered with the territorial Labour Offices out of a total of 513,621 registered unemployed on 31 March 2009 (Figure 12.11). For 2010, in the additional Letter of Intent to the IMF agreement, the government undertook to limit public sector personnel to 1.29 million employees until the beginning of 2011, which represented a laying off of 70,000 budget-
ary employees, a little more than 5 per cent of the whole. In 2011, the public sector job cuts continued, at between 1.2 per cent and 6.6 per cent a month.

In accordance with NIS data, by the end of December 2011, the number of public sector employees and in companies with at least four employees reached 4,172,100, the decrease being generated by the public sector cuts and seasonal developments in construction and agriculture (Figure 12.12). In the public sector – public administration, health care and education – employment decreased in November 2011 to under 900,000 for the first time in the past five years, declining throughout the year (by December 2011 as against December 2010 the number of employees had fallen by 45,600, 8,000 in administration, 9,200 in education and 28,400 in health care). Thus, in the budgetary sector, in December 2011 there were 196,200 employees in administration, 367,400 in education and 334,200 in health care. This represents a loss of 143,400 employees compared to January 2009. At the same time, layoffs were much heavier in the private sector.

In 2008–09 private sector layoffs occurred in the upper half of the income distribution. In the public sector, the ratio D90/D10 has also declined but remained at a high level, the reason being the strongly asymmetrical income distribution. As seen earlier, inequality is higher in the

---

**Figure 12.12  Proportion of employees in the public sector, Romania, 2010–2011**

Source: Businessday.ro, based on NIS data, report no. 12.
public sector than in the private, and the diminution trend is thus slower in the public sector (Table 12.6).

### Table 12.6  Inequality in the public and private sectors, Romania, 2004–2009

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
</tr>
<tr>
<td>p90/p10</td>
<td>3.016</td>
<td>3.466</td>
<td>3.133</td>
<td>3.634</td>
</tr>
<tr>
<td>p90/p50</td>
<td>1.985</td>
<td>1.949</td>
<td>1.967</td>
<td>1.973</td>
</tr>
<tr>
<td>p10/p50</td>
<td>0.658</td>
<td>0.562</td>
<td>0.628</td>
<td>0.543</td>
</tr>
<tr>
<td>Relative mean deviation (%)</td>
<td>20.07</td>
<td>19.91</td>
<td>19.48</td>
<td>20.19</td>
</tr>
<tr>
<td>Gini (%)</td>
<td>27.69</td>
<td>27.56</td>
<td>27.19</td>
<td>29.13</td>
</tr>
</tbody>
</table>


### Table 12.7  Gender pay gap by ownership, Romania, 2008–2010 (estimated data, unadjusted, Eurostat methodology)

<table>
<thead>
<tr>
<th>Type of ownership</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>11.8</td>
<td>13.2</td>
<td>17.8</td>
</tr>
<tr>
<td>Private</td>
<td>12.8</td>
<td>10.3</td>
<td>14.6</td>
</tr>
</tbody>
</table>


3.1.1 Gender pay gap and the share of low-paid employees in the public sector increased

The gender pay gap increased during the crisis period from 7.8 per cent in 2008 to 8.4 per cent in 2009 and 12.6 per cent in 2010. If we estimate the gender pay gap based on Eurostat methodology, a strong increase is found in all ownership types during the crisis, with an increase of 4 percentage points in both the private and public sectors (Table 12.7).

The proportion of women receiving low wages is higher than that of men, and there are also differences between branches. The distribution of employees by gross wage brackets computed based on the annual October Wage Survey highlights an increase in the share of those receiving low wages due to the concentration of the distribution by brackets under the average wage (Table 12.8).
Table 12.8  Minimum and average gross wage and structure of employees by gross wage brackets, in October each year, Romania, 2008–2010

<table>
<thead>
<tr>
<th>Gross wage bracket</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Minimum wage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>up to 1000</td>
<td>540 lei</td>
<td>39.9</td>
<td>38.5</td>
</tr>
<tr>
<td>1001–1500</td>
<td>14.8</td>
<td>15.3</td>
<td>14.1</td>
</tr>
<tr>
<td>1501–2000</td>
<td>14.8</td>
<td>14.9</td>
<td>14.6</td>
</tr>
<tr>
<td>Average gross wage in October</td>
<td>1,694</td>
<td>1,758</td>
<td>1,620</td>
</tr>
<tr>
<td>Over 2001</td>
<td>24.1</td>
<td>25.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Average gross wage in October – public sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>1,808</td>
<td>1,867</td>
<td>1,763</td>
</tr>
<tr>
<td>Education</td>
<td>2,025</td>
<td>2,228</td>
<td>1,936</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>2,068</td>
<td>2,344</td>
<td>1,990</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: Wage Survey, October each year.
The wage distribution above the average level shows that women have been harder hit by the crisis than men, also for employee groups with higher incomes.

3.1.2 Labour cost indices
In the crisis the tax wedge on labour costs has increased, from 41.0 per cent in 2008 to 43.1 per cent in 2009 and 43.3 in 2010 (Romanian Statistical Yearbook). Labour costs in the total economy increased, in particular due to non-wage labour costs in 2009 against 2008 and decreased slightly during 2010. In the public sector,22 where wage cuts have been considerable and affected all budgetary employees (save for national companies with 100 per cent/majority state capital), the reduction of wage costs started in mid-2009. In the fourth quarter of 2010, compared with the crisis start in Romania (fourth quarter of 2008) the index of wage expenditure was 73.49 per cent for health, 75.95 per cent for education and 77.61 per cent for public administration and defence, as well as 80.38 per cent for cultural and recreational activities.

This decrease in the index was attenuated partially by the preponderant layoff of low-wage personnel, who also benefited from the fiscal deductibility of 250 lei on computing the tax on wages for wage earnings of up to 1,000 lei a month. As a result, the index of non-salary expenditures decreased more slowly due to two factors: on one hand, the maintenance in the public sector of those with relatively higher wages who benefited from increased tax deductions and, on the other, due to the increase in the tax wedge, as previously mentioned.

3.1.3 Decreasing interest in lifelong learning
Interest in lifelong learning is currently marginal, even though legislation and/or collective agreements provide for mandatory periodical vocational training to increase competences and performance (Labour Code23). As compared to the situation at European level, Romania has made little progress, with only 1.3 per cent of the total adult population aged 25 to 64 participating in education and training, as compared to 9.1 per cent at EU27 level. Women’s participation is slightly higher (Table 12.9).

Financial restrictions represent the main obstacle to continuing training, in other words, insufficient resources, even though such expenditure is tax deductible. Companies resort to training only as a last resort, largely because they face skills deficits on the labour market. On-the-job training is strictly specialized, adapted to the features of the company and workplace. Expenditure allocated for vocational training oscillates between 0.1 and 0.3 per cent of the average monthly labour cost, both
Romania

Table 12.9  Lifelong learning: percentage of adult population aged 25 to 64 participating in education and training, by gender, Romania, 2000–2010

<table>
<thead>
<tr>
<th>Year</th>
<th>EU27 total</th>
<th>Romania total</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU27 men</td>
<td>Romania men</td>
<td></td>
<td>EU27 women</td>
</tr>
<tr>
<td>2000</td>
<td>7.1</td>
<td>0.9</td>
<td>6.7</td>
<td>0.9</td>
</tr>
<tr>
<td>2001</td>
<td>7.1</td>
<td>1.0</td>
<td>6.6</td>
<td>1.1</td>
</tr>
<tr>
<td>2002</td>
<td>7.2</td>
<td>1.0</td>
<td>6.6</td>
<td>1.0</td>
</tr>
<tr>
<td>2003</td>
<td>8.5</td>
<td>1.1</td>
<td>7.9</td>
<td>1.1</td>
</tr>
<tr>
<td>2004</td>
<td>9.2</td>
<td>1.5</td>
<td>8.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2005</td>
<td>9.6</td>
<td>1.6</td>
<td>8.8</td>
<td>1.5</td>
</tr>
<tr>
<td>2006</td>
<td>9.5</td>
<td>1.3</td>
<td>8.6</td>
<td>1.3</td>
</tr>
<tr>
<td>2007</td>
<td>9.3</td>
<td>1.3</td>
<td>8.4</td>
<td>1.2</td>
</tr>
<tr>
<td>2008</td>
<td>9.4</td>
<td>1.5</td>
<td>8.5</td>
<td>1.3</td>
</tr>
<tr>
<td>2009</td>
<td>9.3</td>
<td>1.5</td>
<td>8.4</td>
<td>1.3</td>
</tr>
<tr>
<td>2010</td>
<td>9.1</td>
<td>1.3</td>
<td>8.3</td>
<td>1.2</td>
</tr>
<tr>
<td>2011</td>
<td>8.9</td>
<td>1.6</td>
<td>8.2</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Eurostat database.

at national level and, more specifically, in the public sector, although in absolute terms they are two to three times lower in the public sector (Table 12.10).

In the public sector, training has a higher priority in public administration where, in 2008, allocations were about 2.5 times higher than in education and health care, the amounts decreasing gradually during the crisis to under 1 per cent in education and on average 2–2.5 lei per month and per employee, against almost 5 lei at national level.

3.2 Microeconomic Effects

3.2.1 Massive employment cuts
The number of jobs in the budgetary sector and in services of national and local public interest has continuously increased during the transition, especially in the past decade, owing to economic growth after 2004. The number of jobs increased to 1.4 million in December 2008. The highest increase took place at the local authority level (approximately 90,000), to which about 50,000 were added in central administration. From 2009, as a result of the authorities’ efforts regarding fiscal adjustment, the number of jobs in the budgetary sector was constantly
Public sector shock

Table 12.10  Labour expenditure on vocational training and as a percentage of average monthly labour costs per employee, Romania, 2000–2010

<table>
<thead>
<tr>
<th></th>
<th>2000 Lei</th>
<th>2007 Lei</th>
<th>2008 Lei</th>
<th>2009 Lei</th>
<th>2010 Lei</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Total</td>
<td>8.69</td>
<td>5.50</td>
<td>6.89</td>
<td>2.82</td>
<td>4.95</td>
</tr>
<tr>
<td>Public administration</td>
<td>4.35</td>
<td>7.44</td>
<td>6.13</td>
<td>2.65</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>&lt;3.86</td>
<td>&lt;2.08</td>
<td>2.69</td>
<td>2.84</td>
<td>&lt;2.45</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>&lt;3.86</td>
<td>2.08</td>
<td>2.54</td>
<td>2.73</td>
<td>2.48</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>2.23</td>
<td>2.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Labour Cost Survey.

reduced by freezing vacancies (from May 2009), by layoffs and/or retirement (Table 12.11).

Over 50 per cent of job reductions in the government sector took place at local level (approximately 76,000), most of them in pre-university education. In the health-care sector, about 33,000 jobs were cut. In 2011, most job cuts took place in the Ministry of the Interior (10,000) by reorganizing some institutions and reducing the number of jobs in some administrative structures. In December 2011, the total number of jobs decreased to 1,196,067, making a total job cut of 200,262 in the public sector. In 2012, public sector jobs are estimated to decrease further as the replacement rate of one new job for seven departures (applied since 2009) is maintained. However, there are also modest increases in some institutions, with 30 new jobs at the Court of Accounts and 10 at the National Integrity Agency and the Competition Council (Figure 12.13).

In 2012, the state will also take action in state-owned companies, similar to 2011, in two respects: (a) maintaining the job freeze and subjecting all job increases to government approval; and (b) granting wage increases only if profits were reported in 2011, but not higher than forecast inflation (3 per cent). The government reached agreement with the IMF that the wage policy of autonomous/national companies will be established annually, by law.

The ‘number of state employees shall reach 1.1 million by the end of 2012’.
3.2.2 Job vacancies fall

From 2008 up to the present, the number of job vacancies has fallen continuously (Figure 12.14). The institutional reorganization of public sector activities was aimed in a first stage to block and then to reduce job vacancies. Re-employment to fill natural/normal vacancies (retirement, resignations and so on) was allowed, but only in a proportion of one for
seven, while particular positions could be filled with special approval from the government.

As compared with previous periods, health and social assistance registered the most significant diminution of job vacancies: 7,800 job vacancies representing more than two-thirds (67.5 per cent) of the number of job vacancies that were reduced that year in the entire economy. Government Resolution No. 286/2011 generated employment for temporary jobs and in some cases, allowed for job advancement.

### 3.2.3 Working hours: overtime hours no longer remunerated

Another quantitative factor that led to cuts in personnel expenditure was the ban on payments for supplementary hours. The job cut was not associated with a reduction in the workload, which was redistributed between the remaining employees, without wage bonuses or other additional payments. If supplementary hours were necessary, they were no longer paid during the crisis, but compensated with free time. In some cases there was additional work at home: in 2010, about 34 per cent of public sector employees also worked at home, as compared to 18 per cent of private sector employees.26 To a certain extent, this also resulted in work intensification by eliminating time losses during normal working hours and also increased job discipline, improved the organization of activities at the workplace. This is also why layoffs did not trigger a corresponding working-time increase.

Source: INS, Tempo online.

Figure 12.13  Job evolution in the public sector, Romania, 2004–2011

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Valentina Vasile - 9781781955352
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The average working week (main job) at national level in the third quarter of 2011 was 40.5 hours, a slight increase on the previous period. In the public sector, employees in education work less than the national average and employees in health care more. The system of wards and shifts in health care means that people sometimes work longer than their regular hours. The lack of payment for supplementary hours imposes constraints on their use.

3.2.4 Employment flexibility – more temporary and part-time workers in the public sector

In Romania, part-time and fixed-term contracts are relatively poorly developed, particularly in the public sector. They have decreased during the crisis, although they are more frequent in education (Figure 12.15). Note that most public sector employees working part-time are in public administration and education, while in health care the number is falling (Figure 12.16). During the crisis, contrary to developments at national level, the number of those working part-time in the public sector fell
Public sector shock

Source: NIS Tempo online.

Figure 12.15  Part-time employment, Romania, 1996–2010 (% of total employees)

Source: NIS Tempo online.

Figure 12.16  Part-time employment, Romania, 1996–2010 (number of persons)
due to the first wave of layoffs, but then increased for the following reasons:

- Part-time employment is allowed under certain conditions for work that cannot be distributed among the remaining personnel.
- Access to European funds, changes to the Labour Code and digitalization of the monitoring of labour contracts enables the registration of several part-time contracts for the same person, besides the full-time period contract also at the same entity. At the same time, the possibility of accumulating activities is limited in particular for public sector workers who besides their main job are permitted to get involved only in teaching.
- Limiting the maximum working week provided for in the Labour Code to 48 hours for each employer for four consecutive months at the most makes it possible to perform different activities with several employers (research/education, medical practice/education, cultural activities/education and so on).
- There is also a practice of accumulating one contract or several part-time as employee and/or self-employed in some professions (accountant, evaluator, liquidator, art restorer, artist and so on).

Access to structural funds has triggered: (a) an increase in limited duration contracts either full- or part-time and (b) limitation of public sector employment by curbing recruitment, allowing registration only of those already in the system.

3.2.5 A shift in the age structure

The employment cuts combined with compulsory retirement on reaching a certain age has shifted the age structure in the public sector towards younger workers, but not necessarily better-trained and specialized personnel, due to the low wages. The working-age population in total employment is increasing in the economy as a whole, which exemplifies the trend of active ageing, but in the public sector it is falling slightly, due to the limits imposed on remaining employees after reaching pension age. Even here some exceptions are allowed for highly qualified personnel in education, health care and culture, but they are paid part-time or for determined periods (in education also per hour). Remaining employees are obliged to retire. As a result, the following age features appear in the public sector:

- Public sector employment has a younger age structure than in the economy as a whole.
A shift is discernible with regard to the employment of young people who have a higher education, with the share of those aged 15–24 years in the public sector decreasing from 6.8 per cent of total employment at national level in 2008 to below 5 per cent in 2011, due to an increase in the 24–34-year age group.

The employment of those aged 25–44 years is increasing to the detriment of those aged over 45 years.

The youngest age structure is developing in public administration, while the oldest is in education.

3.3 Severe Reduction of Social Dialogue in the Public Sector

Freedom of association is almost universally permitted for both career civil servants and contractual employees in Romania since 2003. Trade union density is higher in the public sector, between 55 and 70 per cent in central government (EIRO: European Industrial Relations Observatory, national contribution, 2006). Until 2010 trade unions in the public sector were part of the representative bodies and participated in national bargaining. However, important reforms were introduced in 2011 that seriously reduced the scope of social dialogue with most elements being decided by legislation. The new Law on Social Dialogue (Act 62 of 10 May 2011) regulates only sectoral agreements and stepped up the representativeness conditions. Social dialogue in the public sector is organized at institution, group and activity levels. Collective agreements cannot include clauses on financial rights or in-kind rights other than those provided for under the legislation on the relevant personnel category. Negotiations take place after the approval of income and expenditure budgets. Wages are laid down by law, within precise limits and cannot be the object of negotiations (they cannot be changed by collective agreement).

The trade union movement has been weakened over time, also due to excessive fragmentation (for instance, among public officials there are over 20 trade union federations27), the preponderance of tripartite dialogue and the prevalence of wage claims, as a rule during the run-up to the state budget for the next year while other working conditions are often neglected, even though the rate of labour accidents is high. Working under stressful conditions and unhealthy working regimes are two other factors in the public sector that seem to be neglected in the social dialogue process.

The high union density in the public sector is sustained by the practice of automatically retaining payroll contributions.28 The real number of trade union members remains another unknown element, the data being based on trade union leaders’ declarations and not official statistics. At national
level, trade unions talk about 50 per cent trade union representation (from about 83 per cent at the beginning of the 1980s), and 90 per cent among public sector employees.29

Even though Romania has a high trade union density (two or three times higher than in Hungary, Poland or the Czech Republic), protest rallies barely gather more than a few tens of thousands, at best. In 2009, when the most serious economic downturn in Romania’s recent history was recorded, there were only 92 conflicts of interest, as compared to the peak year 1999 when 653 were recorded. In the public sector there were just 12 (five in the public administration, three in health and two each in education and cultural–recreational activities), as compared to 76 in 1999 (one in public administration, 16 in education and 59 in health care). The lack of willingness to engage in such events led to a decrease in the number of participants by 16.7 times for general issues and by 8.3 times in the public sector (2010 against 1999). During the crisis period, in 2008–11 there were only 38 conflicts of interest (in 2011 just three), with only 31,525 participants (Figure 12.17).

During the crisis rallies were organized, but the outcomes were poor or non-existent and the number of participants fell rapidly.

Source: Ministry of Labour, Family and Equal Opportunities.

Figure 12.17 Conflicts of interest in the public sector, Romania, 1993–2011
Social dialogue has been reformed again and the new legislation is more restrictive as regards employees’ benefits, and is aimed at reining in the trade union movement. The Law on Social Dialogue No. 62/2011 modifies collective negotiations and industrial relations and unifies the regulations regarding employers’ organizations, trade unions, social dialogue and collective labour contracts, the setting up of the National Tripartite Council for Social Dialogue and the organization and functioning of the Economic and Social Council. The major elements of this social dialogue reform – that directly hurts the public sector functioning – include the increase in the representativeness threshold for trade unions and employers’ organizations, elimination of the collective agreement at national level and of the erga omnes automatic extensions at sectoral level.

4. CASE STUDIES

Romania entered the crisis against a background of public sector reforms. The reform of public expenditure in 2009 and 2010 and thereafter fiscal consolidation for 2011 and 2012 have represented the major objectives behind the recent reforms. Currently, these measures are continuing, with annual adjustments and completion measures that sometimes contradict the general principles of structural adjustment. We shall see below the nature and effects of these reforms in one important sector, education, before analysing in more detail in a second case study the overall scope and effects of the wage reform process in the public sector.

4.1 Case Study 1: Comprehensive Education Reform

4.1.1 The context: the need for reforms in a low participatory system

Reform of the national education system was necessary for at least the following reasons: to develop a modern system, focused on skills and competences; to increase the quality of education; to render more flexible the educational path and development of open vocational routes; to increase access to education; and to provide student finance and decentralization in secondary education. Participation in education in Romania is among the lowest in Europe, involving only 54.8 per cent of women and 48.8 per cent of men. Education reform started in the second half of the 1990s with a general revision of secondary education (curriculum changes, new education programmes, more labour market-oriented education, vocational education (Vasile et al. 2007)). At the university level, the Bologna system was adopted. Furthermore, the National Pact on Education was signed, whose main purpose was to modernize the education system...
and institutions in 2008–13 in order to increase the competitiveness of Romanian schools at international level. It was agreed that the education reform should contribute to fiscal consolidation while improving the productivity of the future workforce through better training.32

The whole system was thus reorganized33 to better accommodate it to the current requirements of the knowledge-based society and to smart, sustainable and inclusive growth. The main objectives of the new Law on National Education are: education based on individual educational routes; a modern curriculum oriented to skills and competences needed in the labour market; changing early education into a public good and guaranteeing unrestricted access to 10 years’ compulsory education; decentralization of financial, curricular and human resources; promoting student financing;34 involvement of civil society as responsible partners in education; autonomy of educational entities supported by the local community; hierarchy of universities and their specialization (some concentrating on BAs, others on MAs and others still on doctoral studies and research); and adopting a Charter of Rights and Liberties in education, which would guarantee access to quality education. In order to narrow the gaps in the quality of education, some priority areas will be defined and lifelong learning will be made the backbone of the education system (the proposed target by 2013 is to have annual continuing training for 12 per cent of the active labour force and to finalize the National Qualification Framework to make it compatible with the European one). The Law on National Education provides for the allocation of at least 6 per cent of GDP for education every year, although the financial constraints will limit it at a much lower rate, namely 4.25 per cent in 2007 and even 3.1 per cent of GDP in 2009.

4.1.2 Effects of quantitative adjustment: opposing structural needs?
University education has been hardest hit by job and spending cuts. This was visible in areas and sectors, with higher education in Romania being characterized by excessive differentiation of academic specialization and a dispersion of resources (human, material and financial).

University education in 2010–11 was hit hard by the adjustments:

1. the total number of educational institutions fell to 108 (compared to 121 in 1999–2000) of which 52 are private (63 in 1999–2000);
2. the total number of students also fell to 673,000, down from over 907,000 in 2007–08;
3. at the same time the number of students per teacher increased to 22.6 compared to 14.1 in 1989–90;
4. over 191,000 graduates (26,000 in 1990–91, 68,000 in 1999–2000); and
5. According to the Academic Ranking of World Universities, as of 2011 there was no Romanian university in the top 500 universities worldwide. We must add that the education system in Romania lacks benchmarks for measuring quality and efficiency so that it is difficult to measure other adverse effects expected with regard to quality (GR 2011).35

The first interim evaluation is expected in 2015, but we can synthesize the preliminary results, mainly based on the evaluation of trade union leaders. They consider that even though reform was necessary, most of the provisions were not related to Romanian realities/peculiarities, especially its real potential of infrastructure and personnel. No statistical data are available but, based on interviews among teaching university staff we can present some qualitative assessments in Table 12.12.

On the whole, these measures are aimed at promoting higher standards, but with fewer benefits. Also, the re-employment restriction of one for seven will create significant structural deficits with regard to professions and qualifications. The main effect of these measures in the long term will be the reduction of human resources in education, mainly due to the insufficient attractiveness of employment in education because of low wages and teacher status. During the crisis the total number of university teaching staff was reduced from 31,964 in 2007–08 to 29,746 in 2010–11, although the proportion was lower than in education as a whole, at 7 per cent as against 8.6 per cent (Figure 12.18).

The expected results from a human resources perspective are as follows: increasing the relevance of education and training by streamlining towards skills formation; opening up schools to the community and business environment; development of vocational education and training; stimulating lifelong learning; and improving teachers’ performance in education and research (National Reform Programme 2011–2013, Government of Romania). The establishment of the National Register of Qualifications in Higher Education and of a Single Register and its connection to labour market demand will increase graduates’ employability. All these measures will increase the attractiveness of schools not only for students but also for teachers, and will re-establish – at least partially – teachers’ social status. At the same time, public expenditure on education will be used more judiciously for allocating both employment and professional degrees, but also for performance-based pay (Figure 12.19).

In higher education, career advancement has become a key issue for all teaching staff because of the very restrictive criteria for personal and institutional evaluation based on high-quality outcomes from teaching and research; appointment as reader or full professor requires certification from the National Council of University Titles. Diplomas and certificates
Table 12.12  Main changes in university education, Romania

<table>
<thead>
<tr>
<th>Measures</th>
<th>Main expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide standard wage for teachers</td>
<td>Cuts in personnel expenditure</td>
</tr>
<tr>
<td></td>
<td>Very low pay considering new quality standards (private sector more attractive for similar professions)</td>
</tr>
<tr>
<td></td>
<td>Future staff deficit likely</td>
</tr>
<tr>
<td>Increase in statutory teaching hours per person, with professional grades</td>
<td>Personnel expenditure reduction, increasing productivity</td>
</tr>
<tr>
<td>Ceiling on working hours at maximum twice full-time employment in all teaching jobs in all universities</td>
<td>Personnell expenditure reduction, increasing quality</td>
</tr>
<tr>
<td>University ranking and different student financing according to type of university (education, research, etc.)</td>
<td>Limited income from teaching</td>
</tr>
<tr>
<td>New evaluation and career advancement standards, very restrictive system for career advancement for university staff – very high standards</td>
<td>Multiple employment including informal employment</td>
</tr>
<tr>
<td>Reduction in number of students financed from state budget</td>
<td>Wage differences between institutions for same qualifications</td>
</tr>
<tr>
<td></td>
<td>Increase excellence in teaching, more difficult access to highest professional positions</td>
</tr>
<tr>
<td></td>
<td>Lower wages – very low pay considering new quality standards (private sector more attractive for similar professions)</td>
</tr>
<tr>
<td></td>
<td>Lower total expenditures on education</td>
</tr>
<tr>
<td></td>
<td>Changes in employment in particular fields and professional specializations – related to number of students financed from public funds and also limitation of total number of students who must pay for education</td>
</tr>
</tbody>
</table>
Table 12.12  (continued)

<table>
<thead>
<tr>
<th>Measures</th>
<th>Main expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted access to teaching careers – initial training of teachers will include BA studies in a related qualification, a two-year MA in teaching and one-year vocational traineeship</td>
<td>Quality and selective employment</td>
</tr>
<tr>
<td>Very restricted criteria for applying for RDI national funds</td>
<td>Selective access to supplementary sources of income for teachers</td>
</tr>
<tr>
<td>Limited active ageing – only for full professors and payment by hours worked, not a contract, although they will receive a pension</td>
<td>Compulsory retirement at standard age</td>
</tr>
<tr>
<td>A 25% wage cut for all public sector workers</td>
<td>Lower payment for the same work</td>
</tr>
<tr>
<td></td>
<td>Reducing expenditure on personnel in education – some teachers contested this decision and, as according to a court ruling, they should recover 33.4% of their monthly pay, but the government has postponed reimbursement</td>
</tr>
</tbody>
</table>

Source: Author’s synthesis based on national legislation and preliminary evaluation of the trade unions and other stakeholders.
based on new evaluation criteria to promote international excellence and the profile of the didactic and research activity of university teaching staff. Also, access to additional financing or supplementary incomes for teaching staff by basic research contracts financed by the national Research Development and Innovation (RDI) programme depends on new extremely restrictive excellence criteria designed to stimulate the continuing professional training of teaching staff and increase their international visibility by articles and books published abroad.

Another qualitative standard is aimed at ensuring that leadership, mentoring and management positions in education are occupied by teachers who have completed an accredited training programme in education management (a National Body of Experts on Education Management will be established by selection, based on competition). The most important expected positive results are: changing the structure of specialization and degrees in science (closer to occupational demands in the labour market). New regulations in the Labour Code and pension law will bring about a rejuvenation of staff in the national education system and employment forms will become more flexible, as will work duration.

From a teaching staff point of view, this new education reform may stress some important aspects, both quantitative and qualitative, but its implementation during the crisis, with the main focus on levels of
Public sector shock

employment and public expenditure, could have adverse effects, such as emigration of experts into the business sector or to other countries for professional development; faster ageing of human resources and bigger shortages of specialists, stimulating multiple employment and informal supplementary incomes, thereby harming teaching quality. The sporadic implementation of reform in response to the crisis, focused mainly on the lack of financial resources will hinder coherence and boost inequalities.

The risks currently being highlighted are:

- Unattractiveness of jobs in education due to low wages and current low social status of teachers.
- Risk of staff deficits in some fields for some teaching ranks (reader, professor) due to inadequate promotion prospects, the difficulty of developing a professional career and the relatively long period required for reaching minimum standards for career advancement.
- Risk of underfinancing the education system, both from public funds (allocation of at least 6 per cent of GDP is difficult to ensure and insufficient for the required modernization of the system and


Figure 12.19 Monthly gross wages in education and other sectors, Romania, 2007–2011
proper performance) and attracting additional funds from research projects, the conditions for obtaining national funds being currently more restrictive than those for accessing international funds (for example, FP7, SEE Program).

Due to the brief implementation period, the first outcomes are still being measured, but expectations are high because this reform was expected to re-establish quality and competitiveness in the entire education system. However, the quantitative adjustments may lead in the opposite direction.

4.2 Case Study 2: Wage Reform Frozen because of Quantitative Adjustment

4.2.1 The context before the reforms
Before wage reform, the basic wages of budgetary sector personnel were determined by 39 normative deeds, as follows: (a) between a minimum and maximum limit for contractual staff in the budgetary sector and military personnel; (b) specific values for length of service for staff in the education sector; (c) single levels for public positions; and (d) varying levels for public officials. The use of these systems led to over 400 wage levels that can no longer be related to the initial hierarchy of positions and fields of activity. As a result, the ratio between the minimum and the maximum wage in the budgetary sector is 1/29. The main characteristics of the public sector pay system before the new legislation were as follows:

1. There was no unified wage scale and there were many laws regulating wages in different parts of the system.
2. A large part of gross income was based on bonuses and premiums. The abundance of bonuses and other benefits and their generosity (some are up to 75 per cent of the basic wage: for instance, the bonus for managing European funds) can increase earnings several times greater than the basic wage (on average, in 2008 bonuses represented 51 per cent of gross earnings).
3. Disparities in pay between positions with similar skills and responsibility in public sector activities.
4. Increased non-wage compensation: meal vouchers, holiday vouchers.
5. Seniority more important than performance.
6. Wage increase not based on productivity, political interference undermines competitive recruitment and pay.

The main issue generating wage reform in the public sector was the poor functioning of the labour market, particularly with regard to wage
coherence in the system. The measures to improve labour market flexibility and the business environment implemented through the National Reform Programme 2011–13 (NRP) during 2007–10 had limited effects, but continue to represent a priority for 2011–13.36

4.2.2 Wage policy during the crisis: mainly quantitative adjustments
During the crisis, wage policy focused especially on savings related to wage expenditure and was associated with layoffs or technical unemployment. In the private sector, mainly bonuses and other wage advantages provided for in individual labour contracts or bargained in collective agreements were cut and/or layoffs were implemented, doubling the unemployment rate.

For public employees the crisis measures with regard to wages were as follows:

- For employees of national companies with individual labour contracts, this contract was renegotiated and, in some situations, layoffs were implemented and some re-employment but with diminished wages (especially for people in managerial positions in 2009).
- The wages of the heads of government agencies were reduced several times, setting a ceiling of 4,800 lei a month (around €1,100) in 2009.
- Payment was ceased or bonuses reduced (starting from 2009).
- Overtime was no longer paid but compensated with free time and applied for the whole period.
- It was recommended to reduce labour duration or unpaid furlough, equivalent to 10 working days for each employee in November–December 2009.
- Restructuring of the wage system was implemented: unified law on wages for budgetary personnel applicable as of 2010 for new entrants and with annual re-evaluation of wage policy (level, dynamics and structure).

4.2.3 Wage reform: for a unified framework in the public sector
The unified wage law was considered both a response to wage reform and an anti-crisis measure (Figure 12.20).

Two significant stages are distinguished with regard to the payment of budgetary personnel during the crisis:

- In 2008–09 the provisions of Law 154/1998 were implemented, with subsequent additions in which payroll grids were laid down for various fields of activity, including coefficients and algorithms
for payment. Each year, the general payment policy for the public sector was regulated by ordinances which aimed mainly at indexing wages and the value of the starting coefficient or new instalments were stipulated on wage brackets and fields.

- On 1 January 2011 a wage reform in the public sector was initiated. Basic wages were determined in jobs grouped into seven occupational families: administration, health, education, justice, culture, diplomacy and defence, public order and national security.

The objectives of Framework Law No. 284/2010 were: (a) to harmonize the wage system of budgetary sector personnel in accordance with importance, accountability, complexity of activity and level of studies required; (b) to establish basic wages as the main element of wage earnings (establishing an equitable income structure in which basic wages start from the hierarchy coefficients and are complemented by bonuses of up to 30 per cent, depending on the characteristics of the activity (contents and importance of delivered work), working conditions and other established criteria; (c) to establish a hierarchy of basic wages both between fields of activity and in the same field, having as background job evaluation based
on seven criteria agreed in the Bipartite Commission; (d) to ensure the transparency of the mechanism for determining the basic wage; (e) to simplify the wage system by reducing the number of professional ranks and degrees to a maximum of three for each position as against five at present for the majority of contractual positions. Promotion to immediately higher professional ranks and degrees, when there are no provisions in this respect in the specific statutes may be done every three years, depending on individual professional performances, assessed with the qualifications ‘very good’ at least twice in the past three years; and (f) to establish the wage differential depending on the level of studies – hence, the minimum hierarchy coefficients have the following values: 1.00 for unskilled workers without bonuses and 1.10 with bonuses; 1.20 for high-school studies; 1.30 for short-term higher education; 1.75 for higher education; and (g) differentiation of basic wages depending on the level at which the activity is delivered: central, territorial and local. Thereby, the inequities in the system will be reduced with respect to payments for equal or equivalent work, and reducing the ratio between maximum and minimum wages from 1 to 12. Wage increases will be more dynamic for low wages and will take into account macroeconomic indicators and the development of social indicators.

By eliminating excessive wages, in particular in companies wholly or partially state owned (national companies and autonomous companies), and promoting performance, management also aims to reduce losses and gain savings for the state budget. Based on the new payroll grid and complying with the principle of obtained wage rights, the position after the introduction of the new wage (to which are added bonuses) against the grid in the Framework Law shows instances in which wages were superior to those in the new grid and others in which they were lower. The financial restrictions did not allow for wage increases for those receiving wages under the level of the new grid, save for the exceptional cases of those who were under the minimum wage in the economy.

4.2.4 A progressive implementation of the law

Because it was not possible to apply the new grid immediately and as a whole, it was agreed that the steps to be taken in the wage system would be stipulated yearly by special laws, until integration has taken place in the new grid, both for those already in the system and for new entrants. Thus, special enforcement laws were approved which will be applied gradually, initially in 2010–15, by strictly remaining within the framework of total wage expenditure as a proportion of GDP (which is expected to diminish to 6 per cent by 2015). The period of implementation for the law will be determined by the period in which there will be differences between wage
earnings and earnings that would result from applying the reference coefficients, being directly influenced by the financial resources allocated to personnel spending in the budgetary sector.

The Unified Wage Law (UWL) approved in 2009 and amended in 2010 (Law 284/2010) has as its main purpose to create performance equilibrias among different jobs in the public sector and to establish wage equity for equivalent jobs. In order to accomplish a comprehensive restructuring of public employment and pay, the main expected result was to create an adequate pay scale and structure of gross income for all people paid from the state budget (public servants and contractual employees). The UWL also aims to improve the simplicity, transparency and fairness of public compensation. In principle, trade unions agreed with the wage reform of personnel paid from the state budget and agreed to be part of the negotiations. Bargaining with unions to lay down equivalences for the social partners lasted nine months but without reaching agreement. The law was eventually imposed by the government. Implementation of the UWL through special annual legislation will contribute to medium-term fiscal sustainability. The full wage scale will apply to all personnel after gradual implementation and in accordance with the availability of financial resources. The wage inequities and discrepancies created in the pre-crisis period will be partially reversed over time in line with a major improvement in the fiscal balance.

The legislation for implementing the UWL is based on the following principles:

- It will ensure compliance with the quantitative targets for the public wage bill included in the unified public wage law and the proposed changes will be fully funded.
- It will ensure that the new salary grading structure is simplified and that pay will be linked to job responsibility and qualifications. The new pay system will be benchmarked in relation to private sector wages (through a salary survey) to ensure that public pay is broadly aligned with actual labour market conditions, in accordance with affordability constraints.

Implementation of the UWL was set for 2010. A special annual law regulates wages for personnel employed before 2010 in accordance with economic dynamics and budgetary constraints. Since January 2010 the annual pay law for simplifying the structure of gross earnings has been implemented by limiting the possibility of providing bonuses/premiums and so on to a maximum 30 per cent of the basic wage. The ‘new’ basic wage includes: basic wage, management bonus and merit wage (if it was
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not suspended in 2009). Gross earnings include a ‘compensatory amount’ comprising, for example, a bonus for having obtained a doctorate and other specific bonuses provided by law. Actually, due to this stage, the total gross wage from 31 December 2009 remains at the same level in January 2010, without being influenced by the provisions of the UWL. The only wage change involving a decrease with regard to the new grid involves bonuses paid to the highest-ranking personages, the president, ministers and managers of national companies, for whom corresponding amounts were determined according to the function hierarchy in the grid.

4.2.5 Flaws in the new law
The political opposition considers that wage reductions for ministers were only a ‘stunt’ which only introduces anomalies into the system (for instance, the wages of ministers are reduced more than some of their advisers, sometimes even by several times). This political stunt has had the effect of exacerbating, not repairing, the inequities in the system. It has forced state employees to adjust, to carry out additional work in the private system on the unregistered labour market and poor quality and performance in public offices have remained the same or even increased. Corruption and influence peddling have not diminished. In conclusion, it may be said that the system did not become sounder, but quite the contrary! Romania, by reducing wages, achieved low-level equalization (Keynes 1936; Stiglitz 2008) by uniform wage cuts in the budgetary system. After this measure (associated also with a 5 percentage point growth in VAT to 24 per cent) the economy re-entered recession.

4.2.6 From 2010: cuts along new recession further postponing law enforcement
On 1 January 2011, the basic wage and the compensatory amount, reduced by 25 per cent since July 2010 and indexed by 15 per cent, was laid down as the ‘new basic wage’. Employment has a corresponding category and rank under the law, but without applying the wage coefficient provided for by the framework law (differentiating from 1 to 12). In practice, from the wages viewpoint, the reform is still not being enforced: the wages currently paid are those from 2008 reduced by the non-uniform elimination of some bonuses, then cut by the globally applied 25 per cent and, as of 1 January 2011, indexed by 15 per cent, again applied proportionally for all. Hence, the structural adjustment of wages provided for in the UWL is not applied either for those already employed or for newly employed personnel. For people newly employed in similar positions to existing ones, the wages granted are at the level of those applied for comparable positions in each public institution. Only if employment is in a new position
that did not exist in the wage grid is account taken of the new grid. If the level of current wages is compared with the corresponding wage level of the Framework Law there are some situations in which wages are higher and others in which they are lower, hence the differences and inequities remained or were even increased by eliminating bonus differentiation in various parts of the public sector in 2009. Currently, there are no other legal proposals or regulations in preparation in the field of wages for employees paid from the state budget.

In 2012, implementation in stages of the Framework Law will continue with successive increases of the basic wage and of military wages, depending also on monthly employment bonuses to reach the payment level established in the annexes to the law. The reference value corresponding to the hierarchy coefficient of 1.00 is maintained at the level of 600 lei.

Anti-crisis wage measures are aimed at laying down in personnel expenditure a ceiling for the general consolidated budget (Law No. 275/2010 on indicators specified in the fiscal budgetary framework). Wage austerity was associated with personnel cuts and a certain employment flexibility provided for by the new changes to the Labour Code (Table 12.13).

In 2012, the nominal wages of budgetary personnel will be gradually restored but staff cuts from the state apparatus will continue at the same 1 to 7 ratio, but in a differentiated way (IMF, Letter of Intent43). Wage expenditure will be reduced below 7 per cent of GDP in 2011–12 (from 9.2 per cent in 2009 and 8.2 per cent in 2010), and the difference from the initial deduction of 25 per cent will be restored in three stages (2011 January, 15 per cent, June 2012, 8 per cent and 7.4 per cent in December 2012). Recently, the government acknowledged that the uniform and sudden wage cut of 25 per cent, by suppressing consumption, has slowed down economic recovery. In the first quarter of 2012, Romania registered a technical recession and some additional policy measures will be introduced to stimulate investment.

In parallel, efforts to reduce personnel expenditure will continue on the basis of the existing replacement policy of one for seven, but based on a more flexible formula to eliminate blockages in sectors with personnel deficits. In some cases, such as health care, the ratio will be lower and additional employment of medical staff will be approved at hospitals’ special request. The implementation of all the above normative acts involved not much reform of the wage system, but rather real wage reductions. It is in this sense that institutional reforms on wages did not make much progress but were eaten up by more short-term budgetary considerations (Figure 12.21).
Table 12.13  Adjustment measures in the public wage system because of the crisis, Romania, 2009–2014

<table>
<thead>
<tr>
<th>Measuresa</th>
<th>Implementation</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceiling for personnel expenditure</td>
<td>9.2% of GDP in 2009, 6.6% in 2011, 6.7% in 2012, 7.1% in 2013 and 6.8% in 2014</td>
<td>Layoffs; mandatory retirement at statutory age; limited access to employment for pensioners</td>
</tr>
<tr>
<td>Wage decreases</td>
<td>April 2009 – elimination of most bonuses</td>
<td>Decreases and inverts the pay gap by property form</td>
</tr>
<tr>
<td></td>
<td>August 2009 – further cuts in additional payments and bonuses</td>
<td>Increases the proportion of people on low incomes (no transparency, no statistical data)</td>
</tr>
<tr>
<td></td>
<td>Jan 2010 – consolidate bonuses into basic wage</td>
<td>Increases poverty among lower qualified personnel in the public sector</td>
</tr>
<tr>
<td></td>
<td>July 2010 – 25% cut from July to Decemberb</td>
<td>No real coherence in the system, more confusing in the implementation period (gradual implementation—insufficient resources) – increased inequities</td>
</tr>
<tr>
<td>Wage level recovery</td>
<td>2011 – pay on average will be increased by 15% over the year, restoring part of the 25% cut imposed in July 2010</td>
<td>Restoration of the purchasing power of wages and stimulate recovery of consumption level before 25% wage cut</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No qualitative adjustments – uniform cut + uniform increase to recover 2010 level</td>
</tr>
</tbody>
</table>
2012 – 8% increase from June and 
7.4% from December to restore 
July 2010 nominal level (because of 
inflation, real wages decreased)

<table>
<thead>
<tr>
<th>13th-month pay</th>
<th>2009 – partial payments</th>
<th>Lower incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010 – no payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2011–14 – no payments</td>
<td></td>
</tr>
</tbody>
</table>

| Granting benefits, bonuses and  | 2009 – yes             | Lower incomes |
| holiday and lunch vouchers      | 2010 – present – no    |              |

| Compensating activities         | 2009–12 – yes          | Increasing productivity |
| outside normal working hours    | 2013–14 (fiscal strategy) – yes | Lower incomes |
| exclusively by free hours       |                         | Work intensity (increased social productivity but less work quality |

| Unpaid leave                     | 2009 – yes 2 weeks (Oct–Dec) | Reducing monthly earnings, lower public expenditure |
|                                  | 2009–14 – no              |                                          |

| Prohibiting combining pension    | 2009 – no               | Decreasing reemployment, reducing share of older personnel in the public sector |
| with wage from the state if     | 2010–14 – yes           |                                          |
| the pension exceeds a certain   |                         | Restricted active ageing |
| ceiling                           |                         |                                          |

Notes:

a. There were also other measures that were initially considered but abandoned thereafter, such as: imposing a solidarity tax of 90 per cent on wages higher than 8,000 lei (it was not applied; instead, a solidarity fund was instituted to which anyone could contribute on a voluntary basis with the purpose of diminishing budgetary expenditures: the fund did not attract much money); and reducing wages for members of the government by 20 per cent in the period 1 August 2009–31 December 2009, but the measure was not adopted.


Source: Author’s synthesis based on national legislation and official documents and reports related to policy measures during crisis period.
4.2.7 Conclusion

The implementation of wage legislation in the public sector during the crisis can be summed up as follows: (i) the positive outcome is that they helped to reduce labour expenditure and maintain the limits agreed under the IMF agreement; in particular bonuses were limited to a maximum 30 per cent of gross earnings; (ii) on the other hand, the uniform wage cut and then restoration has hindered the attainment of reform objectives, except for the lowest wages which were allowed to increase, even if in the meantime the minimum wage in the private sector increased – while the one in the public sector remained frozen – and thus increased inequalities between the two sectors; as a result the attractiveness of public sector employment has decreased for experts and highly qualified staff who are better paid in the private sector in equivalent jobs; finally, career advancement was blocked and thus better prospects for future jobs. In practical terms, registration in the pay grid of all budgetary employees was postponed and the current remuneration system is only transitional (Figure 12.22).

In conclusion, the main policy measures with regard to public sector wages not only led to a serious loss for public sector employees, in terms of both pay and quality of working conditions and job prospects, but they also limited progress on more wage structure reforms. They finally
contributed to sharply reducing consumption, with severe effects on budget revenues.

5. POLICY ISSUES

In Romania, public sector adjustment has been a combination of adjustments in response to ongoing structural changes in transition to a competitive model and due to the impact of the crisis on the Romanian economy and public finance sustainability. In some cases, the structural reforms were halted or delayed, as anti-crisis measures were applied.

In the 2000s, up to 2008, but in particular after 2004 budgetary expenditure increased due to wage increases and material and current capital expenditure. Election years saw significant wage and pension increases, the minimum pension of 350 lei per month was instituted and also the minimum wage increased. During this period, progressive taxation was eliminated and the shift was made to a flat rate of 16 per cent. The informal economy did not compress to the expected size, budgetary incomes being lower than expectations. The budgetary deficit increased. The anti-crisis programme was implemented with the aid of the international financial institutions, involving measures to reduce the oversized budgetary
apparatus, accompanied by severe wage restrictions which were uniformly enforced.

Reforms in various areas of the public sector continued and took the form of severe austerity, sometimes affecting the principles and initial purpose of the reforms. The targets of reform at the beginning of the crisis were: the pension system (finalizing the reform of pillar I, PAYG, and in 2008 implementing the compulsory private pensions pillar by transfer from contributions to the public system), university education (Bologna system implementation) and health-care modernization (investments in hospitals, modernization of the subsidized drugs system, development of health programmes for chronic diseases and so on).

The crisis generated a series of adjustment measures, such as:

1. reform of state agencies, including reorganization, restructuring and winding-up/mergers;
2. decentralization and externalization of some common services, transfer to local administration of some responsibilities, such as schools, hospitals, structures of the Ministry of the Interior;
3. introducing cost standards for all public sector activities, shifting to financing on a pupil/student basis;
4. reorganizing rural schools and hospital institutions by closing some of them;
5. wage reform in the public sector by merging the existing wage systems and creating a single wage grid, also rationalizing bonuses, limiting other wage benefits/non-salary benefits, merging the special pensions system into the general public system, recalculating pensions for some categories of pensioners (from the ministries of Defence, of the Interior, of Justice) and increasing the retirement age;
6. cutting employment in all sectors by internal reorganization and eliminating overemployment; and
7. cutting wages by 25 per cent and other monetary benefits (payment for childcare for children up to two years of age) and freezing pensions.

In the short term, the aim was to reduce labour expenditure by means of cutting employment (with the restriction of one new recruit for every seven departures), blocking existing vacancies, cutting wages and eliminating bonuses:

8. involuntary leave; and
9. compulsory retirement on reaching the standard pension age and a ban on combining a pension with wages over a certain pension level.
Job cuts were accompanied by the redistribution of work tasks to the remaining personnel, thus intensifying work, without payment for extra hours, but rather free time. For those who sought to supplement their incomes, the choice was between multiple part-time jobs or work in the informal labour market.

The emigration or shift to the private sector of well-qualified health-care professionals has intensified (doctors, nurses); research and staff deficits are increasing in education (lack of teachers in rural areas); and graduates are, among other things, finding employment in areas different from their specialization. Also, so-called ‘envelope wages’ are paid, along with dual – formal/informal – employment.

New recruitment to the public sector is allowed only for unique jobs and with special approval, although the wages are unattractive to more highly qualified personnel. In practice, a decapitalization of human resources is taking place, the quality and, implicitly, the performance of the labour force is decreasing and those who remain find their career advancement blocked.

6. CONCLUSIONS

In response to the economic crisis, the reform emphasis in the public sector shifted to quantitative adjustments and qualitative reform slowed down. On one hand, the crisis represents an opportunity for public finance reform. On the other, there are significant differences between expectations and real effects with regard to both structural reforms and reforms instigated in response to the crisis. Policymakers focus all their attention on introducing programmes and strategies in the hope that something will work, while actual outcomes are neglected and implementation lacks transparency, and available data are sporadic and not comparable, making it difficult for experts to carry out analyses.

The public sector needs structural reforms, but in combination with anti-crisis measures they have generated adverse effects so that some of them have even been halted. Continued reform is necessary, but if it is to be sustainable and its proper objectives are to be attained it must be uncoupled from uniform anti-crisis measures (across-the-board job and wage cuts, freezing career advancement and new recruitment on a one-for-seven basis, regardless of qualitative criteria, such as particular needs and the stage reached by reform hitherto). Moreover, the reform framework must be reconceived in some fields (performance in higher education, access to national funds to support research, ensuring the financial sustainability of the public pension system and reorganizing health care).
The effects of the austerity measures on the state budget have fallen short of expectations and indeed have led to numerous adverse effects: insufficient budget revenues, reduction of domestic demand for goods and services, deteriorating quality of public services, preponderance of cosmetic adjustments rather than substantive ones, continuing inequities in employment and wage policy in the public sector and mismanagement of youth employment and active ageing. The financial support provided by the IMF loan has sustained some adjustments, but has done little towards exiting the recession and has not supported small entrepreneurs.

The impact of public sector wage cuts in 2010 not only deepened some inequalities within the public sector, but in December 2010 the public–private wage relationship was reversed in favour of the average wage in the private sector, which now exceeds the average wage in the public sector. The overall impact of the 25 per cent wage cut on the state budget has been much lower than had been hoped: only 0.55 per cent of GDP as against 1.4 per cent estimated for June–December 2010.\(^\text{46}\) The uniform 25 per cent wage cut in the public sector encouraged people to leave for the private sector in some trades/professions and reduce the attractiveness of the public sector for young graduates with a university education in favour of the private sector or working abroad, with significantly higher wages, but in many cases in jobs for which the person concerned did not study or train. The wage cut for about one-quarter of the employed population in Romania curbed consumption. It also pushed people into the informal economy. The increase of the minimum wage during the crisis from 540 lei in October 2008 to 700 lei in 2012 and maintenance of the minimum wage in the public sector at 600 lei on one hand, generated a slight increase in the private sector of envelope payments and multiple employment of those in the public sector (to supplement their incomes, especially in the informal economy, thereby boosting fraud and corruption) and, on the other, stimulated emigration by the highly qualified (doctors and nurses from the health sector, young graduates and so on).

The anti-crisis measures emphasized short-term effects at the expense of sustainable improvements (compulsory minimum taxation, increasing duty and prices for basic goods, allotment of public expenditure to secondary objectives such as swimming pools, sports facilities and so on, as well as expensive road infrastructure).

Adjustments pertaining to human resources in the public sector were based on formal and quantitative criteria and did not aim at qualitative development.

The job replacement rate of one for seven and the blocking of career advancement during the crisis reduced the attractiveness of public sector employment for highly qualified people. These measures also do not
permit the employer – at institutions financed partly/entirely from the state budget – to improve labour performance. Furthermore, the one-for-seven ratio and blocking of vacancies have maintained the shortcomings of structural reallocation, limited the number of young people and experts who can enter the system (also due to the unattractive wage levels), maintained overemployment in the central administration, decentralized and reallocated entities in education and health, created personnel deficits at local level and generated adverse social effects (limiting school access for children from rural areas, reducing access to emergency medical assistance). The lack of financial resources contracted vocational training in the public sector and transferred the task of training for career development to the individual (expenditure on lifelong learning remain the smallest in the EU27, at 1.3–1.5 per cent and only 0.1–0.2 per cent of labour force costs are for vocational training, as most people receive minimal training on the job).

The trade union movement, in all its forms, is extremely weak. Dialogue with the state is formal and changes to the legislation on social dialogue have led to the elimination of national social dialogue and restriction of the extension of negotiated provisions, while representativeness criteria were tightened up. The profile of the union movement has decreased and members have lost confidence in it, rendering them unwilling to participate in industrial action.

Working conditions have become more precarious and stress has increased dramatically. The workload for those who remain after job cuts has increased and the digitalization of public services has not simplified the system but the reverse. Perceptions of the role and efficiency of the public sector have worsened and it is seen as providing inadequate, poor-quality services riddled with influence peddling and red tape, not to mention corruption, particularly with regard to the payment of fines and penalties by the business sector but also, in general, taxpayers.

At present, the main risk is that 2012, as an election year, will create new dysfunctionalities and further deepen inequities – also from the viewpoint of public sector employment in jobs created for political clients with high and even very high wages.

NOTES

2. The IMF recognized the failure of the recovery programme in Romania, see http://www.zf.ro/eveniment/fmi-recunoaste-escul-programmeului-de-finantare-cu-romania-marea-dezamagire-este-cu-economia-nu-si-a-revenit-7900793.
3. Law 329/5.11.2009 on the reorganization of some public authorities and institutions,
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cutting public expenditure, supporting the business environment and complying with the framework agreements concluded with the European Commission and the IMF in force as of 12 November 2009. The law regulates measures for: (a) the reorganization of 141 public authorities and institutions; (b) reducing personnel expenditure in the budgetary system; (c) restrictions on supplementing pensions with wage incomes from public sector activities; (d) financial–budgetary discipline at the level of autonomous/ national companies or trading companies of which the state is the majority owner; and (e) supporting the business environment to overcome financial difficulties. The measures aimed at reducing the effects of the crisis are included in the Memorandum of Understanding between the European Community and Romania, concluded in Bucharest and Brussels on 23 June 2009 and the Stand-by Agreement concluded between Romania and the IMF.


9. The information regarding the ‘budgetary sector’ must be carefully analysed because the data refer to statistics from economic activities (aggregated after the homogeneous activity) in accordance with CANE 2 Rev. 2 by: public administration, education, health and social assistance (including private sector for education – about 3 per cent, about 5 per cent for health and social assistance), excluding military and assimilated personnel (MAnP: Ministry of National Defence; SIR: Romanian Intelligence Service; MAI: Ministry of Administration and Interior; and so on). These statistics do not take into account the financing form, their purpose being to supply information by economic activities according to CANE Rev. 2.


11. The government agreed with the IMF in December 2011 to continue layoffs within railway companies, to impose four days of unpaid leave on employees of the Railway Interventions Company and to close all routes that cannot be sold by tender and to conclude public–private partnership contracts for commercial premises belonging to CFR.

12. By reducing the number of post offices to less than 5,700 from the 7,100 existing in 2011. At the same time, the state will reduce its participation to 51 per cent (as against 75 per cent currently) through takeover by a strategic investor. (According to data from the relevant ministry, representatives of the national postal operators from Austria, Belgium, Germany, Italy, the United Kingdom and Sweden have shown an interest in becoming shareholders in Romanian Post.)

13. These layoffs were agreed with the IMF. Decision 2010/787/EU of the Council regarding state aid for facilitating the winding up of non-competitive coal mines allows public authorities to grant, under certain conditions, assistance in the coal industry, with the purpose of facilitating closing uncompetitive coal mines by December 2018. The measure is in accordance with EU norms regarding state aid that provides for the progressive reductions of aid to cover production costs. Romania undertook to enforce completion measures for diminishing the social and environmental impact of closure. The National Coal Company JSC Petrosani is a state-owned enterprise and the only company in Romania producing coal. Currently, it has seven production units, and three of them which are regarded as uncompetitive will be closed: Petrila, by the end of...


15. Low wages are insufficient for maintaining a household. The minimum consumption basket for 2011 was based on the last calculation carried out in 2003 by the National Institute of Statistics, updated with inflation. It resulted in a current value of the minimum basket of a household of 980.5 RON. Calculations indicate that 31 per cent of wages do not cover the subsistence minimum: http://www.observator-bns.ro.

16. The Office for Monitoring Labour Market and Job Quality, a labour market research institution established by BNS within a project financed by ESF, SOP-HRD: http://www.observator-bns.ro.


18. The more a country tries to make savings, the less revenue it receives and the fewer resources it has for such savings.

19. However, the economic crisis reduced household consumption by 10 per cent in 2009 and by about 3 per cent in 2010. Pro-cyclicality has been a constant feature of Romania’s macroeconomic policy mix. In 2005–08, loose fiscal and budgetary policy poured gasoline onto a raging fire. Then, since the election year of 2009, when most of the IMF money was spent just to buy time, Romania has been implementing pro-cyclical tightening. Instead of focusing on economic growth and adopting prudent fiscal and budgetary rules that would ensure growth and result in a lower deficit, the government targeted a lower budget deficit as its primary goal. See White Paper on National Economic Competitiveness for Romania, Part I, Aspen Institute, Romania, http://www.aspeninstitute.ro/Upload/887238c7-508c-4e3d-9098-e540711796da.pdf, http://www.aspeninstitute.ro/articole/562/Aspen-Romania-White-Paper-on-Competitiveness.html.


22. Information about the ‘budgetary sector’ should be used cautiously because the data refer to statistics from economic activities (aggregated by homogeneous activity), according to CANE Rev. 2, for public administration, education and health care, as well as health care and social assistance (including the private sector for education, about 3 per cent, and health care and social assistance, about 5 per cent), excluding military and auxiliary personnel (MApN, SRI, MAI). These statistics do not take into account the financing form, their purpose being to provide information on economic activities according to CANE Rev. 2. Information according to financing form is managed by the Ministry of Public Finance, in accordance with the provisions of Government Emergency Ordinance no. 48/2005, with subsequent additions and amendments.

23. Republished 1 Official Bulletin No. 345 – 18/05/2011 Art. 194. – (1) Employers have a duty to ensure participation in vocational training programmes for all employees, as follows: (a) at least once every two years, if they have at least 21 employees; (b) at least once every three years, if they have under 21 employees. (2) The expenditures on participation in vocational training programmes, ensured according to the conditions of para. (1) are borne by the employers. Art. 195. (1) Employers with legal personality with more than 20 employees work out annually and apply vocational training plans by consultation with the trade unions, or as the case may be, the employees’ representatives. (2) The vocational training plan elaborated according to the provisions of para. (1) becomes an annex to the collective agreement concluded at workplace level.
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28. This is a continuation of the model from the communist period: but the prohibition on retaining contributions from pay laid down by Order of the Ministry of Education will substantially reduce the number of members, the trade union rate being currently 85 per cent (according to the leaders of the trade union federations).
30. According to Eurydice, Key Data on Education in Europe 2009.
34. The World Bank has supported measures to increase the fiscal savings and improve the quality and access to education services, namely the capita financing starting with school year 2010–11 (the measure is piloted in eight counties, accounting for 20 per cent of total student enrollment). In addition the Bank has supported the government programme in education through an investment operation targeting the rehabilitation of schools in rural areas.
35. The main problems of Romanian higher education are as follows: (a) a poor correlation between higher education qualifications and labour market requirements; (b) small-scale transfer of higher education research to the economy; and (c) too strong a theoretical component, which does not provide graduates with practical skills and competencies (Romania: National Reform Programme 2011–2013, p. 116).
37. The wages of state company managers were reduced to the level of a secretary of state, from 20,000–28,000 lei to 4,800 lei, and the pay of the heads of autonomous administrations subordinated to the local and county councils will have a ceiling equivalent to the wage of a council vice-president of 3–4,000 lei. Managers of state companies hitherto have received monthly wages of between 20,000 lei, at the Romanian Civil Aeronautics Authority and the Romanian Car Registry, 27,000 lei, at Hidroelectrica and 28,000 lei at Romgaz. The pay of the members of administration boards at state companies and autonomous administrations was drastically cut, from 20 per cent of the wages of their managers to just 1 per cent. If they do not accept the new ceiling – Prime Minister Emil Boc stated – they will be replaced with persons for whom membership of an administration board is an attraction in itself (see: http://www.medialfax.ro/social/salarile-directorilor-de-companii-de-stat-reduce-la-maximum-4-800-lei-3679592).
38. The hierarchy system is based on seven criteria: knowledge and experience; complexity, creativity and diversity of activities; judgement and impact of decisions; influence, coordination and supervision; contacts and communication; labour conditions; and incompatibilities and special regimes.
40. Within each rank or professional degree the basic wage differential is established on five levels, corresponding to the five brackets of length of service, except for public positions where three professional ranks and three wage levels are used.

41. In a first stage, the equivalence of budgetary positions on three levels was determined and then by negotiation the functions of the institutions within the system were placed on the grid. Because the necessary budgetary funds in accordance with the negotiated wage grid exceeded the forecast availability for wage expenditure, the maximum/minimum ratio was reduced from 15 to 12 and the representatives of the Ministry of Labour have unilaterally decreased the coefficients on the grid for some positions (initially by up to 40 per cent, and the procedure was repeated afterwards for the grids of some other ministries, the direction of the changes being to increase the value of coefficients – for instance, for justice – but also to reduce them – for health, research, education), an issue that stirred trade union discontent. After repeated discussion rounds, the positions’ equivalence disappeared (according to the trade unions the inequities became sharper even compared to the current situation) and a grid was implemented by gathering up the positions in the lower half. Differences of opinion meant that after nine months of negotiations an acceptable wage grid could not be established by the social partners.

42. The 25 per cent wage cut in 2010 was combined with layoffs in the public sector, which allowed for a partial restitution to the budget of 2011 (by an increase of 15 per cent). In real terms, due to inflation, wages continued to decrease for personnel paid from the state budget.


44. As the basis for determining the value of the grid coefficient, a minimum wage level is determined that will not be identical with the minimum wage in the economy; instead, it will represent only the minimum wage in the budgetary sector, to which bonuses will be added. As a result, this minimum level may differ from the one in the private sector, similar to the practice applied in previous years when the value of the coefficient 1 in the public sector was inferior to the level of the minimum wage in the economy (370 lei/month compared to a minimum wage of 390 lei/month, equivalent to 170 working hours). The value of the hierarchy coefficient 1 is determined by law each year (705 lei in 2010, 765 lei in 2011, 845 lei in 2012, 935 lei in 2013, 1,015 lei in 2014 and 1,100 lei in 2015, without reference to the minimum wage in the economy, but the 25 per cent wage cut reduced its level to the current 600 lei).

45. Preparation of the Fiscal Budgetary Strategy for 2011–13 took place at the intersection of an economic crisis, administrative deficiencies in urgent need of reform and restructuring of the economy, public finances and the public sector. Though this will require long-term austerity measures it will lay the foundations for sustainable economic growth, increase the capacity of the Romanian economy to face global competition, attract FDI and create jobs. See: STRATEGIA_FB_27 sept.pdf, p 7.

46. Starting from public sector wages totalling 9.5 per cent of GDP in 2009, it was estimated that the 25 per cent wage cut over the first seven months would yield savings of 1.4 per cent of GDP. But the payment of taxes on wages associated with the effect resulting from the VAT increase from 19 to 24 per cent will diminish savings by 0.65 of a percentage point (from 1.4 to 0.75 per cent of GDP) and a cumulated annual decrease of 0.32 per cent of GDP of VAT cashing, respectively, 0.18 per cent for 7 months (with an income elasticity of 60 per cent and a share of total consumption of 33 per cent) (calculations by BNS, ‘Wage study for budgetary personnel’, PDF, BNS, p. 21, available at: http://www.observator-bns.ro.
REFERENCES